Boyuan Construction Group, Inc.

Condensed Interim Consolidated Financial Statements
For the Six Months Ended
December 31, 2014 and 2013
(Unaudited)

Notice of No Auditor Review of Condensed Interim 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 condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim 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 condensed 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.

Boyuan Construction Group, Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in US Dollars)

	December 31, 2014 (Unaudited)	June 30, 2014 (Audited)
	$	$
Current Assets		
Cash and cash equivalents	2,552,668	4,459,898
Accounts receivable	17,924,978	12,977,360
Unbilled revenue (Note 4)	167,017,143	145,188,974
Restricted cash (Note 5)	7,722,750	8,809,390
Other receivables	611,533	570,238
Inventory	207,688	653,920
Advances and prepaid expenses (Note 6)	10,174,432	10,275,211
Deposits (Note 7)	9,695,583	11,032,704
Due from related parties (Note 8)	60,725	60,236
	215,967,500	194,027,931
Refundable deposit (Note 12)	577,720	573,073
Land use rights (Note 9)	1,658,372	1,648,522
Property and equipment (Note 10)	13,723,022	15,052,973
	231,926,614	211,302,499
Current Liabilities		
Bank loans (Note 11)	51,177,379	48,902,568
Bank notes payable (Note 11)	17,700,496	18,127,156
Current portion of loan payable (Note 12)	1,846,547	1,722,585
Accounts payable and accrued liabilities (Note 13)	25,845,098	20,830,433
Income taxes payable	5,928,829	2,650,567
Deferred revenue (Note 4)	2,120,639	267,959
Convertible debentures(Note 14)	12,146,412	13,474,515
Current portion of automobile loans	114,597	111,837
	116,879,997	106,087,620
Loan payable (Note 12)	1,537,066	2,467,233
Deferred tax liabilities (Note 17)	1,433,974	1,427,356
Automobile loans	68,807	132,964
	119,919,844	110,115,173
Shareholders' Equity		
Share capital (Note 15)	7,156,864	7,156,864
Contributed surplus	5,529,573	5,340,721
Reserves (Note 16)	9,228,523	7,373,221
Equity component of convertible debentures (Note 15)	2,059,230	2,059,230
Retained earnings	78,785,804	72,034,867
Accumulated other comprehensive income – foreign currency translation adjustment	9,246,776	7,222,423
	112,006,770	101,187,326
	231,926,614	211,302,499

COMMITMENTS AND CONTINGENCIES (Note 22)
SUBSEQUENT EVENT (Note 23)

Approved on behalf of the Board of Directors:

"Francis Leong"
Francis Leong, Director

"Jack Duffy"
Jack Duffy, Director

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.
Condensed Interim Consolidated Statements of Comprehensive Income
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	$	$	$	$
Construction revenue	76,323,716	61,989,559	144,055,835	111,028,377
Cost of construction	65,816,107	52,940,355	124,086,231	94,760,862
Gross profit	10,507,609	9,049,204	19,969,604	16,267,515
Expenses				
Amortization of property and equipment	775,865	873,086	1,559,898	1,704,706
General and administrative expenses	1,318,202	1,389,187	2,511,986	2,629,219
	2,094,067	2,262,273	4,071,884	4,333,925
Income from operations	8,413,542	6,786,931	15,897,720	11,933,590
Other Income (expense)				
Interest and other income	35,464	103,156	71,371	201,766
Foreign exchange gain (loss)	(36)	(873)	(13,910)	1,356
Interest expense	(1,843,198)	(1,798,957)	(3,712,678)	(3,564,465)
Share-based compensation	(92,352)	(8,689)	(188,852)	(42,411)
	(1,900,122)	(1,705,363)	(3,844,069)	(3,403,754)
Net income before income taxes	6,513,420	5,081,568	12,053,651	8,529,836
Income taxes (Note 17)	1,803,489	1,464,484	3,447,412	2,574,625
Net income for the period	4,709,931	3,617,084	8,606,239	5,955,211
Other Comprehensive Income Items that may be reclassified subsequently to income:				
Unrealized gain on foreign exchange translation	561,012	1,167,719	2,024,353	675,167
Comprehensive income for the period	5,270,943	4,784,803	10,630,592	6,630,378
Earnings per share, basic (Note 21)	0.19	0.14	0.34	0.23
Earnings per share, diluted (Note 21)	0.16	0.13	0.30	0.22
Weighted average number of common shares outstanding, basic (Note 21)	25,420,065	25,420,065	25,420,065	25,420,065
Weighted average number of common shares outstanding, diluted (Note 21)	31,221,793	31,189,296	31,221,793	31,189,296

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in US Dollars)
(Unaudited)

	Share Capital	Contributed Surplus	Reserves	Equity Component of Convertible Debentures	Retained Earnings	Foreign Currency Translation Adjustment	Total Shareholders' Equity
	$	$	$	$	$	$	$
Balance, June 30, 2013	7,156,864	5,037,728	7,373,221	2,059,230	57,272,085	8,276,529	87,175,657
Share-based compensation	-	33,722	-	-	-	-	33,722
Net income for the period	-	-	-	-	2,338,127	-	2,338,127
Other comprehensive income	-	-	-	-	-	(492,552)	(492,552)
Balance, September 30, 2013	7,156,864	5,071,450	7,373,221	2,059,230	59,610,212	7,783,977	89,054,954
Share-based compensation	-	8,689	-	-	-	-	8,689
Net income for the period	-	-	-	-	3,617,084	-	3,617,084
Other comprehensive income	-	-	-	-	-	1,167,719	1,167,719
Balance, December 31, 2013	7,156,864	5,080,139	7,373,221	2,059,230	63,227,296	8,951,696	93,848,446
Balance, June 30, 2014	7,156,864	5,340,721	7,373,221	2,059,230	72,034,867	7,222,423	101,187,326
Share-based compensation	-	96,500	-	-	-	-	96,500
Net income for the period	-	-	-	-	3,896,308	-	3,896,308
Other comprehensive income	-	-	-	-	-	1,463,341	1,463,341
Balance, September 30, 2014	7,156,864	5,437,221	7,373,221	2,059,230	75,931,175	8,685,764	106,643,475
Share-based compensation	-	92,352	-	-	-	-	92,352
Transfer to reserves	-	-	1,855,302	-	(1,855,302)	-	-
Net income for the period	-	-	-	-	4,709,931	-	4,709,931
Other comprehensive income	-	-	-	-	-	561,012	561,012
Balance, December 31, 2014	7,156,864	5,529,573	9,228,523	2,059,230	78,785,804	9,246,776	112,006,770

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in US Dollars)
(Unaudited)

	Six Months Ended	
	December 31, 2014	December 31, 2013
	$	$
OPERATING ACTIVITIES		
Net income for the period	8,606,239	5,955,211
Items not involving cash:		
Amortization	1,559,898	1,704,706
Interest accretion	1,114,701	1,113,654
Share-based compensation	188,852	42,411
Deferred income tax recovery	6,618	427,412
Unrealized foreign exchange loss	(50,884)	(426,164)
	11,425,424	8,817,230
Changes in non-cash working capital balances:		
Accounts receivables	(4,843,373)	(7,249,537)
Unbilled revenue	(20,655,032)	(5,096,515)
Other receivables	(44,778)	(930,899)
Inventories	451,626	222,863
Advance and prepaid expenses	184,057	(5,620,888)
Deposits	1,426,879	(2,342,116)
Accounts payable and accrued liabilities	4,901,492	9,614,889
Deferred revenue	1,850,886	(1,151,733)
Income taxes payable	3,252,477	2,375,241
Cash used in operating activities	(2,050,342)	(1,361,465)
INVESTING ACTIVITY		
Acquisition of property and equipment	(103,688)	(263,271)
Cash used in investing activities	(103,688)	(263,271)
FINANCING ACTIVITIES		
Restricted cash	1,158,314	2,339,240
Bank loans	1,878,249	382,162
Bank notes payable	(573,775)	(2,623,097)
Loan payable	(840,353)	4,444,025
Automobile loans	(63,395)	(40,918)
Convertible debentures, net	(1,348,787)	-
Cash provided by financing activities	210,253	4,501,412
Effect of changes in exchange rates on cash	36,547	52,321
Change in cash	(1,907,230)	2,928,997
Cash and cash equivalents, beginning	4,459,898	4,645,388
Cash and cash equivalents, ending	2,552,668	7,574,385
Supplemental disclosure of cash flow information:		
Cash paid for interest	3,287,182	2,321,121
Cash paid for income taxes	168,760	199,384

See accompanying notes to condensed interim 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. The Company's registered office and principal place of business is located at No. 6 East Road, Jiaxing Port, Zhejiang Province, the People's Republic of China ("China" or "PRC"). The consolidated financial statements of the Company include the assets and operations of the Company, its subsidiaries and other entities it controls. The Company's primary business is in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in the PRC.

2. BASIS OF CONSOLIDATION AND PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("ISAB) and using the accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. The same accounting policies and principles were followed in respect of the preparation of these unaudited condensed interim consolidated financial statements as were followed in the preparation of the audited annual consolidated financial statements for the year ended June 30, 2014.

These unaudited condensed consolidated interim financial statements were approved by the Company's Board of Directors on February 11, 2015.

(b) Summary of significant accounting policies

These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended June 30, 2014. The disclosure contained in these condensed interim consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" ("IAS 1"). Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2014.

3. RECENT ACCOUNTING PRONOUNCEMENTS

The mandatory adoption of the following new and revised accounting standards and interpretations on July 1, 2014 had no significant impact on the Company's condensed interim consolidated financial statements for the current year or prior year presented. The following standards were adopted for the period ended December 31, 2014:

- IAS 32 *Financial Instruments: Presentation* - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement.

- IAS 36 *Impairment of Assets* - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a cash-generating until ("CGU") for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when and asset's or a CGU's recoverable amount is based on fair value less costs of disposal.

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

<u>New accounting standards effective January 1, 2016</u>

- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - On September 2014, the IASB published an amendment to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

New accounting standards effective January 1, 2016 (continued)

- IAS 1 *Presentation of Financial Statements* – In December 2014, the IAS issued an amendment to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements.

- IAS 27 *Separate Financial Statements* – In August 2014, the IASB issued an amendment to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- IFRS 11 *Joint Arrangements* – In May 2014, the IASB issued an amendment to clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - In May 2014, the IASB issued amendments to IAS 16 and IAS 38. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

New accounting standards effective January 1, 2017

- IFRS 15 *Revenue from Contracts with* Customers - IFRS 15 was issued in May 2014 and specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

New accounting standards effective January 1, 2018

- IFRS 9 *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

  Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

  IFRS 9 was subsequently amended in November 2013 to add new general hedge accounting requirements. The final version of IFRS 9 was issued in July 2014 and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim consolidated financial statements or whether to early adopt any of the new requirements.

(Expressed in US Dollars)

4. UNBILLED REVENUE

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

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Completed contracts	28,306,599	24,144,503
Contracts in progress	138,710,544	121,044,471
	167,017,143	145,188,974

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

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Aggregate cost of construction	543,255,590	509,934,151
Gross profit recognized	97,044,606	92,110,398
	640,300,196	602,044,549
Less: aggregate of progress billing and payments	501,589,652	481,000,078
Contracts in progress – unbilled portion, end of period	138,710,544	121,044,471
Deferred revenue – contract in progress, end of period	2,120,639	267,959
Net position	136,589,905	120,776,512

Credit risk associated with unbilled revenue

Unbilled revenue represents amounts for which the Company has a contractual right to receive through future billings in accordance with construction contracts. Credit risk from unbilled revenue encompasses the default risk of customers and non-performance by customers in accordance with contractual terms. The Company's customers are private companies located in China. Its exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's exposure to credit risk associated with unbilled revenue is the risk that a customer will be unable to pay the Company under the contract. In its determination of valuation of unbilled revenue, 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 unbilled revenue is billed and then ultimately collected. Allowances are provided for where construction contracts result in an expected loss. The amounts disclosed on the statement of financial position are net of these expected losses. Unbilled revenue is reviewed on a case-by-case basis when amounts for accounts receivable are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess any additional losses.

If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with the real property that is under construction. However, should one of the Company's customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from unbilled revenue is equal to the carrying amount.

5. RESTRICTED CASH

Restricted cash mainly represents compensating deposits held at banks to partially secure bank notes. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding bank notes payable, and the funds are only allowed to be used to settle bank notes payable (see Note 11(b)). The funds deposited as compensating balances are interest bearing. The amount of cash restricted varies based on the bank's credit policy at the time that the Company requests an increase or extension of its credit facilities.

(Expressed in US Dollars)

6. ADVANCES AND PREPAID EXPENSES

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Advances to project managers and suppliers	9,771,887	9,580,647
Prepaid expenses	39,881	96,663
Other	362,664	597,901
	10,174,432	10,275,211

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.

7. DEPOSITS

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Contract performance deposits	8,787,451	10,008,880
Project tender deposits	588,283	672,212
Other	19,849	351,612
	9,695,583	11,032,704

Contract performance deposits are advanced to developers at the beginning of construction projects. The deposits are repaid to the Company based on the progress of construction and terms of the contract.

Project tender deposits are advanced to developers during the contract tendering period. The deposits are repaid to the Company when the tendering process is complete.

8. RELATED PARTY BALANCES AND TRANSACTIONS

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,725	60,236

As at December 31, 2014, the Company advanced project funds totalling $Nil (June 30, 2014 - $2,475,634) to project managers who are related by family to the CEO. The amounts due from or due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

Key management personnel compensation

The Company has identified its directors and senior officers as its key management personnel. The remuneration of directors and senior officers during the period was as follows:

	Six Months Ended December 31, 2014 (unaudited)	December 31, 2013 (unaudited)
	$	$
Salaries and benefits	153,541	251,587
Share-based compensation	142,514	33,646
Total	296,055	285,233

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

(Expressed in US Dollars)

9. LAND USE RIGHTS

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Cost		
Balance, beginning of period	1,667,729	1,684,962
Foreign exchange movement	13,524	(17,233)
Balance, end of period	1,681,253	1,667,729
Accumulated amortization		
Balance, beginning of period	19,207	11,441
Charge for the period	3,519	7,054
Foreign exchange movement	155	712
Balance, end of period	22,881	19,207
Net book value, end of period	1,658,372	1,648,522

In June 2006, Zhejiang acquired a 50 year land use right in Jiaxing from a company controlled by the CEO at a carrying value of $Nil. The right expires on July 19, 2050. The Company's office building is located on this land.

In June 2007, Zhejiang acquired another 50 year land use right for $121,149 (RMB 769,719) for a piece of land in Jiaxing, Zhejiang, PRC. The right expires on August 23, 2056. The Company completed the construction of 2 residential buildings as employee quarters on this land in 2012.

In 2011, the Company acquired a land use right in Haikou, Hainan, PRC. The land use right has an indefinite useful life.

The Company's land leases are used as security for the bank loans described in Note 11(a). As at December 31, 2014, the carrying value of land use rights secured as collateral is $114,535 (June 30,2014 – $117,103).

(Expressed in US Dollars)

10. PROPERTY AND EQUIPMENT

	Machinery, Equipment and Scaffoldings	Buildings	Vehicles	Office Equipment	Leasehold Improvement	Total
	$	$	$	$	$	$
Cost						
Balance, June 30, 2014 (audited)	21,912,286	4,302,316	1,950,608	1,772,180	1,647,545	31,584,935
Additions	26,389	-	16,571	61,581	-	104,541
Foreign exchange movement	177,686	34,889	15,814	14,359	13,362	256,110
Balance, December 31, 2014 (unaudited)	22,116,361	4,337,205	1,982,993	1,848,120	1,660,907	31,945,586
Accumulated depreciation						
Balance, June 30, 2014 (audited)	11,020,356	2,187,361	1,259,338	1,096,166	968,741	16,531,962
Depreciation expense for the period	1,040,371	79,191	108,858	178,466	150,347	1,557,233
Foreign exchange movement	88,779	17,722	10,190	8,853	7,825	133,369
Balance, December 31, 2014 (unaudited)	12,149,506	2,284,274	1,378,386	1,283,485	1,126,913	18,222,564
Net book value						
At June 30, 2014 (audited)	10,891,930	2,114,955	691,270	676,014	678,804	15,052,973
At December 31, 2014 (unaudited)	9,966,855	2,052,931	604,607	564,635	533,994	13,723,022

The Company's buildings are used as security for the bank loans described in Note 11(a). As at December 31, 2014, the carrying value of the buildings secured as collateral is $2,052,931 (June 30, 2014 - $2,114,955).

11. BANK LOANS AND NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates varying between 5.88% to 8.40% (June 30, 2014 - 0.59% to 8.20%), weighted average at 6.84% (June 30, 2014 - 6.12%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $79,041,196 (June 30, 2014 - $46,176,290) in aggregate provided by construction project developers and the CEO of the Company.

(b) The bank notes payable generally have terms six months or less. The notes are secured by compensating deposits held by the banks (see Note 5).

(Expressed in US Dollars)

12. LOAN PAYABLE

On September 30, 2013, the Company obtained a loan of $5,806,926 (RMB 35,550,000) from an unrelated company, 远东国际租赁有限公司, ("Yuandong"), located in Shanghai Pudong. The loan has a stated interest rate of 6.50% and bears an effective interest rate of 12.03%. The loan is payable in equal monthly installments from $179,456 (RMB 1,104,281) over 36 months with a maturity date of September 30, 2016. The loan is secured and is guaranteed by an unrelated party. The Company also paid an upfront service charge of $382,228 (RMB 2,340,000) to Yuandong related to obtaining the loan.

In connection with the loan, the Company paid a security deposit of $580,693 (RMB 3,555,000) which will be refunded to the Company in full at the end of the 36 months. As at December 31, 2014, the present value of the refundable deposit is $577,720.

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Balance, beginning of period	4,189,818	-
Loan principal	-	5,806,926
Less: service charge	-	(382,228)
	4,189,818	5,424,698
Repayments	(1,077,990)	(1,621,473)
Foreign exchange movement	271,785	386,593
Balance, end of period	3,383,613	4,189,818
Less: current portion	(1,846,547)	(1,722,585)
Balance, end of period, Long-term portion	1,537,066	2,467,233

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Accounts payable to suppliers	8,423,825	1,969,755
Salaries and wages payable	288,122	429,079
Taxes payable	9,949,988	9,248,992
Accrued expenses	3,673,966	4,249,525
Other	3,509,197	4,933,082
	25,845,098	20,830,433

14. CONVERTIBLE DEBENTURES

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
Balance, beginning of period	13,474,515	12,169,260
Interest accretion	1,114,701	2,188,983
Interest paid	(1,348,787)	(706,438)
Foreign exchange gain on translation	(1,094,017)	(177,290)
Balance, end of period	12,146,412	13,474,515

(Expressed in US Dollars)

14. CONVERTIBLE DEBENTURES (continued)

The amounts of convertible debentures due, if not converted before their due date, in the next three years are as follows:

	$
Due on October 31, 2015	12,898,788
Less: interest at weighted average effective interest rate of 17.64%	(752,376)
	12,146,412

Convertible Debentures – Principal Amount of $12,898,788

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 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 $887,940 agent's legal and expenses of $404,646 and other issue costs of $94,451, totaling $1,387,037.

The Company uses the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of $2,657,900 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of $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 $249,530 and deferred income tax expense of $336,750 were allocated to the equity component.

15. SHARE CAPITAL

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

Issued and outstanding:

	Common Shares Number	$
Balance, December 31, 2014, June 30, 2014 and 2013	25,420,065	7,156,864

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.

(Expressed in US Dollars)

15. SHARE CAPITAL (continued)

Options (continued)

As of December 31, 2014 the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 common shares summarized as follows. The options have a weighted average remaining life of 4.75 years.

	Number of Options	Weighted Average Exercise Price
Stock options outstanding, June 30, 2013	2,125,000	$1.40
Granted	1,755,000	$0.61
Cancelled	(2,125,000)	$1.40
Stock options outstanding, June 30, 2014 and December 31, 2014	1,755,000	$0.61

Details of stock options outstanding:

Expiry Date	Exercise Price	Stock Options Outstanding	Stock Options Exercisable and Vested
June 30, 2019	$0.61	1,755,000	585,000

Equity Component of Convertible Debentures

	$
Balance, June 30, 2014 and December 31,2014	2,059,230

16. RESERVES

According to the Company Law of China and Zhejiang's Articles of Association, Zhejiang is required each year to transfer 10% of the profit after tax as reported in its financial statements, prepared in accordance with Chinese generally accepted accounting principles, to the statutory common reserve fund until the fund reaches 50% of the registered capital. This fund can be used to make up for any losses incurred in the future or be converted into paid-in capital, provided that the fund does not fall below 50% of the registered capital.

17. INCOME TAX

HKCo, China Privco and Zhejiang are subject to taxes under their respective tax jurisdictions, which are the same as their respective place of incorporation.

Income tax expenses are as follows:

	December 31, 2014 (unaudited) $	December 31, 2013 (unaudited) $
Current	3,440,794	2,147,213
Deferred	6,618	427,412
Total income tax expenses	3,447,412	2,574,625

Deferred taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred tax assets (liabilities) are as follows:

	December 31, 2014 (unaudited) $	June 30, 2014 (audited) $
Unbilled revenue, net of charges	(2,248,567)	(2,160,692)
Plant and equipment	814,593	733,336
Net deferred tax liabilities	(1,433,974)	(1,427,356)

(Expressed in US Dollars)

18. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, other receivables, deposits, refundable deposit, bank loans, bank notes payable, accounts payable, loan payable, convertible debentures and automobile loans. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. The Company also has financial instruments consisting of amounts due from and due to related parties. It is impractical to determine the fair value of these financial instruments with sufficient reliability due to the nature of the financial instrument, the absence of secondary market and the significant cost of obtaining external appraisals. The fair value of these financial instruments approximates their carrying values under the effective interest method.

The following table summarizes the carrying values of the Company's financial instruments:

	December 31, 2014 (unaudited)	June 30,2014 (audited)
	$	$
Assets as FVPTL (i)	10,245,418	13,269,288
Loans and receivables (ii)	29,873,660	25,760,214
Other financial liabilities (iii)	110,436,402	105,769,291

Fair values

(i) Cash and cash equivalents and restricted cash
(ii) Accounts receivable, other receivables, deposits, refundable deposit and amounts due from related parties
(iii) Bank loans, bank notes payable, loan payable, accounts payable, automobile loans and convertible debentures

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
Level 3 – Inputs that are not based on observable market date

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
December 31, 2014 (unaudited)				
Cash and cash equivalents and restricted cash	10,245,418	-	-	10,245,418
June 30, 2014 (audited)				
Cash and cash equivalents and restricted cash	13,269,288	-	-	13,269,288

(Expressed in US Dollars)

18. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, restricted cash, accounts receivable and other receivables. The Company has significant cash and cash equivalents and restricted cash balances. To minimize the interest rate and credit risk of cash and cash equivalents and restricted cash the Company deposits these instruments with financial institutions located in Canada and PRC.

Credit risk from accounts receivable and other receivables encompasses the default risk of customers. The Company's customers are for the most part, private companies located in China. Its exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's exposure to credit risk associated with its accounts receivables and other receivables is the risk that a customer will be unable to pay amounts due to the Company. In its determination of valuation of accounts receivable and other receivables, 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 statement of financial position date. The amounts disclosed on the statement of financial position are net of these allowances for bad debts. Accounts receivables and other receivables 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. The Company 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 and other receivables 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.

For the 6 months ended December 31, 2014, revenue from 1 customer accounted for 10% (December 31, 2013 – 2 customers accounted for 21%) of total revenue. At December 31, 2014, outstanding amounts owed by 3 customers accounted for 36% of outstanding amounts of the total accounts receivable and unbilled revenue (December 31, 2013 – no customers owing 10% or more of outstanding amounts of the total accounts receivable and unbilled revenue).

Over the last three years, the Company has not suffered any significant credit related losses with any of its customers. Management does not believe that there is significant credit risk arising from any of the Company's customers. 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 but limited to bank loans, bank notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with the real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

The Company is exposed to interest rate risk on its bank loans and notes payable to the extent that its credit facilities are based on floating rates of interest. For the period ended December 31, 2014, a 10% increase or a 10% decrease in interest rates would have changed comprehensive earnings by $260,000.

Financial assets past due

As at December 31, 2014 and June 30, 2014 the aging of accounts receivable is as follows:

	December 31, 2014 (unaudited)	June 30, 2014 (audited)
	$	$
0 – 180 days	10,425,778	6,316,513
181 – 365 days	3,161,397	1,370,205
Over 1 year	2,238,015	5,292,448
Over 2 years	3,066,717	957,345
Accounts receivable	18,891,907	13,936,511
Less: allowance for doubtful accounts	(966,929)	(959,151)
	17,924,978	12,977,360

18. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk (continued)

During the period ended December 31, 2014 and 2013, the Company did not record a provision for doubtful accounts. All provisions for allowances for doubtful accounts are charged to general and administrative expenses. As at December 31, 2014, the balance of accounts receivable past due but not impaired is $4,337,803 (June 30, 2014 - $5,290,642).

The definition of items that are past due is determined by reference to terms agreed with individual customers. None of the amounts outstanding have been challenged by the respective customer(s) and the Company continues to conduct business with them on an ongoing basis.

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in the PRC and is exposed to risk from changes in foreign currency exchange 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 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.

At December 31, 2014 through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $10,164,747 (June 30, 2014 - $13,227,037), accounts receivable and other receivables of $21,224,147 (June 30, 2014 - $13,453,131), refundable deposit of $577,720 (June 30, 2014 - $573,073), bank loans of $51,013,879 (June 30, 2014 - $48,739,068), bank notes payable of $17,700,496 (June 30, 2014 - $18,127,156), Loan payable of $3,383,613 (June 30, 2014 - $4,189,818), accounts payable of $11,392,337 (June 30, 2014 - $10,732,439), amounts due from related parties of $60,725 (June 30, 2014 - $60,236), and automobile loans of $183,404 (June 30, 2014 - $244,801) which were denominated in RMB.

At December 31, 2014, the Company had cash of $4,084 (June 30, 2014 - $2,083) and convertible debentures of $12,146,412 (June 30, 2014 - $13,474,515) which were denominated in CDN$.

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 following are the contractual maturities of financial liabilities as at December 31, 2014:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	51,177,379	51,177,379	51,177,379	-	-
Notes payable	17,700,496	17,700,496	17,700,496	-	-
Loan payable	3,383,613	3,768,571	2,153,469	1,615,102	-
Accounts payable	11,935,216	11,935,216	11,935,216	-	-
Automobile loans	183,404	189,521	125,839	63,682	-
Convertible debentures	12,146,412	12,898,788	12,898,788	-	-
Total	96,526,520	97,669,971	95,991,187	1,678,784	-

(Expressed in US Dollars)

18. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income which a change in foreign exchange rate during the year ended December 31, 2014 would have had.

The sensitivity analysis includes the assumption that changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of sensitivity analysis shows that an increase (decrease) of 10% in the RMB to US Dollar exchange rate could have no impact on the Company's net income but could have increased (decreased) the comprehensive income by approximately $4,545,000. An increase (decrease) of 10% in CDN$ to US Dollar exchange rate could have no impact on the Company's net income but could have decreased (increased) the comprehensive income by approximately $1,214,000.

The above result arises primarily because the Company has RMB and CND$ denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, deposits, refundable deposit, bank loans, bank notes payable, loan payable, accounts payable, automobile loans, convertible debentures and amounts due from related parties. The financial position of the Company may vary at the time that a change in the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

19. GEOGRAPHIC DISCLOSURES

The Company operates in one reporting segment – the construction of residential and business buildings, municipal infrastructure and engineering projects in PRC. The Company's Zhejiang office building is located in Jiaxing, Zhejiang, PRC. All of the Company's revenue was generated in PRC and substantially all capital assets are located in the PRC.

20. CAPITAL DISCLOSURES

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 correspondingly to the level of risk.

The Company is required to maintain a certain level of deposits with its banks as compensating balances for bank loans provided by these banks.

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 issue new shares, sell assets, reduce debt or increase its debt.

21. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

For the six months ended December 31, 2014	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	$		$
Net income for the six months ended December 31, 2014	8,606,239	-	-
Weighted average number of shares outstanding	-	25,420,065	-
Basic Earnings per Share	8,606,239	25,420,065	0.34
Effect of options and convertible debentures:			
• Stock options	-	32,497	-
• Convertible debentures	741,724	5,769,231	-
Diluted Earnings per Share	9,347,963	31,221,793	0.30

(Expressed in US Dollars)

21. EARNINGS PER SHARE (continued)

For the six months ended December 31, 2013	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	$		$
Net income for the six months ended December 31, 2013	5,955,211	-	-
Weighted average number of shares outstanding	-	25,420,065	-
Basic Earnings per Share	5,955,211	25,420,065	0.23
Effect of convertible debentures	890,923	5,769,231	-
Diluted Earnings per Share	6,846,134	31,189,296	0.22

At December 31, 2013, 2,125,000 options are not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

22. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has guaranteed the bank loans for other construction companies, in amounts totalling $15,032,096. No consideration has been specifically received by the Company for these guarantees.

(b) The Company has an office lease in Hainan, PRC expiring October 17, 2016. Minimum lease payments are as follows:

2015	$	109,557
2016		227,879
2017		77,420
	$	414,857

23. SUBSEQUENT EVENT

On January 21, 2015, the Company announced that it will seek approval from holders (the “Holders”) of its 10% unsecured subordinated convertible debentures due on October 31, 2015 (the “Debentures”), to amend the terms of the Debentures at a meeting of the Holders to be held on February 24, 2015. The proposed amendments (the “Amendments”) to the Debentures consist of:

i. Extending the maturity date of the Debentures from October 31, 2015 to October 31, 2018;
ii. reducing the conversion price from CDN$2.60 to CDN$1.00 per share;
iii. increasing the coupon rate to 10.5% from 10%; and
iv. extending the restricted redemption period to any time on or after October 31, 2016.

Other than the foregoing Amendments, the terms of the Debentures will remain unchanged (see Note 14). The Amendments will be subject to the approval of the Toronto Stock Exchange (the "TSX").

In addition, the Company also announced on the same day that, subject to approval of the TSX, it intends to make a normal course issuer bid for the Debentures if the above amendments are approved by Holders.