BOYUAN CONSTRUCTION GROUP, INC.

ANNUAL REPORT 2014

- Audited annual consolidated financial statements for the fiscal years ended June 30, 2014 and 2012
- Management discussion & analysis for the fiscal year ended June 30, 2014

Boyuan Construction Group, Inc.

Consolidated Financial Statements

For the Years Ended

June 30, 2014 and 2013

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7
Tel: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

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, 2014 and 2013, 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, 2014 and 2013, 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 26, 2014

Boyuan Construction Group, Inc.
Consolidated Statements of Financial Position
As at June 30, 2014 and 2013
(Expressed in US Dollars)

	2014 $	2013 $
Current Assets		
Cash and cash equivalents	4,459,898	4,645,388
Accounts receivable (Note 21)	12,977,360	9,706,093
Unbilled revenue (Note 5)	145,188,974	115,523,781
Restricted cash (Note 6)	8,809,390	8,675,868
Other receivables	570,238	1,731,943
Inventory	653,920	444,891
Advances and prepaid expenses (Note 7)	10,275,211	20,603,413
Deposits (Note 8)	11,032,704	11,670,259
Due from related parties (Note 10)	60,236	60,892
	194,027,931	173,062,528
Refundable deposit (Note 14)	573,073	-
Land use rights (Note 11)	1,648,522	1,673,521
Property and equipment (Note 12)	15,052,973	19,610,878
	211,302,499	194,346,927
Current Liabilities		
Bank loans (Note 13(a))	48,902,568	52,707,797
Bank notes payable (Note 13(b))	18,127,156	16,465,144
Current portion of loan payable (Note 14)	1,722,585	-
Accounts payable and accrued liabilities (Note 15)	20,830,433	18,861,302
Income taxes payable	2,650,567	2,527,302
Deferred revenue (Note 5)	267,959	4,185,991
Current portion of automobile loans	111,837	68,199
	92,613,105	94,815,735
Loan payable (Note 14)	2,467,233	-
Convertible debentures (Note 16)	13,474,515	12,169,260
Deferred tax liabilities (Note 19)	1,427,356	39,581
Automobile loans	132,964	146,694
	110,115,173	107,171,270
Shareholders' Equity		
Share capital (Note 17)	7,156,864	7,156,864
Contributed surplus	5,340,721	5,037,728
Reserves (Note 18)	7,373,221	7,373,221
Equity component of convertible debentures (Note 17)	2,059,230	2,059,230
Retained earnings	72,034,867	57,272,085
Accumulated other comprehensive income	7,222,423	8,276,529
	101,187,326	87,175,657
	211,302,499	194,346,927

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

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

Consolidated Statements of Comprehensive Income
For the Years Ended June 30, 2014 and 2013
(Expressed in US Dollars)

	2014 $	2013 $
Construction revenue	278,340,895	209,207,276
Costs of construction	239,085,886	178,642,550
Gross profit	39,255,009	30,564,726
Expenses		
Depreciation of property and equipment	4,355,163	4,054,410
General and administrative expenses	6,206,411	5,779,348
	10,561,574	9,833,758
Income before other items and income taxes	28,693,435	20,730,968
Other Income (expense)		
Interest and other income	147,699	239,049
Foreign exchange loss	(1,907)	(7,675)
Interest expense	(7,534,447)	(8,416,818)
Share-based compensation (Note 17)	(302,993)	(163,163)
	(7,691,648)	(8,348,607)
Income before income taxes	21,001,787	12,382,361
Income taxes (Note 19)	6,239,005	4,436,634
Net income for the year	14,762,782	7,945,727
Other Comprehensive Income (Loss)		
Items that may be reclassified subsequently to income:		
Unrealized gain (loss) on foreign exchange translation	(1,054,106)	3,592,175
Comprehensive income for the year	13,708,676	11,537,902
Earnings per share, basic (Note 25)	$0.58	$ 0.31
Earnings per share, diluted (Note 25)	$0.52	$ 0.31
Weighted average number of common shares outstanding, basic (Note 25)	25,420,065	25,434,020
Weighted average number of common shares outstanding, diluted (Note 25)	31,189,296	31,203,251

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Changes in Equity
For the Years Ended June 30, 2014 and 2013
(Expressed in US Dollars)

	Share Capital $	Contributed Surplus $	Reserves $	Equity Component of Convertible Debentures $	Retained Earnings $	Accumulated Other Comprehensive Income $	Total Shareholders' Equity $
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)	-	-
Settlement of debentures on maturity	-	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
Share-based compensation	-	302,993	-	-	-	-	302,993
Net income for the year	-	-	-	-	14,762,782	-	14,762,782
Other comprehensive loss	-	-	-	-	-	(1,054,106)	(1,054,106)
Balance, June 30, 2014	7,156,864	5,340,721	7,373,221	2,059,230	72,034,867	7,222,423	101,187,326

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013
(Expressed in US Dollars)

	2014 $	2013 $
OPERATING ACTIVITIES		
Net income for the year	14,762,782	7,945,727
Items not involving cash:		
Depreciation of property and equipment	4,355,163	4,054,410
Interest accretion	2,188,983	3,262,777
Deferred income tax expenses (recovery)	1,309,031	(1,458,059)
Share-based compensation	302,993	163,163
Provision for allowance of doubtful accounts	969,387	-
Loss on disposal of equipment	380,101	-
Unrealized foreign exchange loss (gain)	(284,124)	39,280
	23,984,316	14,007,298
Changes in non-cash working capital balances (Note 20)	(24,699,040)	(13,781,767)
Cash provided by (used in) operating activities	(714,724)	225,531
INVESTING ACTIVITIES		
Acquisition of property and equipment	(451,047)	(505,216)
Proceeds from sale of equipment	50,506	9,611
Sale of investment (Note 9)	-	480,561
Cash used in investing activities	(400,541)	(15,044)
FINANCING ACTIVITIES		
Restricted cash	(229,368)	(390,397)
Proceeds from bank loans	61,089,434	80,410,720
Repayment of bank loans	(64,488,829)	(66,746,760)
Proceeds from loans payable (Note 14)	5,424,698	-
Repayment of loans payable	(1,190,169)	(6,126,306)
Payment of refundable deposit (Note 14)	(579,188)	-
Bank notes payable	1,858,942	2,860,942
Repayment of automobile loans	(104,901)	(118,832)
Convertible debentures, net	(706,438)	(2,310,993)
Redemption of convertible debentures	-	(6,588,849)
Share repurchases	-	(55,046)
Cash provided by financing activities	1,074,181	934,479
Effect of changes in exchange rates on cash	(144,406)	415,782
Increase (decrease) in cash	(185,490)	1,560,748
Cash and cash equivalents, beginning	4,645,388	3,084,640
Cash and cash equivalents, ending	4,459,898	4,645,388
Supplemental disclosure of cash flow information:		
Cash paid for interest	5,758,492	7,848,267
Cash paid for income taxes	6,734,184	4,280,638

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, 2014 were reviewed by the Audit Committee and approved and authorized for issue by the Company's Board of Directors on September 26, 2014.

(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;

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

(iv) 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 IFRS 10 *Consolidated Financial Statements*. Zhejiang was incorporated on January 17, 2000 under the business laws of the PRC.

The Company believes that China Privco's contractual arrangements with Zhejiang is in compliance with PRC laws and are legally enforceable. The shareholders of Zhejiang are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements, noted above. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of Zhejiang were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the arrangements noted above.

The Company's ability to control Zhejiang also depends on the shareholders voting proxy agreement with Zhejiang and the shareholders of Zhejiang has to vote on all matters requiring shareholder approval in Zhejiang. As noted above, the Company believes this voting proxy agreement is legally enforceable but may not be as effective as direct equity ownership.

2. BASIS OF CONSOLIDATION AND PRESENTATION (continued)

(b) Basis of consolidation (continued)

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could restrict the Company's ability to operate and impose penalties that could be harmful to the Company's business.

The imposition of any of these penalties may result in a material and adverse effects on the Company's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of Zhejiang or the right to receive their economic benefits, the Company would no longer be able to consolidate the Zhejiang. The Company does not believe that any penalties imposed or actions taken by the PRC Government would result in the liquidation of the Zhejiang.

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

(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

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

<u>Critical estimates</u>

Allowance for doubtful accounts

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.

Useful life of property and equipment

Estimates used in the calculation of depreciation and the impairment of property and equipment requires management to determine the estimated useful lives, rates of depreciation and residual values of the equipment and property. Changes to the estimated useful lives, rates of depreciation and residual 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.

Measurement of provisions

In measuring a provision, the Company takes risks and uncertainties into account. The uncertainties mainly relate to the timing and amount of a provision. Also, risks and uncertainties arise from discounting a provision, where the effect of the time value of money is significant, using a pre-tax discount rate that reflects current market assessments of the time value of money.

2. BASIS OF CONSOLIDATION AND PRESENTATION (continued)

(d) Use of estimates and judgments (continued)

Critical estimates (continued)

Measurement of share-based compensation expenses

The Company grants options to its directors, officers, employees and consultants. Management is required to estimate the number of options that will vest which impacts the amount associated with share-based compensation expense.

Critical judgments

Revenue recognition

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

The value of construction contracts usually increases over the duration of the construction period. Change orders may be issued by 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.

Basis of consolidation

Under certain circumstances, the determination of the Company's level of control over its subsidiaries and special purpose entity requires application of judgement through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors, legal enforceability of agreements between China Privco, Zhejiang and the shareholders of Zhejiang and various other factors.

Assessment of deferred income tax assets and liabilities

Deferred income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the consolidated financial statements. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. This method requires the exercise of significant judgement in determining whether or not the Company's deferred income tax assets are "probable" to be recovered from future taxable income and therefore, can be recognized in the Company's consolidated financial statements. Also, estimates required to determine the expected timing upon which tax assets will be realized and upon tax liabilities will be settled, and the enacted or substantially enacted tax rates that will apply as such time.

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 and debt 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. Debt issue costs are recorded against the principal of the debt and amortized over the life of the loan. 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 at the end of each reporting period. 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").

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in net income.

(i) 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 one to five 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)

(j) 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.

(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 statement of income 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 statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Foreign currency translation (continued)

Financial statements of the Company and its subsidiary and SPE prepared under their functional currencies are translated into US Dollars for consolidation purposes. 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 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.

(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 IFRS 10 *Consolidated Financial Statements*, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

Non-derivative financial assets (continued)

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.

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, refundable deposit and due from related parties as loans and receivables, its bank loans, notes payable, short-term loans, loan payable, accounts payable, automobile loans, due to related parties and convertible debentures as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 residual value of the proceeds are allocated to the equity component of the instrument, net of its proportionate share of issuance costs.

(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

The mandatory adoption of the following new and revised accounting standards and interpretations on July 1, 2013 had no significant impact on the Company's consolidated financial statements for the current year or prior year presented. The following standards were adopted for the year ended June 30, 2014:

- 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.

- IFRS 10 *Consolidated Financial Statements* - IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements* and establishes principles for identifying when an entity controls other entities.

- IFRS 11 *Joint Arrangements* - IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*, and requires a single method to account for interests in joint ventures.

- IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes comprehensive disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles.

- IFRS 13 *Fair Value Measurement* - IFRS 13 provides a single source of fair value measurement and disclosure requirements in IFRS.

- Amended and re-titled IAS 27 *Separate Financial Statements*, and IAS 28 *Investments in Associates and Joint Ventures*, as a consequent of new IFRS 10, IFRS 11 and IFRS 12.

- Amendments to IAS 1 *Presentation of Financial Statements* – IAS 1 requires entities to group items within other comprehensive income that may be reclassified to net income.

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.

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

New accounting standards effective January 1, 2014

- IAS 32 *Financial Instruments: Presentation* - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. Earlier application is permitted when applied with corresponding amendments to IFRS 7.

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

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

New accounting standards effective January 1, 2017

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

New accounting standards effective January 1, 2018

- IFRS 9 *Financial Instruments* – IFRS 9 was initially issued in November 2008 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

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

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

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

(Expressed in US Dollars)

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.

	2014 $	2013 $
Completed contracts	24,144,503	33,323,037
Contracts in progress	121,044,471	82,200,744
	145,188,974	115,523,781

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

	2014 $	2013 $
Aggregate costs of construction	509,934,151	189,885,615
Gross profit recognized	92,110,398	35,080,206
	602,044,549	224,965,821
Less: aggregate of progress billing and payments	481,000,078	142,765,077
Contracts in progress – unbilled revenue portion, end of year	121,044,471	82,200,744
Deferred revenue related to contract in progress, end of year	267,959	4,185,991
Net position	120,776,512	78,014,753

Credit risk associated with unbilled revenue

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

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

(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(c)). 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 AND PREPAID EXPENSES

	2014 $	2013 $
Advances to project managers and suppliers	9,580,647	20,149,645
Prepaid expenses	96,663	205,130
Other	597,901	248,638
	10,275,211	20,603,413

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

The Company reclassified $1,548,088 (RMB 9,500,000) from advances and prepaid expenses to land use rights for the year ended June 30, 2013 to conform with the current year's presentation.

8. DEPOSITS

	2014 $	2013 $
Contract performance deposits	10,008,880	10,779,014
Project tender deposits	672,212	502,118
Other	351,612	389,127
	11,032,704	11,670,259

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 (RMB 3,000,000) in a real estate development investment trust fund located in the PRC. During fiscal 2013, the Company received an income distribution of $41,550 and the capital amount invested was returned in full.

(Expressed in US Dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS

	2014 $	2013 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,236	60,892

As at June 30, 2014, the Company advanced project funds totalling $2,475,634 (2013 - $3,344,611) to project managers who are related by family to the CEO. The amounts are included in advances and prepaid expenses described in Note 7. The amounts due from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

Related Party Transactions

Key management personnel compensation

The Company has identified its chief executive officer, chief financial officer, corporate secretary, vice president and directors as its key management personnel. The remuneration of key management personnel during the year was as follows:

	2014 $	2013 $
Salaries and benefits	502,403	488,946
Share-based compensation	195,280	117,037
	697,683	605,983

11. LAND USE RIGHTS

	2014 $	2013 $
Cost		
Balance, beginning of year	1,684,962	1,623,976
Foreign exchange movement	(17,233)	60,986
Balance, end of year	1,667,729	1,684,962
Accumulated amortization		
Balance, beginning of year	11,441	8,424
Amortization for the year	7,054	2,720
Foreign exchange movement	712	297
Balance, end of year	19,207	11,441
Net book value, end of year	1,648,522	1,673,521

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

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

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

The Company's land leases are used as security for the bank loans described in Note 13(a). As at June 30, 2014, the carrying value of land use rights secured as collateral is $117,103 (2013 – 125,433).

(Expressed in US Dollars)

12. PROPERTY AND EQUIPMENT

	Machinery, Equipment and Scaffoldings $	Buildings $	Vehicles $	Office Equipment $	Leasehold Improvement $	Total $
Cost						
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
Additions	49,243	119,119	252,084	240,798	-	661,244
Disposals	(526,766)	-	(222,918)	(10,955)	-	(760,639)
Foreign exchange movement	(238,626)	(177,430)	(21,227)	(19,242)	(17,936)	(474,461)
Balance, June 30, 2014	21,912,286	4,302,316	1,950,608	1,772,180	1,647,545	31,584,935
Accumulated depreciation						
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
Depreciation expense for the year	3,512,845	162,895	422,691	295,397	200,017	4,593,845
Disposals	(116,068)	-	(211,772)	(2,192)	-	(330,032)
Foreign exchange movement	(211,067)	(32,659)	(13,664)	(11,871)	(10,503)	(279,764)
Balance, June 30, 2014	11,020,356	2,187,361	1,259,338	1,096,166	968,741	16,531,962
Net book value						
At June 30, 2013	14,793,789	2,303,502	880,586	746,747	886,254	19,610,878
At June 30, 2014	10,891,930	2,114,955	691,270	676,014	678,804	15,052,973

The Company’s buildings are used as security for the bank loans described in Note 13(a). As at June 30, 2014, the carrying value of the buildings secured as collateral is $2,114,955 (2013 - $2,303,502).

(Expressed in US Dollars)

13. BANK LOANS AND BANK NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates varying between 0.59% to 8.20% (2013 – 5.60% to 23.52%), weighted average at 6.12% (2013 – 7.71%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $46,176,290 (2013 – $45,709,350) in aggregate provided by construction project developers and the CEO of the Company.

(b) 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 bore interest at 23.50% per annum and was due on May 14, 2014. The loan was secured by Mainway Management Limited ("Mainway"), a corporation controlled by the Chief Executive Officer ("CEO") of the Company. The Mainway guarantee was 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 loan was fully repaid on May 15, 2014.

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%

(c) The bank notes payable generally have terms of six months or less. The notes are secured by partially compensating deposits held by the banks (see Note 6).

14. LOAN PAYABLE AND REFUNDABLE DEPOSIT

On September 30, 2013, the Company obtained a loan of $5,806,926 (RMB 35,550,000) from an unrelated company, 远东国际租赁有限公司, ("Yuandong"), located in Shanghai Pudong. The loan has a stated interest rate of 7.50% and bears an effective interest rate of 12%. The loan is payable in equal monthly installments of $178,261 (RMB 1,105,826) over 36 months with a maturity date of September 30, 2016. The loan is secured and is guaranteed by an unrelated party. The Company also paid an upfront service charge of $382,228 (RMB 2,340,000) to Yuandong related to obtaining the loan.

In connection with the loan, the Company paid a security deposit of $580,693 (RMB 3,555,000) which will be refunded to the Company in full at the end of the 36 months. As at June 30, 2014, the present value of the refundable deposit is $573,073.

	$
Loan principal	5,806,926
Less: service charge	(382,228)
	5,424,698
Repayments	(1,621,473)
Foreign exchange movement	386,593
Balance, June 30, 2014	4,189,818
Less: current portion	(1,722,585)
Long-term portion, June 30, 2014	2,467,233

(Expressed in US Dollars)

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014 $	2013 $
Accounts payable to suppliers	1,969,755	1,259,882
Salaries and wages payable	429,079	386,927
Taxes payable	9,248,992	7,590,410
Accrued expenses	4,249,525	3,833,378
Other	4,933,082	5,790,705
	20,830,433	18,861,302

16. CONVERTIBLE DEBENTURES

	2014 $	2013 $
Balance, beginning of year	12,169,260	17,810,999
Interest accretion	2,188,983	3,262,777
Interest paid	(706,438)	(2,310,993)
Redemption of debentures	-	(6,588,849)
Foreign exchange gain on translation	(177,290)	(4,674)
Balance, end of year	13,474,515	12,169,260

	$
Total principal due on October 31, 2015	14,050,206
Less: effective interest rate at 17.64%	575,691
	13,474,515

(a) Convertible Debentures – Principal Amount of $14,050,206

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

This Convertible Debenture matured on February 27, 2013 and were fully repaid by the Company.

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.

16. CONVERTIBLE DEBENTURES (continued)

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

This Convertible Debenture matured on February 27, 2013 and were fully repaid by the Company.

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.

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.

(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, 2012	25,526,449	7,211,910
Shares repurchased	(106,384)	(55,046)
Balance, June 30, 2014 and 2013	25,420,065	7,156,864

There were no share repurchases during the year ended June 30, 2014. During 2013, the Company repurchased 106,384 of its common shares for a total of $55,046 from the market. In addition, the Company cancelled 143,767 of the common shares repurchased. The Company held no common shares in treasury as of June 30, 2014 and 2013.

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, 2014 the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 common shares summarized as follows. The options have a weighted average remaining life of 5 years.

	Underlying Shares	Weighted Average Exercised Price
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
Granted	1,755,000	$0.61
Cancelled	(2,125,000)	$1.40
Stock options outstanding, June 30, 2014	1,755,000	$0.61

Details of stock options outstanding:

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

(Expressed in US Dollars)

17. SHARE CAPITAL (continued)

Options (continued)

During the year ended June 30, 2014, there were 1,755,000 options (2013 – 50,000) granted by the Company. One-third of the options vest on the grant date, one-third on June 30, 2015 and the remaining one-third on June 30, 2016. Share-based compensation expense for current and previously granted and unvested options of $302,993 (2013 - $163,163) 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 was as follows:

	2014	2013
Share price at grant day	$0.62	$0.35
Risk-free interest rate (%)	1.53%	1.80%
Expected dividend yield (%)	-	-
Expected option life (years)	5	5
Expected stock price volatility (%)	119%	155%
Estimated forfeiture rate	-	-

The weighted average grant date fair value for the options granted in the 2014 year was $0.48 (2013 - $0.31).

During the year ended June 30, 2014, the Company cancelled 2,125,000 (2013 - nil) options. The fair value of the unvested options that were cancelled of $41,378 were immediately expensed and charged to operations.

Warrants

	Number	Exercise Price
Warrants outstanding, June 30, 2012	3,129,000	$ 1.90 (CDN$2.00)
Warrants expired	(3,129,000)	
Warrants outstanding, June 30, 2014 and 2013	-	

Equity Component of Convertible Debentures

	2014 $	2013 $
Balance, beginning of year	2,059,230	2,368,409
Debentures redeemed transferred to contributed surplus	-	(309,179)
Balance, end of year	2,059,530	2,059,230

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.

(Expressed in US Dollars)

19. INCOME TAXES

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:

	2014 $	2013 $
Current	4,929,974	5,894,693
Deferred	1,309,031	(1,458,059)
Total income tax expense	6,239,005	4,436,634

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:

	2014 $	2013 $
Canadian combined statutory rates	26.0%	25.0%
Income taxes at combined statutory rates	5,460,465	3,095,591
Difference in foreign income tax rates	(246,035)	1,444
Non-deductible items	78,778	40,791
Change in income tax rates	(290,748)	(293,725)
Tax losses for which no deferred income tax asset was recognized	1,236,545	1,592,533
Total income tax expense	6,239,005	4,436,634

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:

	2014 $	2013 $
Unbilled revenue, net of charges	(2,160,692)	(379,920)
Plant and equipment	733,336	340,339
Net deferred tax liabilities	(1,427,356)	(39,581)

The Company did not record the following potential deferred tax assets:

	2014 $	2013 $
Non-capital losses	5,414,000	4,635,000
Share issue costs	-	6,800
Convertible debentures	(41,000)	(250,000)
Total deferred income tax assets not recognized	5,373,000	4,391,800

19. INCOME TAXES (continued)

The Company has non-capital losses carried forward of $20,998,000, 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 ("EIT") 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.

The Company has undistributed earnings available for distribution through its SPE and its subsidiaries located in the PRC. A deferred tax liability should be recorded for taxable temporary differences associated with investments in its SPE and its subsidiaries. However, recognition is not required in situations where the parent company is able to control the timing of the reversal of the temporary timing difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in the SPE or its subsidiaries because it believes it meets both conditions noted above. The parent company controls the distribution of any undistributed profits as it has voting control over its subsidiaries and has control over its SPE through the agreements described in Note 2(b) above. In addition, the SPE intends and continues to reinvest such excess earnings in operations for the foreseeable future.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Company's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered China residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that the legal entities organized outside of the PRC within the Company should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%.

(Expressed in US Dollars)

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

The Company has the following significant non-cash transactions:

	2014 $	2013 $
Share-based compensation	302,993	163,163
Fair value of options granted for loan – Loan issue cost	-	163,500

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

	2014 $	2013 $
Accounts receivables	(4,381,196)	(1,457,348)
Unbilled revenue	(31,239,031)	(27,969,682)
Other receivable	899,368	(382,253)
Inventories	(216,102)	1,053,363
Advance to suppliers and prepaid expenses	10,213,951	11,295,209
Deposits	773,304	(314,674)
Accounts payable and accrued liabilities	2,196,908	390,539
Deferred revenue	(3,914,286)	3,261,192
Income taxes payable	1,520,480	316,257
Due from related parties	(552,436)	25,630
Changes in non-cash working capital balances	(24,699,040)	(13,781,767)

21. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, other receivables, deposits, refundable deposit, bank loans, short-term loans, bank notes payable, accounts payable, loan 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 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:

	2014	2013
	$	$
Assets as FVPTL (i)	13,269,288	13,321,256
Loans and receivables (ii)	25,760,214	23,169,187
Other financial liabilities (iii)	105,769,291	88,994,608

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

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

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

(Expressed in US Dollars)

21. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

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, 2014				
Cash and cash equivalents and restricted cash	13,269,288	-	-	13,269,288
June 30, 2013				
Cash and cash equivalents and restricted cash	13,321,256	-	-	13,321,256

Interest Rate and Credit Risk

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

Credit risk from accounts receivable and other receivables encompasses the default risk of customers. The Company's customers are for the most part, private companies located in China. Its exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's exposure to credit risk associated with its accounts receivables and other receivables is the risk that a customer will be unable to pay amounts due to the Company. In its determination of valuation of accounts receivable and other receivables, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action as well as assumptions about business and economic conditions in the future period over which the receivables are collectible. Allowances are provided for potential losses that have been incurred at the statement of financial position date. The amounts disclosed on the statement of financial position are net of these allowances for bad debts. Accounts receivables and other receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess impairment. Management, on an ongoing basis, monitor the level of accounts receivable and other receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

For the year ended June 30, 2014, revenue from three customers accounted for 21% (2013 – three customers accounted for 34%) of total revenue. At June 30, 2014, outstanding amounts owed by three customers accounted for 39% of the total accounts receivable (2013 – outstanding amounts owed by five customers accounted for 85% of total accounts receivable).

Over the last three years, the Company has not suffered any significant credit related losses with any of its customers. Management does not believe that there is significant credit risk arising from any of the Company's customers. Under PRC regulations, a general contractor is entitled to first claim against assets of its customers, which gives a general contractor a "mechanic lien" senior to all other secured debt including but limited to bank loans, bank notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with the real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

The Company is exposed to interest rate risk on its bank loans and notes payable to the extent that its credit facilities are based on floating rates of interest. For the year ended June 30, 2014, a 10% increase or a 10% decrease in interest rates would have changed comprehensive earnings by $505,000.

21. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk (continued)

As at June 30, 2014 and 2013, the aging of accounts receivable is as follows:

	2014	2013
	$	$
0 – 180 days	6,316,513	5,174,515
181 – 365 days	1,370,205	-
Over 1 year	5,292,448	3,195,290
Over 2 years	957,345	1,336,288
Accounts receivable	13,936,511	9,706,093
Less: allowance for doubtful accounts	(959,151)	-
	12,977,360	9,706,093

During the year ended June 30, 2014, the Company recorded a provision for accounts receivable of $959,151 (2013 - NIL). All provisions for allowances for doubtful accounts are charged to general and administrative expenses. As at June 30, 2014, the balance of accounts receivable past due but not impaired is $5,290,642.

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

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

Currency Risk

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

In addition, the payment of dividends and similar amounts from the PRC operating companies to companies outside of the PRC is generally subject to the rules and regulations administered by the State Administration of Foreign Exchange ("SAFE"). SAFE may impose restrictions on the Company's ability to make such payments to a foreign parent. At June 30, 2014, the carrying value of cash potentially restricted for transfer is $4,081,460. The Company may also be unable to readily convert RMB into US Dollars due to PRC foreign exchange control regulations. The may restrict certain cash payments to suppliers outside the PRC and investors or lenders.

At June 30, 2014, through its subsidiaries and its interest in the VIE, the Company had cash and cash equivalents and restricted cash of $13,227,037 (2013 - $13,276,018), accounts receivable and other receivables of $13,453,131 (2013 - $11,359,549), refundable deposit of $573,073 (2013 - $NIL), bank loans of $48,739,068 (2013 - $52,707,797), bank notes payable of $18,127,156 (2013 - $16,465,144), accounts payable of $10,732,439 (2013 - $6,592,779), amounts due from related parties of $60,236 (2013 - $60,892), automobile loans of $244,801 (2013 - $214,893), and loan payable $4,189,818 (2013 - $NIL) which were denominated in RMB.

At June 30, 2014, the Company had cash of $2,083 (2013 - $2,342) and convertible debentures of $13,474,515 (2013 - $12,169,260) which were denominated in CDN$.

21. FINANCIAL INSTRUMENTS (continued)

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, 2014:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	48,902,568	48,902,568	48,902,568	-	-
Notes payable	18,127,156	18,127,156	18,127,156	-	-
Accounts payable	20,830,433	20,830,433	20,830,433	-	-
Automobile loans	244,801	247,447	126,459	102,098	18,890
Loan payable	4,189,818	4,813,055	2,139,135	2,139,135	534,785
Convertible debentures	13,474,515	15,000,000	-	15,000,000	-
Total	105,769,291	107,920,659	90,125,751	17,241,233	553,675

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, 2014 would have had.

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

A theoretical increase (decrease) of 10% in the RMB to USD$ exchange rate could have no impact on the Company's net income but could have increased (decreased) the comprehensive income by approximately $2,679,000. An increase (decrease) of 10% in US Dollar to CDN$ exchange rate could have no impact on the Company's net income but could have decreased (increased) the comprehensive income by approximately $1,536,000.

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, loans payable, 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.

22. EMPLOYEE BENEFITS

For the years ended June 30, 2014 and 2013, the Company incurred the following employee compensation expenses:

	2014	2013
	$	$
Salaries	57,909,484	40,142,551
Benefits	365,858	361,367
	58,275,342	40,503,918

23. SEGMENT DISCLOSURES

The Company operates in one reportable 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.

(Expressed in US Dollars)

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.

Management of the Company defines capital as shareholders' equity, loan payable and convertible debentures.

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 is no subject to any other externally imposed capital requirements.

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, 2014	Net income $	Weighted Average Number of Common Shares Outstanding	Earnings per Share $
Net income for the year ended June 30, 2014	14,762,782	-	-
Weighted average number of shares outstanding	-	25,420,065	-
Basic Earnings per Share	14,762,782	25,420,065	0.58
Effect of convertible debentures	1,513,310	5,769,231	-
Diluted Earnings per Share	16,276,092	31,189,296	0.52

At June 30, 2014, 1,755,000 options are not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

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	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)

26. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has guaranteed the bank loans for other construction companies, in amounts totalling $14,911,177. No consideration has been specifically received by the Company for these guarantees.

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

2015	$	213,251
2016		226,046
2017		76,798
	$	516,095

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

September 26, 2014

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, 2014 ("**FY2014**") and the fiscal year ended June 30, 2013 ("**FY2013**"). It should be read in conjunction with the audited consolidated financial statements for FY2014 and FY2013 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 FY2014 and in the Company's other public disclosure documents filed with certain Canadian securities regulatory authorities and available at www.sedar.com. The forward-looking information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law.

OVERVIEW OF BUSINESS

About Boyuan

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

The Company has completed 45 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 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 IFRS 10 (“Consolidated Financial Statements"), the Company controls its special purpose entity. 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 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 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.

Under certain circumstances, the determination of the Company’s level of control over its subsidiaries and special purpose entity requires application of judgement through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity’s board of directors, legal enforceability of agreements between China Privco, Zhejiang and the shareholders of Zhejiang and various other factors.

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 FY2014 was $278.3 million, up 33.0% from $209.2 million for FY2013. Net income after taxes for FY2014 was $14.8 million or $0.58 per share fully diluted. This compares to $7.9 million, or $0.31 per fully diluted share, for FY2013.

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, 2014, 2013 and 2012:

US$'000 (except earnings per share amounts)	2014	2013	2012
Operating Results			
Construction revenue	278,341	209,207	189,258
Cost of construction	239,086	178,642	158,619
Gross profit	39,255	30,565	30,639
Net income	14,763	7,946	9,351
Earnings per share			
Basic	0.58	0.31	0.36
Diluted	0.52	0.31	0.36
Financial Position			
Current assets	194,028	173,063	149,900
Non-current assets	17,274	21,284	22,785
Total assets	211,302	194,347	172,685
Current liabilities	92,613	94,816	95,821
Long term debt	17,502	12,355	1,498
Shareholders' equity	101,187	87,176	75,366
Cash dividend per share	Nil	Nil	Nil
Common shares outstanding	25,420,065	25,420,065	25,526,449

RESULTS OF OPERATIONS

Revenue for FY2014 was $278.3 million, up 33.0% from $209.2 million for FY2013. Revenue is recognized on the percentage-of-completion method. The measures introduced by the Chinese central government three years ago to cool down the real estate market have had a negative impact on our business activities resulting in slower growth in revenue and a smaller gross margin in the past two years. The Company was also more selective in taking up new construction projects under the uncertain economic environment. However, with the real estate market seemingly more stabilized and with the full repayment of the secured debentures last year, the Company has been more aggressive in taking on new projects in the past year. New projects taken up in FY2014 amounted to $367million. Most of the Company's projects have duration between 1 to 3 years.

Cost of construction for FY2014 was $239.1 million, up 33.9% from $178.6 million for FY2013. 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 $174.7 million and labour cost was $58.6 million in FY2014. In comparison, direct material costs and labour costs were $136.4 million and $38.9 million in FY2013.

Gross profit for FY2014 was $39.3 million, representing a margin of 14.1% on revenue. Gross profit for FY2013 was also $30.6 million, representing a margin of 14.6% 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 $6.2 million in FY2014 compared to $5.8 million in FY2013. The increase was mainly due to a provision for doubtful accounts of $0.96 million, offset somewhat by a decrease in legal, audit, and penalty expenses in relation to the OSC investigation.

Interest expense was $7.5 million in FY2014, a decrease of $0.9 million over FY2013. The decrease was mainly due to a decrease in interest paid on receivables discounting. The Company has discounted less receivables in the period as a result of improved cash flow position of the Company.

After-tax net income for FY2014 was $14.8 million or $0.52 per fully diluted share while it was $7.9 million or $0.31 for FY2013. The increase was principally due to the surge in revenue as a result of the increase number of new projects taken up in the past year.

Boyuan had working capital of $101.4 million, including cash, cash equivalents, and restricted cash totalling $13.3 million as at June 30, 2014. This compares to $78.2 million and $13.3 million, respectively at June 30, 2013.

FOURTH QUARTER RESULTS

The following table sets forth the selected financial information in the three months ended June 30, 2014 and 2013:

US$'000 (except earnings per share amounts)	**Three months ended June 30**	
Operating Results	2014	2013
Revenue	104,720	61,483
Cost of construction	90,829	52,787
Gross profit	13,891	8,696
Net income	5,361	2,311
Earnings per share		
Basic	0.21	0.09
Diluted	0.18	0.09

Revenue for the three-month period ended June 30, 2014 was $104.7 million, up 70.3% from $61.5 million for Q4 FY2013. Historically, the fourth quarter was the Company's strongest and busiest period due to a variety of seasonal factors. The Company has also been more aggressive in taking on new projects in the past year.

Cost of construction for Q4 FY2014 was $90.8 million, up 72.1% from $52.8 million for Q4 FY2013. The increase was consistent with the increase in construction revenue recorded in this period.

Gross profit for Q4 FY2014 was $13.9 million, representing a margin of 13.3% on revenue. Gross profit for Q4 FY2013 was $8.7 million, representing a margin of 14.1% on revenue.

Net income for Q4 FY2014 was $5.4 million or $0.18 per diluted share. These compare to $2.3 million and $0.09, respectively, for Q4 FY2013.

RELATED PARTY BALANCES AND TRANSACTIONS

Related parties transactions are summarized as follows:

	June 30, 2014 $	June 30, 2013 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("**CEO**")	60,236	60,892

As at June 30, 2014, the Company advanced projects funds totalling $2,475,634 (2013 - $3,344,611) to project managers who are related to the CEO. The amounts are included in advances and prepaid expenses described in Note 7 in the audit report. The amounts due from related parties are non-interest bearing, unsecured and have no fixed terms of repayment

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, 2014:

US$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q4, FY2014	104,720	5,361	0.21	0.18
Q3, FY2014	62,593	3,447	0.14	0.13
Q2, FY2014	61,990	3,617	0.14	0.13
Q1, FY2014	49,039	2,338	0.09	0.09
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

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q4, FY2014	Q4, FY2013	FY2014	FY2013
Operating activities	2,517	443	(715)	226
Investing activities	(202)	(181)	(400)	(15)
Financing activities	(1,644)	(776)	1,074	934
Effect of currency translation	(100)	376	(144)	416
Net Increase (decrease) in cash and cash equivalents	571	(138)	(185)	1,561

Net cash used in operating activities was $0.7 million for the FY2014, and in Q4 FY2014 net cash provided from operating activities was $2.5 million. For the same periods last year, net cash provided were $0.2 million and $0.4 million respectively. The changes were primarily caused by the increase in net income and the normal business operating fluctuations in non cash working capital items such as account receivable and unbilled revenue .

Net cash used in investing activities was $0.4 million in FY2014 and $0.2 million for the last quarter of FY2014. For the same periods last year, the amounts were $0.01 million and $0.2 million respectively. The major component for cash used in FY2014 was related to acquisition of equipment.

Net cash provided from financing activities was $1.1 million in FY2014, a small increase of $0.2 million over FY2013. Net cash used in Q4 FY2014 was $1.6 million compared to $0.8 million in the same period last year. The change was mainly due to the increase in loan payable, offset partially by the decrease in bank loans.

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 $4.5 million as at June 30, 2014 which is similar to the balance last year. The Company had $194.0 million in current assets and $92.6 million in current liabilities as at June 30, 2014.

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 1,755,000.

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2014, 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, 2014 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 $2,679,000. An increase (decrease) of 10% in CDN$ 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 $1,536,000.

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, 2014:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	48,902,568	48,902,568	48,902,568	-	-
Notes payable	18,127,156	18,127,156	18,127,156	-	-
Accounts payable	20,830,433	20,830,433	20,830,433	-	-
Automobile loans	244,801	247,447	126,459	102,098	18,890
Loan payable	4,189,818	4,813,055	2,139,135	2,139,135	534,785
Convertible debentures	13,474,515	15,000,000	-	15,000,000	-
Total	105,769,291	107,920,659	90,125,751	17,241,233	553,675

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

The mandatory adoption of the following new and revised accounting standards and interpretations on July 1, 2013 had no significant impact on the Company's financial statements for the current year or prior year presented. The following standards were adopted for the year ended June 30, 2014:

- 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.

- IFRS 10 *Consolidated Financial Statements* - IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements* and establishes principles for identifying when an entity controls other entities.

- IFRS 11 *Joint Arrangements* - IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers,* and requires a single method to account for interests in joint ventures.

- IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes comprehensive disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles.

- IFRS 13 *Fair Value Measurement* - IFRS 13 provides a single source of fair value measurement and disclosure requirements in IFRS.

- Amended and re-titled IAS 27 *Separate Financial Statements*, and IAS 28 *Investments in Associates and Joint Ventures*, as a consequent of new IFRS 10, IFRS 11 and IFRS 12.

- Amendments to IAS 1 *Presentation of Financial Statements* – IAS 1 requires entities to group items within other comprehensive income that may be reclassified to net income.

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

<u>New accounting standards effective January 1, 2014</u>

- IAS 32 *Financial Instruments: Presentation* - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. Earlier application is permitted when applied with corresponding amendments to IFRS 7.

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

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

<u>New accounting standards effective January 1, 2017</u>

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

<u>New accounting standards effective January 1, 2018</u>

- IFRS 9 *Financial Instruments* – IFRS 9 was initially issued in November 2008 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

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

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

  The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its 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, 2014. 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 has already implemented three components, the accounting and financial reporting module, the human resources management module, and the support management module. The Company has commenced implementation of the project management module and it is expected to be completed in early 2015.

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. The consultant’s report was issued on November 26, 2013. The Company is currently in the process of implementing the recommendations contained in the report.

There has been no change in the design of the Company’s internal controls over financial reporting during the quarter ended June 30, 2014 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 will continue to dampen the pace of growth for the Company. Over the longer term, the Company believes that its growth will be driven by expanding its reach in tier-two cities and increasing focus on speciality construction projects, which the Company believes will deliver higher profit margins. As a part of this strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.

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

Corporate Office

Boyuan Construction Group, Inc.
Boyuan Building, No. 6
East Road, Jiaxing Port
Zheijiang, China
314201

Auditors

Manning Elliot, LLP
Vancouver, British Columbia

Transfer Agent

Computershare Trust Company of Canada
600, 530 – 8th Avenue SW
Calgary, Alberta
T2P 3S8

Stock Exchange Listing

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