BOYUAN CONSTRUCTION GROUP, INC.

ANNUAL REPORT 2013

- Audited annual consolidated financial statements for the fiscal years ended June 30, 2013 and 2012
- Management discussion & analysis for the fiscal year ended June 30, 2013

Boyuan Construction Group, Inc.

Consolidated Financial Statements

For the Years Ended

June 30, 2013 and 2012

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MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Boyuan Construction Group, Inc.

We have audited the accompanying consolidated financial statements of Boyuan Construction Group, Inc. which comprise the consolidated statements of financial position as at June 30, 2013 and 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Boyuan Construction Group, Inc. as at June 30, 2013 and 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Manning Elliott LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
September 25, 2013

Boyuan Construction Group, Inc.

Consolidated Statements of Financial Position
As at June 30, 2013 and 2012
(Expressed in US Dollars)

	2013 $	2012 $
Current Assets		
Cash and cash equivalents	4,645,388	3,084,640
Accounts receivable	9,706,093	7,942,807
Unbilled revenue (Note 5)	115,523,781	84,098,041
Restricted cash (Note 6)	8,675,868	7,996,097
Other receivables	1,731,943	1,300,908
Inventory	444,891	1,464,697
Advances to suppliers and prepaid expenses (Note 7)	22,151,501	32,494,387
Deposits (Note 8)	11,670,259	10,962,665
Due from related parties (Note 10)	60,892	83,996
Investment (Note 9)	-	472,180
	174,610,616	149,900,418
Land use rights (Note 11)	125,433	120,314
Property and equipment (Note 12)	19,610,878	22,664,691
	194,346,927	172,685,423
Current Liabilities		
Bank loans (Note 13)	52,707,797	37,640,670
Bank notes payable (Note 13)	16,465,144	13,091,997
Short-term loans (Note 14)	-	6,262,491
Accounts payable and accrued liabilities (Note 15)	18,861,302	18,325,863
Income taxes payable (Note 19)	2,527,302	1,291,993
Deferred revenue (Note 5)	4,185,991	1,310,580
Current portion of automobile loans	68,199	86,692
Current portion of convertible debentures (Note 16)	-	17,810,999
	94,815,735	95,821,285
Convertible debentures (Note 16)	12,169,260	-
Deferred tax liabilities (Note 19)	39,581	1,498,000
Automobile loans	146,694	-
	107,171,270	97,319,285
Shareholders' Equity		
Share capital	7,156,864	7,211,910
Contributed surplus	5,037,728	4,401,886
Reserves (Note 18)	7,373,221	6,159,358
Equity component of convertible debentures (Note 17)	2,059,230	2,368,409
Retained earnings	57,272,085	50,540,221
Accumulated other comprehensive income	8,276,529	4,684,354
	87,175,657	75,366,138
	194,346,927	172,685,423

COMMITMENTS AND CONTINGENT LIABILITIES (Note 26)

Approved on behalf of the Board:

"Cailiang Shou"	*"Jack Duffy"*
Cailiang Shou, Chairman of the Board	Jack Duffy, Director

Boyuan Construction Group, Inc.

Consolidated Statements of Comprehensive Income
For the Years Ended June 30, 2013 and 2012
(Expressed in US Dollars)

	2013 $	2012 $
Construction revenue	209,207,276	189,258,019
Costs of construction	178,642,550	158,619,288
Gross profit	30,564,726	30,638,731
Expenses		
Depreciation of property and equipment	4,054,410	2,911,067
General and administrative expenses	5,779,348	4,799,523
	9,833,758	7,710,590
Income from operations before other items and income taxes	20,730,968	22,928,141
Other Income (expense)		
Interest and other income	239,049	569,607
Foreign exchange loss	(7,675)	(44,597)
Interest expense	(8,416,818)	(7,444,534)
Debenture valuation gain	-	179,935
Share-based compensation (Note 17)	(163,163)	(779,626)
Interest related to minimum total return (Note 16)	-	(829,629)
	(8,348,607)	(8,348,844)
Net income before income taxes	12,382,361	14,579,297
Income taxes (Note 19)	4,436,634	5,227,851
Net income for the year	7,945,727	9,351,446
Other Comprehensive Income		
Unrealized gain on foreign exchange translation	3,592,175	2,486,988
Comprehensive income for the year	11,537,902	11,838,434
Earnings per share, basic (Note 25)	$ 0.31	$ 0.36
Earnings per share, diluted (Note 25)	$ 0.31	$ 0.36
Weighted average number of common shares outstanding, basic (Note 25)	25,434,020	25,736,160
Weighted average number of common shares outstanding, diluted (Note 25)	31,203,251	35,007,804

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Changes in Equity
For the Years Ended June 30, 2013 and 2012
(Expressed in US Dollars)

	Share Capital $	Contributed Surplus $	Reserves $	Equity Component of Convertible Debentures $	Retained Earnings $	Foreign Currency Translation Adjustment $	Total Shareholders' Equity $
Balance, June 30, 2011	7,402,304	3,537,879	4,297,509	2,442,651	43,050,624	2,197,366	62,928,333
Share-based compensation	-	789,765	-	-	-	-	789,765
Share repurchases	(190,394)	-	-	-	-	-	(190,394)
Net income for the year	-	-	-	-	9,351,446	-	9,351,446
Transfer to reserve	-	-	1,861,849	-	(1,861,849)	-	-
Redemption of debentures	-	74,242	-	(74,242)	-	-	-
Other comprehensive income	-	-	-	-	-	2,486,988	2,486,988
Balance, June 30, 2012	7,211,910	4,401,886	6,159,358	2,368,409	50,540,221	4,684,354	75,366,138
Share-based compensation	-	163,163	-	-	-	-	163,163
Share repurchases	(55,046)	-	-	-	-	-	(55,046)
Net income for the year	-	-	-	-	7,945,727	-	7,945,727
Transfer to reserve	-	-	1,213,863	-	(1,213,863)	-	-
Redemption of debentures	-	309,179	-	(309,179)	-	-	-
Fair value of options granted for loan (Note 13(a))		163,500	-	-	-	-	163,500
Other comprehensive income	-	-	-	-	-	3,592,175	3,592,175
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

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012
(Expressed in US Dollars)

	2013 $	2012 $
OPERATING ACTIVITIES		
Net income for the year	7,945,727	9,351,446
Items not involving cash:		
Depreciation	4,054,410	2,911,067
Interest accretion	3,262,777	3,824,963
Debenture valuation gain	-	(179,935)
Interest related to minimum total return	-	829,629
Share-based compensation	163,163	779,626
Deferred income tax expenses (recovery)	(1,458,059)	402,228
Unrealized foreign exchange loss	39,280	89,945
	14,007,298	18,008,969
Changes in non-cash working capital balances (Note 20)	(13,781,767)	(29,640,834)
Cash from (used in) operating activities	225,531	(11,631,865)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(505,216)	(8,177,968)
Proceeds from sale of equipment	9,611	59,963
Sale (acquisition) of investment	480,561	(472,121)
Cash used in investing activities	(15,044)	(8,590,126)
FINANCING ACTIVITIES		
Restricted cash	(390,397)	(4,088,633)
Proceeds from short-term bank loans	80,410,720	48,123,318
Repayment of short-term bank loans	(66,746,760)	(30,599,751)
Proceeds from short-term loans	-	29,992,622
Repayment of short-term loans	(6,126,306)	(23,973,912)
Bank notes payable	2,860,942	2,850,039
Repayment of automobile loans	(118,832)	(238,223)
Convertible debentures, net	(2,310,993)	(2,365,681)
Redemption of convertible debentures	(6,588,849)	(1,299,459)
Share repurchases	(55,046)	(190,394)
Cash provided by financing activities	934,479	18,209,926
Effect of changes in exchange rates on cash	415,782	97,473
Increase (decrease) in cash	1,560,748	(1,914,592)
Cash and cash equivalents, beginning	3,084,640	4,999,232
Cash and cash equivalents, ending	4,645,388	3,084,640
Supplemental disclosure of cash flow information:		
Cash paid for interest	7,848,267	6,456,581
Cash paid for income taxes	4,280,638	5,162,332

Significant non-cash transactions (Note 20)

See accompanying notes to 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 consolidated financial statements represent the annual financial statements of the Company and its subsidiaries and Special Purpose Entity prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements for the year ended June 30, 2013 were reviewed by the Audit Committee and approved and authorized for issue by the Company's Board of Directors on September 25, 2013.

(b) Basis of consolidation

These consolidated financial statements include the assets and operations of the Company, its wholly-owned subsidiaries Hong Kong Wealthy Holdings Limited ("HKCo") and Zhejiang Jianyou Trading Co., Ltd. ("China Privco"), and a special purpose entity ("SPE") Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang"). The Company has control of Zhejiang and is the primary beneficiary of its assets and operations. The Company does not own any shares of Zhejiang. However, the Company has contractual agreements with Zhejiang whereby the Company controls and is the primary beneficiary of Zhejiang's operations.

Pursuant to four agreements dated January 10, 2009 among China Privco, Zhejiang and the shareholders of Zhejiang, Zhejiang entrusted China Privco to manage and operate the business of Zhejiang. These agreements include:

(i) an exclusive option agreement which ensures that China Privco can buy the equity interest in and all or part of the assets and business of Zhejiang at any time if legally permitted;

(ii) a management agreement whereby Zhejiang entrusted China Privco to manage and operate the business of Zhejiang. China Privco will be remunerated with the net earnings before tax of Zhejiang and will assume all operation risks and bear all losses of Zhejiang;

a share pledge agreement whereby the shareholders of Zhejiang agreed to pledge all of the shares of Zhejiang they own to China Privco; and

(iii) a shareholders' voting proxy agreement whereby the shareholders of Zhejiang granted the right to exercise all of the voting rights to China Privco.

The Company consolidates the accounts of Zhejiang pursuant to IASB Standing Interpretation Committee Interpretation ("SIC") 12, Consolidation – Special Purpose Entities. Zhejiang was incorporated on January 17, 2000 under the business laws of the PRC.

All significant inter-company balances and transactions have been eliminated on consolidation.

2. BASIS OF CONSOLIDATION AND PRESENTATION (continued)

(c) Basis of measurement

These consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial instruments which are measured at fair value as described in Note 3(q).

(d) Use of estimates and judgments

Estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include recognition of revenue, collectability of accounts receivables, useful lives of property and equipment, impairment of assets, estimation of unbilled revenue, determination of accrued liabilities, valuation of share-based compensation, estimation of equity and debt components of convertible debentures, and recognition of deferred income tax assets.

Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are the percentage of completion method and accounts related thereto, allowance for doubtful accounts and estimates in amortization and impairment of property and equipment.

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 developers 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.

Allowances for doubtful accounts may require an assessment and estimate of the credit worthiness of the client and the timing of collections. Judgment and assumptions are required to determine when an amount may be deemed uncollectible. The outcomes can differ significantly from the estimates used in preparing the consolidated financial statements resulting in required adjustments to expenses and assets.

Estimates used in the calculation of amortization and the impairment of property and equipment requires management to determine the estimated useful lives, rates of amortization and salvage values of the equipment and property. Changes to the estimated useful lives, rates of amortization and salvage values could have a material impact on the consolidated financial statements of future periods. The assessment of impairment requires the use of estimates and assumptions that are subject to change as new information comes available.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash equivalents

Cash equivalents consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased, or which are redeemable at the option of the Company.

(b) Accounts receivable

Accounts receivable are recognized initially at fair value less allowance made for doubtful collections based on a review of period-end accounts receivable and do not carry any interest. An allowance for doubtful accounts receivable is made when there is objective evidence that the Company will not be able to collect the amounts due according to original payment terms or there are indications of collection issues related to specific customers. The provisions for impairment of accounts receivable are presented within general and administrative expenses.

(c) Inventory

The Company's inventory comprises raw materials, mainly steel and concrete, which are carried at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis. The cost of raw materials includes delivery costs.

(d) Share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

(e) Property and equipment

Property and equipment are stated at cost which includes the acquisition price and any direct costs to bring the asset into productive use at its intended location.

Depreciation of property and equipment is calculated using the straight-line method to write off the cost, net of any estimated residual value, over their estimated useful lives as follows:

Buildings	30 years
Machinery and equipment	10 years
Scaffoldings	5 years
Office equipment	10 years
Vehicles	4 to 5 years
Leasehold improvements	3 years

(f) Construction-in-progress

Construction-in-progress is stated at cost, which comprises direct costs of design, acquisition, and construction of buildings, building improvements and land improvements. Upon completion, construction-in-progress is transferred to its respective asset classification and is amortized upon available for use.

(g) Land use rights

Assets are recognized only when it is probable that the expected future economic benefits attributable to the assets will accrue to the Company and the cost can be reliably measured. Intangible assets that do not have indefinite lives are amortized over their useful lives using an amortization method which reflects the economic benefit of the intangible asset. Amortization is provided over the life of the rights which is 50 years using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of Long-Lived Assets

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized in earnings or the results of discontinued operations, as appropriate, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating units" or "CGUs"). The Company evaluates impairment losses other than goodwill impairment, for potential reversals, when events or changes in circumstances warrant such consideration.

(i) Statutory reserve

Statutory reserve refers to the amount appropriated from the net income 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.

(j) Revenue recognition

Construction revenue includes the initial amount agreed in the contract plus any variations in construction work and changes, to the extent that it is probable, will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss using the percentage of completion method. The percentage of completion is assessed by reference to the proportion of the actual costs incurred to date compared to the estimated total costs at the end of each reporting period for each contract. Revenue and contract cost estimates are revised on an ongoing basis as changes in price and in the scope of each contract are made. Any changes made to the contract scope are reflected in the percentage of completion of applicable contracts in the same period as the change in estimate occurs.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized to the extent of contract costs incurred where it is probable they will be recovered.

Cash received in advance of revenue being recognized on contracts is classified as deferred or unearned revenue. Costs incurred and estimated profits on contracts in progress in excess of amounts billed are reflected as unbilled revenues.

The majority of the Company's contracts are of a fixed contract price nature. The Company does not typically enter into any cost-plus arrangements. The contracts usually contain a price adjustment clause allowing the Company to make adjustments to specific materials and supplies to compensate for inflationary situations.

Costs of construction are recognized as expenses as incurred. Costs of construction include costs that relate directly to a specific contract such as all raw materials, direct labour, subcontractors and other costs and indirect costs related to contract performance, such as indirect salaries and wages and equipment repairs. In addition costs that are attributable to contract activity and can be charged to the contract under the agreed terms of the contract are included in costs of construction. Contract costs exclude general administration costs, selling costs, research and development costs and depreciation of equipment not used in a contract.

Where current estimates indicate that total costs of construction will exceed total contract revenue, the full amount of the expected loss is recognized immediately as a charge to operations.

The Company generally provides a two to three year warranty for workmanship under its contracts. Warranty cost provisions are based on management's best estimates of such costs and are charged to project costs as they are incurred, taking into account the specific arrangements of the contracts and past history. Warranty claims historically have been nominal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Retirement benefits

Full-time employees of the Company are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Company is required to contribute a specific percentage of the employees' salaries to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions which are charged to operations as incurred.

(l) Income taxes

Income tax expense comprises current and deferred income tax. Tax is recognized in the income statement except to the extent that it relates to items recognized directly into equity in which case the related tax effect is recognized in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current expense tax is calculated using tax rates and laws that were enacted or substantively enacted at the statement of financial position date.

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable income. Deferred tax is calculated based on the expected manner in which temporary differences related to the carrying amounts of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement using tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination and which do not affect accounting or taxable profit or loss at the time of the transaction.

(m) Foreign currency translation

The reporting currency of the Company is the US dollar.

The functional currency of the Company and HKCO is the Canadian dollar ("CAD"). The functional currency of the Company's PRC subsidiary and SPE, which comprise substantially all of the Company's assets and operations, is the Chinese Renminbi ("RMB"). Transactions denominated in foreign currencies are converted to their functional currencies at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to their functional currencies at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at exchange rates prevailing on the date of transactions. All exchange gains and losses are included in determination of earnings.

Financial statements of the Company and its subsidiary and SPE prepared under their functional currencies are translated into US Dollars for consolidation purposes using the current rate method. Under the current rate method, amounts are translated using the current rates of exchange for assets and liabilities and using the average rates of exchange for the period for revenues and expenses. Gains and losses resulting from translation adjustments using the current rate method are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholder's equity, described as foreign currency translation adjustment. In the event of a reduction of the Company's net investment in its foreign operations, the portion of accumulated other comprehensive income related to the reduction is realized and recognized in operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Share-based compensation

The Company uses the fair value based method of accounting for share-based compensation for all awards of shares and share options granted.

The share option plan allows Company employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive income, unless the fair value cannot be estimated reliably, in which case they are recorded at the fair value of the equity instruments granted.

(o) Special purpose entities

The Company follows the recommendation of Standings Interpretation Committee (“SIC”) 12, Consolidation – Special Purpose Entities, to consolidate the financial statements of SPEs where the Company has control over the decision-making powers to obtain the majority of the benefits of the activities of the SPE and may be exposed to risks incident to the activities of the SPE.

(p) Earnings per share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to calculate the dilutive effect of options and warrants, and uses the “if-converted” method to calculate the dilutive effect of convertible debentures. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

(q) Financial instruments

Non-derivative financial assets

Non-derivative financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

Financial asset are classified as fair value through profit or loss (“FVTPL”) if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTPL are measured at fair value, and changes are recognized in profit or loss. Upon initial recognition transaction costs are recognized in operations as incurred.

ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the positive intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, except for investments in equity instruments that do not have a quoted market price in an active market and their fair value cannot be reliably measured which are measured at cost less impairment losses, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss.

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at FVTPL or other financial liabilities.

v) Financial liabilities at FVTPL

These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in profit or loss.

vi) Other financial liabilities

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using effective interest method.

vii) Separable embedded derivative financial liabilities

These financial liabilities are classified as FVTPL. The financial liability is initially recognized at fair value and changes are recognized in profit or loss.

The Company has classified its cash and cash equivalents and restricted cash as FVTPL, its accounts receivable, other receivables, deposits and due from related parties as loans and receivables, its investment as available-for-sale, its bank loans, notes payable, short-term loans, accounts payable, automobile loans, due to related parties and convertible debentures as other financial liabilities.

(r) Convertible debentures

Convertible debentures are segregated into debt and equity components at the date of issue. The debt component of the debenture is classified as a liability and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument.

The carrying value of the debt component is accreted to the original face value of the instrument over the term of the convertible debenture using the effective interest method. The value of the conversion option makes up the equity component of the instrument. The conversion option is recorded using the residual value approach for proceeds.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognized as interest expense.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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 July 1, 2013</u>

- Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2013, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

- IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.* The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

- IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

- IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

- IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

- Amendments to IAS 1 *Presentation of Financial Statements* - The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

(Expressed in US Dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures* and IAS 32 *Financial Instruments: presentation* . IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. IAS 32 has been amended to clarify the meaning of the offsetting criterion and the principal behind net settlement.

Each of the new standards, IFRS 7, 10 to 13, IAS 1 and the amendments to other standards, is effective for the Company beginning on July 1, 2013 with early adoption permitted. The Company is in the process of assessing the impact that the new standards will have on its consolidated financial statements.

New accounting standards effective January 1, 2015

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 is effective for annual periods beginning on or after January 1, 2015 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 consolidated financial statements or whether to early adopt any of the new requirements.

5. 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.

	2013 $	2012 $
Completed contracts	33,323,037	35,369,123
Contracts in progress	82,200,744	48,728,918
	115,523,781	84,098,041

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

	2013 $	2012 $
Aggregate costs of construction	189,885,615	185,492,453
Gross profit recognized	35,080,206	37,172,214
	224,965,821	222,664,667
Less: aggregate of progress billing and payments	142,765,077	173,935,749
Contracts in progress – unbilled revenue portion, end of year	82,200,744	48,728,918
Deferred revenue related to contract in progress, end of year	4,185,991	1,310,580
Net position	78,014,753	47,418,338

(Expressed in US Dollars)

6. RESTRICTED CASH

Restricted cash mainly represents compensating deposits held at banks to partially secure bank notes payable. 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 13(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.

7. ADVANCES TO SUPPLIERS AND PREPAID EXPENSES

	2013 $	2012 $
Advances to suppliers	20,149,645	29,798,171
Prepaid expenses	205,130	1,835,899
Other	1,796,726	860,317
	22,151,501	32,494,387

The Company advances money to suppliers in order to secure construction materials.

8. DEPOSITS

	2013 $	2012 $
Contract performance deposits	10,779,014	9,639,503
Project tender deposits	502,118	736,728
Other	389,127	586,434
	11,670,259	10,962,665

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.

9. INVESTMENT

In 2012, the Company invested $472,180 (RMB3,000,000) in a real estate development investment trust fund located in the PRC. During the year ended June 30, 2012, an income distribution of $15,321 was received and recorded as other income. In October 2012 the Company received an income distribution of $41,550 and the amount invested was received in full.

10. RELATED PARTY BALANCES AND TRANSACTIONS

	2013 $	2012 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,892	83,966

The amounts due from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

Related Party Transactions

(a) The Company obtained a short-term loan as described in Note 13(a). The short-term loan is guaranteed by Mainway Management Limited ("Mainway"), a company controlled by the CEO. In addition Mainway granted an option to the lender to acquire 1,000,000 common shares of the Company. The Company did not pay any compensation related to the guarantee or the option to purchase shares.

(Expressed in US Dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Related Party Transactions (continued)

(b) During the year ended June 30, 2013, the Company received a vehicle with a market value of $25,631 (RMB 160,000) from a company controlled by the CEO as repayment for a balance due from the related company.

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 year was as follows:

	2013 $	2012 $
Chairman and Chief Executive Officer	226,127	226,600
Chief Financial Officer	121,281	115,891
Secretary	32,671	32,530
Vice president	17,300	18,177
Directors	91,567	79,297
	488,946	472,495

Share-based compensation expense of $117,037 (2012 - $557,840) was recognized for options granted to key management personnel.

11. LAND USE RIGHTS

	2013 $	2012 $
Cost		
Balance, beginning of year	128,738	123,963
Foreign exchange movement	8,136	4,775
Balance, end of year	136,874	128,738
Accumulated amortization		
Balance, beginning of year	8,424	4,760
Amortization for the year	2,720	2,410
Foreign exchange movement	297	1,254
Balance, end of year	11,441	8,424
Net book value, end of year	125,433	120,314

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 (RMB769, 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 during 2012.

The Company's land leases are used as security for the bank loans described in Note 13(a).

(Expressed in US Dollars)

12. PROPERTY AND EQUIPMENT

	Machinery, equipment and Scaffoldings $	Buildings $	Vehicles $	Office Equipment $	Leasehold Improvement $	Construction in Progress $	Total $
Cost							
June 30, 2011	15,096,525	2,621,785	1,421,955	1,302,380	1,006,018	780,475	22,229,138
Additions (transfers)	6,327,570	1,448,939	68,520	216,553	576,473	(780,475)	7,857,580
Foreign exchange movement	261,217	45,409	24,537	22,494	17,427	-	371,084
Balance, June 30, 2012	21,685,312	4,116,133	1,515,012	1,541,427	1,599,918	-	30,457,802
Additions	173,647	97,326	367,750	22,040	8,860	-	669,623
Disposals	-	-	-	(55,691)	-	-	(55,691)
Foreign exchange movement	769,476	147,168	59,907	53,803	56,703	-	1,085,057
Balance, June 30, 2013	22,628,435	4,360,627	1,942,669	1,561,579	1,665,481	-	32,158,791
Accumulated depreciation							
Balance, June 30, 2011	3,043,400	698,982	574,979	363,399	121,840	-	4,802,600
Depreciation expense for the year	1,078,823	1,192,558	227,525	133,828	304,918	-	2,937,652
Foreign exchange movement	22,279	12,207	9,947	6,286	2,140	-	52,859
Balance, June 30, 2012	4,144,502	1,903,747	812,451	503,513	428,898	-	7,793,111
Depreciation expense for the year	3,483,428	84,625	217,162	288,534	329,474	-	4,403,223
Foreign exchange movement	206,716	68,753	32,470	22,785	20,855	-	351,579
Balance, June 30, 2013	7,834,646	2,057,125	1,062,083	814,832	779,227	-	12,547,913
Net book value							
At June 30, 2012	17,540,810	2,212,386	702,561	1,037,914	1,171,020	-	22,664,691
At June 30, 2013	14,793,789	2,303,502	880,586	746,747	886,254	-	19,610,878

The Company's buildings are used as security for the bank loans described in Note 13(a).

(Expressed in US Dollars)

13. BANK LOANS AND NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates varying between 5.60% to 23.52% (2012 – 5.47% to 9.45%), weighted average at 7.71% (2012 – 7.39%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $45,709,350 (2012 – $31,848,597) in aggregate provided by construction project developers and the CEO of the Company.

The Company obtained a short-term bank loan with a principal amount of $4,073,917 (RMB 25,000,000) from the Bank of Communication on May 15, 2013. The loan bears interest at 23.50% per annum and is due on May 14, 2014. The loan is secured by Mainway Management Limited ("Mainway"), a corporation controlled by the Chief Executive Officer ("CEO") of the Company. The Mainway guarantee is secured by a pledge of 15,735,269 common shares of the Company owned by the CEO and the CEO's wife through Mainway. In addition, Mainway granted an option to an affiliate of the Bank of Communication to purchase up to 1 million common shares of the Company that have been pledged by Mainway at a price of $0.31 (CDN$0.33) per share exercisable for one year. The grant date fair value of the option was $163,500 and has been recorded as a finance cost. The carrying value of the loan is $3,910,417 as at June 30, 2013.

The Company used the Black-Scholes option pricing model to value the share purchase option 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 assumptions are as follows:

Share price at grant day	$0.32
Risk-free interest rate (%)	1.02%
Expected dividend yield (%)	-
Expected option life (years)	1
Expected stock price volatility (%)	140%

(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 6).

14. SHORT-TERM LOANS

	Zhongtai Loan $
Balance, June 30, 2011	-
Loan principal received	17,402,722
Interest accrued	556,308
Repayment of principal	(11,384,012)
Repayment of interest	(313,259)
Foreign exchange movement	732
Balance, June 30, 2012	6,262,491
Interest accrued	189,211
Repayment of principal	(6,126,306)
Repayment of interest	(436,548)
Foreign exchange movement	111,152
Balance, June 30, 2013	-

The Company obtained a short-term loan from an unrelated company, 海宁市中泰煤氣有限责任公司 ("Zhongtai"), located in Hainin City, Zhijiang Province. The loan is unsecured, with no fixed date of maturity or fixed repayment terms and is interest bearing at effective interest rate of 7.9% per annum. The loan was fully repaid as at June 30, 2013.

(Expressed in US Dollars)

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013 $	2012 $
Accounts payable to suppliers	1,259,882	1,906,424
Salaries and wages payable	386,927	221,330
Taxes payable	7,590,410	7,028,815
MTR payable (Note 16(c))	-	870,103
Accrued expenses	3,833,378	4,270,194
Other	5,790,705	4,028,997
	18,861,302	18,325,863

16. CONVERTIBLE DEBENTURES

	June 30, 2013 $	June 30, 2012 $
Balance, beginning of year	17,810,999	18,851,701
Interest accretion	3,262,777	3,818,047
Interest paid	(2,310,993)	(2,365,681)
Debenture valuation adjustment	-	(182,325)
Redemption of debentures	(6,588,849)	(1,299,459)
Foreign exchange (gain) loss on translation	(4,674)	(1,011,284)
Balance, end of year	12,169,260	17,810,999

	$
Total principal due on October 31, 2015	14,269,406
Less: interest at weighted average effective interest rate of 15%	(2,100,146)
	12,169,260

The Company was in default on its convertible debenture for failure to file its annual consolidated financial statements for the year ended June 30, 2012 by September 28, 2012. As a result, the principal amount of the debenture was classified as a current liability as at June 30, 2012. The default was rectified during the current year and the convertible debentures are no longer in default.

(a) Convertible Debentures – Principal Amount of $11,859,212

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 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 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.

16. CONVERTIBLE DEBENTURES (continued)

(b) Convertible Debentures – Principal Amount of $3,225,074

Pursuant to a private placement, the Company completed a financing of $5,566,159 (CDN$6,474,000) on July 7, 2009 with an effective date of June 30, 2009. The Company issued 6,474 units (the “Units”) at a price of $860 (CDN$1,000) per Unit. Each Unit consisted of one convertible debenture in the principal amount of $645 (CDN$750) (the “Convertible Debentures”), 125 common shares, 250 non-transferable warrants, 250 non-transferable rights and 250 non-transferable additional rights.

Each Convertible Debenture bears interest at a rate of 11.75% per annum, paid quarterly in arrears and is at the election of the holder, convertible into 375 common shares at a conversion price of CDN$2.00 per share plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder commencing July 7, 2009 and until the close of business on the sixth day prior to the maturity date. The Convertible Debentures mature on February 27, 2013. One third of the outstanding principal is redeemable by the Company, at the holder’s option, on each of February 27, 2011 and February 27, 2012. The debentures are secured by all of the Company’s present and future acquired properties, subordinated to senior indebtedness of the Company, and a pledge of all the common shares of HKCo.

Each warrant entitles the holder, upon exercise, to receive one additional common share at a price of CDN$2.00 expiring June 30, 2013.

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 $235,488 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 $3,182,881 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum.

In 2010, management of the Company deposited 3,237,000 common shares of the Company into escrow with an escrow agent. Pursuant to the Company achieving after tax net income (“ATNI”) of less than $8,500,000 and $11,500,000 for the years ended June 30, 2009 and 2010 respectively, each of the rights and additional rights entitles the holder, upon exercise at no additional consideration, to have one issued and outstanding common share of the Company transferred to the holder from shares which were deposited by management with an escrow agent. The Company’s ATNI exceeded the requirement and the rights and additional rights expired on and the escrow shares were deemed to have been returned to the original shareholders on June 30, 2009 and 2010 respectively.

During the 2011 year, 35 Convertible Debentures were converted to 13,125 common shares of the Company at $2.03 (CDN$2.00) per share. The principal amount of these debentures calculated under the effective interest method of $1,502 (CDN$1,481) was transferred to share capital upon their conversion.

On February 27, 2012, the Company paid $1,299,459 (CAD$1,297,250) to redeem 1,729.7 units of the Convertible Debentures.

The Convertible Debentures matured on February 27, 2013 and were fully repaid by the Company.

16. CONVERTIBLE DEBENTURES (continued)

(c) Convertible Debentures – Principal Amount of $2,726,713

Pursuant to the private placement, the Company completed a financing of $3,226,568 (CDN$4,100,000) on February 27, 2009. The Company issued 4,100 subscription receipts at a price of $787 (CDN$1,000). Each subscription receipt was comprised of one unit (the "Units"). Each Unit consisted of one convertible debenture in the principal amount of $590 (CDN$750) (the "Convertible Debentures"), 125 common shares, 250 non-transferable warrants, 250 transferable rights and 250 non-transferable additional rights.

Each Convertible Debenture bears interest at a rate of 11.75% per annum, paid quarterly in arrears and is at the election of the holder, convertible into 375 common shares at a conversion price of CDN$2.00 per share plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder commencing February 28, 2009 and until the close of business on the sixth day prior to the maturity date. The Convertible Debentures mature on February 27, 2013. One third of the outstanding principal was redeemable by the Company, at the holder's option, on each of February 27, 2011 and February 27, 2012. The debentures are secured by all of the Company's present and future acquired properties, subordinated to senior indebtedness of the Company, and a pledge of all the common shares of HKCo.

Each warrant entitles the holder, upon exercise, to receive one additional common share at a price of CDN$2.00 expiring February 27, 2013.

Each additional right entitled the holder, upon exercise, to have one issued and outstanding common share of the Company transferred to the holder from escrow at no additional consideration. Each additional right was exercisable, according to its terms, for a period commencing on the date the Company filed its audited annual financial statements for the year ended June 30, 2010 and ending 30 days thereafter.

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 $234,850 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 $2,840,150 was computed as the present value of future principal and interest payments discounted at a rate of 28% per annum.

In 2009, management of the Company deposited 2,050,000 common shares of the Company into escrow with an escrow agent. Pursuant to the Company achieving after tax net income ("ATNI") of less than $8,500,000 and $11,500,000 for the years ended June 30, 2009 and 2010 respectively, each of the rights and additional rights entitled the holder, upon exercise at no additional consideration, to have one issued and outstanding common share of the Company transferred to the holder from shares which were deposited by management with an escrow agent. The Company's ATNI exceeded the requirement and the rights and additional rights expired on and the escrow shares were deemed to have been returned to the original shareholders on June 30, 2009 and 2010 respectively.

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total return right ("MTR") of 25% per annum on their Units. The calculation will be based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on the Convertible Debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, on February 27, 2012. For the year ended June 30, 2013, the Company recorded MTR expenses of $Nil (2012 - $829,629) and charged to operations. At June 30, 2013, MTR payable was $Nil (June 30, 2012 - $870,103).

During the 2010 year, 6 Convertible Debentures were converted to 2,250 common shares of the Company at $1.94 (CDN$2.00) per share. The principal amount of these debentures calculated under the effective interest method of $3,566 (CDN$3,682) was transferred to share capital upon their conversion.

The Convertible Debentures matured on February 27, 2013 and were fully repaid by the Company.

(Expressed in US Dollars)

17. 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, June 30, 2011	25,796,924	7,402,304
Shares repurchased	(270,475)	(190,394)
Balance, June 30, 2012	25,526,449	7,211,910
Shares repurchased	(106,384)	(55,046)
Balance, June 30, 2013	25,420,065	7,156,864

During 2013, the Company repurchased 106,384 (2012 - 270,475) of its common shares for a total of $55,046 (2012 - $190,394) from the market. In addition, the Company cancelled 143,767 (2012 - 233,092) of the common shares repurchased, and held no (2012 - 37,383) common shares in treasury.

Options

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

As of June 30, 2013 the Company has stock options outstanding to directors and officers to acquire an aggregate of 2,125,000 common shares summarized as follows. The options have a weighted average remaining life of 2.65 years.

	Underlying Shares	Weighted Average Exercised Price
Stock options outstanding, June 30, 2011	1,145,000	$2.12
Granted	1,070,000	$0.78
Stock options outstanding, June 30, 2012	2,215,000	$1.44
Granted	50,000	$0.48
Forfeited	(140,000)	$1.71
Stock options outstanding, June 30, 2013	2,125,000	$1.40

Details of stock options outstanding:

Expiry Date	Exercise Price	Stock Options Outstanding	Stock Options Exercisable and Vested
October 28, 2014	$2.50	100,000	100,000
July 8, 2015	$2.00	955,000	955,000
October 11, 2016	$0.78	1,020,000	680,001
December 31, 2017	$0.48	50,000	16,667
		2,125,000	1,751,668

(Expressed in US Dollars)

17. SHARE CAPITAL (continued)

Options (continued)

During the year ended June 30, 2013, there were 50,000 options (2012 – 1,070,000) granted by the Company. One-third of the options vest on the grant date, one-third on December 31, 2013 and the remaining one-third on December 31, 2014. Share-based compensation expense for current and previously granted and unvested options of $163,163 (2012 - $779,626) was charged to operations. 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 weighted average assumptions are as follows:

	2013	2012
Share price at grant day	$0.35	$0.64
Risk-free interest rate (%)	1.80%	1.30%
Expected dividend yield (%)	-	-
Expected option life (years)	5	4
Expected stock price volatility (%)	155%	144%

The weighted average grant date fair value for the options granted in the 2013 year was $0.31 (2012 - $0.53).

Warrants

	Number	Exercise Price
Warrants outstanding, June 30, 2011 and 2012	3,129,000	$ 1.90 (CDN$2.00)
Warrants expired	(3,129,000)	
Warrants outstanding, June 30, 2013	-	

Equity Component of Convertible Debentures

	2013 $	2012 $
Balance, beginning of year	2,368,409	2,442,651
Debentures redeemed transferred to contributed surplus	(309,179)	(74,242)
Balance, end of year	2,059,230	2,368,409

(Expressed in US Dollars)

18. 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.

19. 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:

	2013 $	2012 $
Current	5,894,693	4,825,623
Deferred	(1,458,059)	402,228
Total income tax expense	4,436,634	5,227,851

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. The significant differences are as follows:

	2013 $	2012 $
Canadian combined statutory rates	25.0%	25.8%
Income taxes at combined statutory rates	3,095,591	3,754,170
Difference in foreign income tax rates	1,444	(148,886)
Non-deductible items	40,791	368,050
Change in income tax rates	(293,725)	36,326
Tax losses for which no deferred income tax asset was recognized	1,592,533	1,218,191
Total income tax expense	4,436,634	5,227,851

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:

	2013 $	2012 $
Unbilled revenue, net of charges	(379,920)	(1,684,000)
Plant and equipment	340,339	186,000
Net deferred tax liabilities	(39,581)	(1,498,000)

As at June 30, 2013, the Company did not recognize the following deferred tax assets:

	2013 $	2012 $
Non-capital losses	4,635,000	3,091,000
Share issue costs	6,800	35,000
Convertible debentures	(250,000)	(273,000)
Total deferred income tax assets not recognized	4,391,800	2,853,000

(Expressed in US Dollars)

19. INCOME TAX (continued)

The Company has non-capital losses carried forward of $17,987,000 which will expire from 2029 to 2034.

The Company, through Zhejiang, conducts a substantial amount of its business in China. China currently has tax laws related to various taxes imposed by both federal and regional governments. Applicable taxes include value added tax, corporate income tax, payroll or social taxes and others. Laws related to these taxes have not been effective for an extended period of time compared to laws of more developed countries. The implementation of regulations is frequently unclear and their application is sometimes inconsistent or non-existent. Conflicting opinions about interpretation and application often exist among and within government ministries and organizations creating uncertainties and conflict.

Tax declarations, together with other legal compliance areas, such as customs and currency controls are subject to review and investigation by various agencies and authorities, who are enabled by law to impose very severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems and structures.

Various tax authorities could take differing positions on interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from future review and assessment by tax authorities.

On March 16, 2007, PRC introduced the new Enterprise Income Tax Law of the People's Republic of China which came into force on January 1, 2008. Among other measures, the new Tax Law introduces a 25% tax rate for Foreign Invested Enterprises, and domestic enterprises, with some reduced rates for qualified small companies. Although certain existing preferential tax policies, including those previously applicable to Foreign Invested Entities will be eliminated going forward, most existing preferential tax incentives previously granted will continue to be grandfathered for up to five years.

The new Tax Law also imposes a new 10% withholding tax on all dividends paid by PRC companies to non-PRC shareholders and contains rules governing such matters as international transfer pricing.

20. SIGNIFICANT NON-CASH TRANSACTIONS AND NON-CASH WORKING CAPITAL BALANCES

The Company has the following significant non-cash transactions:

	2013 $	2012 $
Interest related to minimum return	-	829,629
Share-based compensation	163,163	779,626
Fair value of options granted for loan – Loan issue cost	163,500	-

The changes in non-cash working capital balances are as follows:

	2013 $	2012 $
Accounts receivables	(1,457,348)	(5,570,488)
Unbilled revenue	(27,969,682)	(6,785,363)
Other receivable	(382,253)	(68,681)
Inventories	1,053,363	356,453
Advance to suppliers and prepaid expenses	11,295,209	(9,180,046)
Deposits	(314,674)	(3,304,083)
Accounts payable and accrued liabilities	390,539	(77,150)
Deferred revenue	3,261,192	(3,950,002)
Income taxes payable	316,257	(1,992,970)
Due from related parties	25,630	931,496
Changes in non-cash working capital balances	(13,781,767)	(29,640,834)

(Expressed in US Dollars)

21. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash and cash equivalents, restricted cash, investments, accounts receivable, other receivables, deposits, bank loans, short-term loans, bank notes payable, accounts payable 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 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 Company has financial instruments comprised of convertible debentures. 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:

	June 30, 2013	June 30, 2012
	$	$
Assets as FVPTL (i)	13,321,256	11,080,737
Loans and receivables (ii)	23,169,187	20,290,376
Available-for-sale (iii)	-	472,180
Liabilities as FVTPL (iv)	-	870,103
Other financial liabilities (v)	88,994,608	77,669,337

(i) Cash and cash equivalents and restricted cash
(ii) Accounts receivable, other receivables, deposits and amounts due from related parties
(iii) Investment
(iv) MTR payable
(v) Bank loans, notes payable, short-term loans, 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 on a recurring basis by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
June 30, 2013				
Cash and cash equivalents and restricted cash	13,321,256	-	-	13,321,256
MTR Payable	-	-	-	-
June 30, 2012				
Cash and cash equivalents and restricted cash	11,080,737	-	-	11,080,737
MTR Payable	-	870,103	-	870,103

(Expressed in US Dollars)

21. 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 the Company places these instruments with financial institutions located in Canada and PRC. Credit risk from accounts receivable and other receivables encompasses the default risk of customers. Management, on an ongoing basis, monitor the level of accounts 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 year ended June 30, 2013, revenue from three customers accounted for 34% (2012 – two customers accounted for 35%) of total revenue. At June 30, 2013, outstanding amounts owed by one customer accounted for 12% of the total accounts receivable and unbilled revenue (2012 – outstanding amounts owed by one customer accounted for 12% of total accounts receivable and unbilled revenue). 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 year ended June 30, 2013, a 1% increase or a 1% decrease in interest rates would have changed comprehensive earnings by $510,000.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired:

	0 – 180 Days	181 – 365 days	Over 1 Year	Over 2 Years	Carrying Value
	$	$	$	$	$
June 30, 2013					
Accounts receivable	5,174,515	-	3,195,260	1,336,288	9,706,063
June 30, 2012					
Accounts receivable	3,319,063	3,448,614	1,101,054	74,076	7,942,807

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.

21. FINANCIAL INSTRUMENTS (continued)

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 June 30, 2013, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $13,276,018 (2012 - $10,877,024), accounts receivable and other receivables of $11,359,549 (2012 - $9,205,635), bank loans of $52,707,797 (2012 - $37,640,670), bank notes payable of $16,465,144 (2012 - $13,091,997), accounts payable of $6,592,779 (2012 - $6,036,337), amounts due from related parties of $60,892 (2012 - $83,996), and automobile loans of $214,893 (2012 - $86,692) which were denominated in RMB.

At June 30, 2013, the Company had cash of $2,342 (2012 - $162,559) and convertible debentures of $12,169,260 (2012 - $17,810,999) which were denominated in CDN$.

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 June 30, 2013:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	52,707,797	52,871,297	52,871,297	-	-
Notes payable	16,465,144	16,465,144	16,465,144	-	-
Accounts payable	7,437,514	7,437,514	7,437,514	-	-
Automobile loans	214,893	221,389	82,005	82,005	57,379
Convertible debentures	12,169,260	15,000,000	-	-	15,000,000
Total	88,994,608	91,995,344	76,855,960	82,005	15,057,379

Sensitivity analysis

The following sensitivity analysis estimates the impact on net income which a potential change in foreign exchange rate during the year ended June 30, 2013 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.

A theotectical 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 $3,218,000. An increase (decrease) of 10% in CDN$ 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 $1,217,000.

The above result arises primarily because the Company has RMB and CDN$ denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, deposits, bank loans, accounts payable and automobile loans, convertible debentures and amounts due to and 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.

(Expressed in US Dollars)

22. EMPLOYEE BENEFITS

The employees of the Company are required to participate in a central pension scheme operated by the local municipal government. Contributions are recognized as an expense in profit or loss as employees render services during the year. The Company’s obligation under these plans is limited to the fixed percentage contributions payable.

For the years ended June 30, 2013 and 2012, the Company incurred the following employee compensation expense:

	2013	2012
	$	$
Salaries	40,142,551	32,626,028
Benefits	361,367	412,412
	40,503,918	33,038,440

23. 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.

24. 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.

25. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

For the year ended June 30, 2013	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	$		$
Net income for the year ended June 30, 2013	7,945,727	-	-
Weighted average number of shares outstanding	-	25,434,020	-
Basic Earnings per Share	7,945,727	25,434,020	0.31
Effect of convertible debentures:			
• Convertible debentures	1,657,053	5,769,231	-
Diluted Earnings per Share	9,602,780	31,203,251	0.31

At June 30, 2013, 2,210,500 options are not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

(Expressed in US Dollars)

25. EARNINGS PER SHARE (continued)

For the year ended June 30, 2012	Net income $	Weighted Average Number of Common Shares Outstanding	Earnings per Share $
Net income for the year ended June 30, 2012	9,351,446	-	-
Weighted average number of shares outstanding	-	25,736,161	-
Basic Earnings per Share	9,351,446	25,736,161	0.36
Effect of warrants and convertible debentures:			
• Exercise of warrants	-	201,287	-
• Convertible debentures	3,319,453	9,070,356	-
Diluted Earnings per Share	12,670,899	35,007,804	0.36

At June 30, 2012, 1,140,500 options and 3,129,900 warrants outstanding are not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

26. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has guaranteed the bank loans on behalf of certain developers, which are also its customers, in amounts totalling $9,777,401. 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:

2014	$	203,370
2015		215,572
2016		228,507
2017		77,634
	$	725,083

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

September 27, 2013

This Management's Discussion and Analysis ("**MD&A**") relates to the financial condition and results of operations of Boyuan Construction Group, Inc. (the "**Company**") for the fiscal year ended June 30, 2013 ("**FY2013**") and the fiscal year ended June 30, 2012 ("**FY2012**"). It should be read in conjunction with the audited consolidated financial statements for FY2013 and FY2012 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 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 FY2013 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 46 material 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 11.75% secured convertible debentures due February 28, 2013 (the “**Secured Debentures**”) were traded on the Exchange under the symbol “BOY.DB” until March 3, 2013 and the Company’s 10% unsecured convertible debentures due October 31, 2015 (the “**Unsecured Debentures**”) are traded on the Exchange under the symbol “BOY.DB.A”.

Significant Accounting Policies

Special Purpose Entity Agreements

The Company through its subsidiary entity effectively takes on all the rights and privileges of beneficial ownership of Zhejiang Boyuan Construction Co., Ltd. via four agreements entered into between the subsidiary entity and Zhejiang Boyuan Construction Co., Ltd. Under the IASB Standing Interpretation Committee Interpretation (“**SIC**”) 12, Consolidation-Special Purpose Entities, this relationship is accounted for as a special purpose entity by the Company. The financial positions and the related results of operations, changes in equity and cash flow are therefore consolidated under the Company.

Recognition of revenue

Construction revenue includes the initial amount agreed in the contract plus any variations in construction work and changes, to the extent that it is probable that it will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss using the percentage of completion method. The percentage of completion is assessed by reference to the proportion of the actual costs incurred to date compared to the estimated total costs at the end of each reporting period for each contract. Revenue and contract cost estimates are revised on an ongoing basis based on changes in price and in the scope of each contract. Any changes made to the contract scope are reflected in the percentage of completion of applicable contracts in the same period as the change in estimate occurs.

Cash received in advance of revenue being recognized on contracts is classified as deferred or unearned revenue. Costs incurred and estimated profits on contracts in progress in excess of amounts billed are reflected as unbilled revenues.

Costs of construction are recognized as expenses as incurred. Costs of construction include costs that relate directly to a specific contract such as all raw materials, direct labour, subcontractors and other costs and indirect costs related to contract performance, such as indirect salaries and wages and equipment repairs. In addition costs those are attributable to contract activity and can be charged to the contract under the agreed terms of the contract and are included in costs of construction. Contract costs exclude general administration costs, selling costs, research and development costs and depreciation of equipment not used on a project.

The Company generally provides a two to three year warranty for workmanship under its contracts. Warranty cost provisions are based on management's best estimates of such costs and are charged to project costs as they are incurred, taking into account the specific arrangements of the contracts and past history. Warranty claims historically have been nominal.

Critical Accounting Estimates and Judgments

Estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include recognition of revenue, allowance for doubtful receivables, useful lives of property and equipment, impairment of assets, estimation of unbilled revenue, determination of accrued liabilities, share based compensation, estimation of equity and debt components of convertible debentures, and recognition of deferred income tax assets.

Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are revenue recognition and allowance for doubtful accounts.

Construction revenue, construction costs, deferred contract revenue, and 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 received. To determine the estimated costs to complete the construction contract and revenues, 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 our 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.

Allowances for accounts receivable may require an assessment and estimate of the credit worthiness of the client and the timing of collections. Judgment and assumptions are required to determine when an amount may be deemed uncollectible. The outcomes can differ significantly from the estimates used in preparing the financial statements resulting in required adjustments to expenses and assets.

OVERALL PERFORMANCE

Revenue for FY2013 was $209.2 million, up 10.5% from $189.3 million for FY2012. Net income after taxes for FY2013 was $7.9 million or $0.31 per share fully diluted. This compares to $9.4 million, or $0.36 per fully diluted share, for FY2012.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's audited consolidated financial statements for the three years ended June 30, 2013, 2012 and 2011:

US$'000 (except earnings per share amounts)	2013	2012	2011
Operating Results			
Construction revenue	209,207	189,258	186,127
Cost of construction	178,642	158,619	154,969
Gross profit	30,565	30,639	31,158
Net income	7,946	9,351	13,929
Earnings per share			
Basic	0.31	0.36	0.65
Diluted	0.31	0.36	0.54

US$'000 (except earnings per share amounts)	2013	2012	2011
Financial Position			
Current assets	174,611	149,900	122,028
Non-current assets	19,736	22,785	17,545
Total assets	194,347	172,685	139,573
Current liabilities	94,816	95,821	59,218
Long term debt	12,355	1,498	17,427
Shareholders' equity	87,176	75,366	62,928
Cash dividend per share	Nil	Nil	Nil
Common shares outstanding	25,420,065	25,526,449	25,796,924

RESULTS OF OPERATIONS

Revenue for FY2013 was $209.2 million, up 10.5% from $189.3 million for FY2012. Revenue is recognized on the percentage-of-completion method. The measures introduced by the Chinese central government two years ago to cool down the real estate market have had a negative impact on our business activities resulting in slower growth in revenue and a smaller gross margin. The Company has also become more selective in taking up new construction projects under the current uncertain economic environment. New projects taken up in FY2013 amounted to $46.2 million. Most of the Company's projects have duration between 1 to 3 years.

Cost of construction for FY2013 was $178.6 million, up 12.6% from $158.6 million for FY2012. The increase was primarily as a result of higher expenses associated with greater 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 $136.4 million and labour cost was $38.9 million in FY2013. In comparison, direct material costs and labour costs were $114.9 million and $39.4 million in FY2012.

Gross profit for FY2013 was $30.6 million, representing a margin of 14.6% on revenue. Gross profit for FY2012 was also $30.6 million, representing a margin of 16.2% 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. Historically, Boyuan's gross profit margins have been in the range of 15% to 17%.

G&A expenses were $5.8 million in FY2013 compared to $4.8 million in FY2012. The increase was mainly due to increase in legal, audit, and penalty expenses in relation to the OSC investigation. The increase in its business activities also contributed to the increase in general expenses such as travelling and insurance.

Interest expense was $8.4 million in FY2013, an increase of $1 million over FY2012. The increase was due to increase in bank loans and bank notes payable. The average interest rates for bank loans were also higher this year due to the generally tight liquidity situation in the PRC.

There was no minimum total return (MTR) charge for FY2013 as the MTR was settled in FY2012.

After-tax net income for FY2013 was $7.9 million or $0.31 per fully diluted share while it was $9.4 million or $0.36 for FY2012. The decrease was principally due to smaller gross margin, increase in amortization expenses and interest expenses.

Boyuan had working capital of $79.8 million, including cash, cash equivalents, and restricted cash totalling $13.3 million as at June 30, 2013. This compares to $54.1 million and $11.1 million, respectively at June 30, 2012.

FOURTH QUARTER RESULTS

The following table sets forth the selected financial information in the three months ended June 30, 2013 and 2012:

US$'000 (except earnings per share amounts)	**Three months ended June 30**	
Operating Results	2013	2012
Revenue	61,483	42,891
Cost of construction	52,787	35,264
Gross profit	8,696	7,627
Net income	2,311	1,287
Earnings per share		
Basic	0.09	0.05
Diluted	0.09	0.05

Revenue for the three-month period ended June 30, 2013 was $61.5 million, up 43.4% from $42.9 million for Q4 FY2012. Historically, the fourth quarter was the Company's strongest and busiest period due to a variety of seasonal factors, and last year the Company had an exceptionally weak Q4.

Cost of construction for Q4 FY2013 was $52.8 million, up 49.6% from $35.3 million for Q4 FY2012. The increase was consistent with the increase in construction revenue recorded in this period.

Gross profit for Q4 FY2013 was $8.7 million, representing a margin of 14.2% on revenue. Gross profit for Q4 FY2012 was $7.6 million, representing a margin of 17.8% on revenue.

Net income for Q4 FY2013 was $2.3 million or $0.09 per diluted share. These compare to $1.3 million and $0.05, respectively, for Q4 FY2012.

RELATED PARTY BALANCES AND TRANSACTIONS

Related parties transactions are summarized as follows:

	June 30, 2013	June 30, 2012
	$	$
Due from related parties		
Due from company controlled by the	60,892	83,966

Chairman and
Chief Executive Officer ("**CEO**")

The amounts due from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

The Company obtained a $4 million short-term loan from a local bank in May 2013. The short-term loan is guaranteed by Mainway Management Limited ("Mainway"), a company controlled by the CEO. In addition Mainway granted an option to the lender to acquire 1,000,000 common shares of the Company. The Company did not pay any compensation related to the guarantee or the option to purchase shares.

During the year ended June 30, 2013, the Company received a vehicle with a market value of $25,631 (RMB 160,000) from a company controlled by the CEO as repayment for a balance due from the related company.

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 June 30, 2013:

US$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q4, FY2013	61,483	2,311	0.09	0.09
Q3, FY2013	41,387	1,353	0.05	0.05
Q2, FY2013	54,241	1,594	0.06	0.06
Q1, FY2013	52,096	2,688	0.10	0.10
Q4, FY2012	42,891	1,287	0.05	0.05
Q3, FY2012	38,737	2,186	0.08	0.08
Q2, FY2012	54,295	3,050	0.12	0.11
Q1, FY2012	53,334	2,828	0.13	0.12

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q4, FY2013	Q4, FY2012	FY2013	FY2012
Operating activities	443	(1,678)	226	(11,632)
Investing activities	(181)	(7,697)	(15)	(8,590)
Financing activities	(776)	9,221	934	18,210
Effect of currency translation	376	(88)	416	97
Net Increase (decrease) in cash and cash equivalents	(138)	(242)	1,561	(1,915)

Net cash provided in operating activities was $0.2 million for the FY2013 and $0.4 million for Q4 FY2013 compared to $11.6 million and $1.7 million used respectively in FY2012. The significant change was primarily caused by the decrease in the advances to suppliers and prepaid expenses and increase in deferred revenue, offset somewhat by the increase in unbilled revenue and smaller net income. The increase in unbilled revenue is due to the longer payment terms requested by our customers under the current depressed property market in the PRC.

Net cash used in investing activities was $0.01 million in FY2013 and $0.2 million for the last quarter of FY2013. For FY2012, net cash used was $8.6 million and $7.7 million respectively. The significant cash used in FY2012 was related to acquisition of equipment.

Net cash provided from financing activities was $0.9 million in FY2013, a decrease of $17.3 million over FY2012. Net cash used in Q4 FY2013 was $0.7 million compared to net cash provided of $9.2 million in the same period last year. The change was mainly due to the repayment of short term loans and the redemption of the secured debentures, offset partially by the increase in bank loans.

As a result of the rapid expansion of construction activities, the Company had experienced negative operating cash flows in a number of years prior to FY2013 due to the time lag between construction costs incurred and revenue received. Starting in FY2012, the Company was more selective in taking on new projects under the current uncertain real estate market and the tight liquidity situation in PRC thus restricting the growth of the construction activities in the year. Under the current market conditions, developers tend to extent their development cycle (thus construction period) and take longer time to pay their suppliers. With this more cautious approach in taking up new projects, the Company was able to report a small positive operating cash flow for FY2013.

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 $4.6 million as at June 30, 2013 as compared to a cash and cash equivalents balance of $3.1 million as at June 30, 2012. The Company had $174.6 million in current assets and $94.8 million in current liabilities as at June 30, 2013.

On July 7, 2009 (with an effective date of June 30, 2009), the Company closed a non-brokered private placement of 6,474 units (the "**Units**") at a price of $860 (CDN$1,000) per Unit for gross proceeds of $5.6 million (CDN$6.5 million). Each Unit consists of one Secured Debenture in the principal amount of $645 (CDN$750), 125 common shares, 250 non-transferable warrants, 250 non-transferable rights and 250 non-transferable additional rights.

Each Secured Debenture bears interest at a rate of 11.75% per annum, paid quarterly in arrears and will be, at the election of the holder, convertible into 375 common shares at a conversion price of CDN$2.00 per share plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder commencing July 7, 2009 and until the close of business on the sixth day prior to the maturity date. The Secured Debentures mature on February 27, 2013. One third of the outstanding principal is redeemable by the Company, at the holder's option, on each of February 27, 2011 and February 27, 2012. Each warrant entitles the holder, upon exercise, to receive a common share at a price of CDN$2.00 for a period of four years following closing date. Each right and additional right entitles the holder, upon exercise, to receive one common share of the Company transferred to the holder from escrow at no additional consideration. Each right would be exercisable during the rights exercise period and each additional right would be exercisable during the additional rights exercise period, should the Company fails to achieve the after tax net income prior to the deduction of any make good charge ("**ANTI**") of US$8.5 million for FY 2009 and US$12.4 million for FY2010, respectively. The rights exercise period shall commence on the date that the Company files on SEDAR its audited annual financial statements for FY2009 and ending 30 days thereafter. The additional rights exercise period shall commence on the date that the Company files on SEDAR its audited annual financial statements for FY2010 and ending 30 days thereafter. All rights expired on or about October 26, 2009 after the Company announced that it had met the ANTI target of $8.5 million for FY2009. All additional rights expired on September 23, 2010 as the Company announced that it had met the ANTI target of US$12.4 million for FY2010. On February 27, 2012, the Company paid $1.3 million to redeem 1,729.7 units of the debentures. The remaining Debentures matured on February 27, 2013 and were fully redeemed by the Company.

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

1,000 shares traded in each trading day ending five trading days before the applicable redemption notice.

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 $15 million that can be converted into 5,769,230 common shares. The outstanding share options granted to directors and officers are 2,125,000.

The Company announced on October 6, 2011 its intention to make a normal course issuer bid (the "**NCIB**") with respect to its outstanding common shares. The NCIB was for a 12 month period commencing October 11, 2011, and was subject to a maximum of 1,289,846 common shares and a daily maximum of 2,853 common shares (subject to certain exceptions). A total of 376,859 common shares were purchased under the NCIB at a weighted average price of CDN$0.64. All shares purchased by the Company under the NCIB were cancelled. The NCIB expired on October 10, 2012.

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2013, 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 and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, restricted cash and accounts receivable. The Company has significant cash and cash equivalents and restricted cash balances that are interest-bearing. To minimize the credit risk the Company places these instruments with high credit quality financial institutions located in China.

The Company's accounts receivable are all from well-known customers located in China. Credit risk from accounts receivable encompasses the default risk of the Company's customers. The Company extends credit to its customer. The credit is secured by virtue of law. Under PRC regulations, a general contractor is entitled to first claim of assets against its customers. This entitlement gives the class I general contractor "mechanic lien" which is senior than all other secured debt including but limited to bank loans, 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 that real property that is under construction.

Management, on an ongoing basis, monitor the level of accounts receivable 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.

Management does not believe that there is significant credit risk arising from any of the Company's customers; 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 receivable 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.

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.

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the period which a change in foreign exchange rate during the year ended June 30, 2013 would have had.

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

A theoretical 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 $3,218,000. An increase (decrease) of 10% in CDN$ 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 $1,217,000.

The above result arises primarily because the Company has RMB and CDN$ denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, deposits, bank loans, accounts payable and automobile loans, convertible debentures and amounts due to and 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.

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 June 30, 2013:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	52,707,797	52,871,297	52,871,297	-	-
Notes payable	16,465,144	16,465,144	16,465,144	-	-
Accounts payable	7,437,514	7,437,514	7,437,514	-	-
Automobile loans	214,893	221,389	82,005	82,005	57,379
Convertible debentures	12,169,260	15,000,000	-	-	15,000,000
Total	88,994,608	91,995,344	76,855,960	82,005	15,057,379

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.

RECENT ACCOUNTING PRONOUNCEMENTS

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 accounting periods beginning after January 1, 2012, or later 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, 2013</u>

- Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2013, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed interim financial statements.

- IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.*

- IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

- IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

- IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

- Amendments to IAS 1 *Presentation of Financial Statements* - The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("**OCI**") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 7, 10 to 13, IAS 1 and the amendments to other standards, is effective for the Company beginning on July 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

New accounting standards effective January 1, 2015

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 is effective for annual periods beginning on or after January 1, 2015 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 consolidated financial statements or whether to early adopt any of the new requirements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The 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 June 30, 2013. Based on the evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

1. Concentration of authority, or lack of segregation of duties.

2. Inadequate written policies and procedures for recording transactions.

3. Inadequate inventory and fixed asset management systems.

4. Inadequate IT support system.

Management believes that these material weaknesses will create risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in the coming year to address these deficiencies, management will continue to monitor and work on mitigating these weaknesses. For example, the Company has already selected a new IT support system and have already implemented three components, the accounting and financial reporting module, the human resources management module, and the support management module into the new system in 2013. The Company has commenced implementation of the project management module and it is expected to be completed before the end of 2014.

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. On 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. Under the OSC Order, Boyuan voluntarily paid a penalty of $200,000, and was required to make a $100,000 contribution towards the costs of the OSC investigation.

There has been no change in the design of the Company’s internal controls over financial reporting during the quarter ended June 30, 2013 that would materially affect, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

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 has already led to a slower pace of growth for the Company. The Company believes this situation will continue in the short term and therefore the Company has been very selective in taking on new construction projects to minimize risks and to preserve capital. 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 new strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.

CORPORATE DIRECTORY

Management

Shou Cailiang
Chairman, President & Chief Executive Officer

Paul Law
Chief Financial Officer

Shu Ren
Secretary

Board of Directors

Shou Cailiang
Chairman, Director, President &
Chief Executive Officer

Francis Leong
Lead Director

Manhong Liu
Director

John (Jack) Duffy
Director

Dr. Fan Lixin
Director

Shu Ren
Director and Secretary

Tang Wei
Director and Vice President

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Stock Exchange Listing

Toronto Stock Exchange
Symbol: BOY, BOY.DB.A