



BOYUAN

**Quarterly Report - Quarter 1
For the Interim Period ended September 30, 2014**

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

For the three months ended September 30, 2014

November 12, 2014

This Management's Discussion and Analysis (“**MD&A**”) relates to the results of operations and the financial condition of Boyuan Construction Group, Inc. (the “**Company**”) for the three months ended September 30, 2014. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended September 30, 2014 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 major projects in the past three fiscal years. Currently the Company has a significant project backlog including residential, commercial, industrial, and hotels. The duration of these projects ranges from one to three years. The majority of these projects are located in the Yangtze River Delta, Shandong Province, and Hainan Island.

The Company's common shares are publicly traded on the Toronto Stock Exchange (the "**Exchange**" or the "**TSX**") under the symbol "BOY". The Company's 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. ("Zhejiang") via four agreements entered into between the subsidiary entity and Zhejiang. The Company consolidates the accounts of Zhejiang in accordance with IFRS 10 *Consolidated Financial Statements*. The financial positions and the related results of operations, changes in equity and cash flow are therefore consolidated under the Company.

Recognition of revenue

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

ongoing basis based on changes in price and in the scope of each contract. Any changes made to the contract scope are reflected in the percentage of completion of applicable contracts in the same period as the change in estimate occurs.

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

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

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

Critical Accounting Estimates and Judgments

Estimates

The preparation of these unaudited condensed interim 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 unaudited condensed interim consolidated financial statements include estimation of the allowance for doubtful accounts, determination of the useful life of property and equipment, measurement of provisions and measurement of share-based payments.

Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited condensed interim 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.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's unaudited condensed interim consolidated financial statements for the three months ended September 30, 2014 and 2013 and our financial positions as at September 30, 2014 and June 30, 2014

US\$'000 (except earnings per share amounts)	Q1 2015	Q1 2014
Operating Results		
Construction revenue	67,732	49,039
Cost of construction	58,270	41,821
Gross profit	9,462	7,218
Net income	3,896	2,338
Earnings per share		
Basic	0.15	0.09
Diluted	0.14	0.09
Financial Position	As at September 30, 2014	As at June 30, 2014
Current assets	206,681	194,028
Non-current assets	16,697	17,274
Total assets	223,378	211,302
Current liabilities	100,687	92,613
Long term debt	16,048	17,502
Shareholders' equity	106,643	101,187
Cash dividend per share	Nil	Nil
Common shares outstanding	25,420,265	25,420,265

RESULTS OF OPERATIONS

Revenue for the three months period ended September 30, 2014 was \$67.7 million, up 38.1% from \$49.0 million for the same period in 2013. 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 FY 2012 and FY2013. 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 Q1 FY2015 was \$58.3 million, up 39.3% from \$41.8 million for Q1 FY2014. The increase was primarily a result of higher expenses associated with higher 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 \$42.9 million and labour cost was \$14.5 million in this quarter. In comparison, direct material costs and labour costs were \$29.9 million and \$10.3 million in the same quarter last year.

Gross profit for this period was \$9.5 million, representing a margin of 14.0% on revenue. Gross profit for the same period last year was \$7.2 million, representing a margin of 14.7% on revenue. We have experienced a slight downward pressure on our margins under the current real estate market situation in China. Developers are becoming more prices sensitive

and have longer development cycles thus eroding some of our normal margins. Historically, Boyuan's gross profit margins have been in the range of 15% to 17%.

G&A expenses were \$1.20 million in Q1 FY2015, similar to the amount of \$1.24 in Q1 FY2014.

Interest expense was \$1.87 million in the first quarter in FY2015, a small increase of \$0.1 million from \$1.77 million over the first quarter in FY2014. The increase was mainly due to the increase in bank loans in the period.

After-tax net income for this period was \$3.9 million, or \$0.14 per fully diluted share, compared to net income of \$2.3 million, or \$0.09 per fully diluted share for the same period in FY2014. 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 \$106.0 million, including cash, cash equivalents, and restricted cash totalling \$12.8 million as at September 30, 2014. This compares to \$101.4 million and \$13.3 million, respectively at June 30, 2014.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	September 30, 2014	June 30, 2014
	\$	\$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,700	60,236
	<u>60,700</u>	<u>60,236</u>

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

Key management personnel compensation

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

	Three Months Ended	
	September 30, 2014	September 30, 2013
	(unaudited)	(unaudited)
	\$	\$
Salaries and benefits	77,487	125,729
Share-based compensation	72,031	16,204
Total	<u>149,518</u>	<u>141,933</u>

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

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of the Company's selected quarterly financial information for each of the eight quarters ended September 30, 2014:

US\$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q1, FY2015	67,732	3,896	0.15	0.14
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

LIQUIDITY AND CAPITAL RESOURCES

US\$'000	Q1, FY2015	Q1, FY2014
Operating activities	(5,473)	(3,982)
Investing activities	(73)	(61)
Financing activities	5,546	4,866
Effect of currency translation	34	(38)
Net change in cash and cash equivalents	34	785

Net cash used in operating activities was \$5.5 million for the Q1 FY2015 compared to \$4.0 million in Q1 FY2014. The increase in cash used was primarily caused by an increase in unbilled revenue and advances to suppliers and prepaid expenses.

Revenues from contracts are recognized based on the percentage-of-completion method primarily based on costs incurred to date compared to the total estimated costs for each contract. Costs incurred and estimated profits on contracts in progress in excess of amounts billed are reflected as unbilled revenue. Unbilled revenue essentially represents the revenue recognized in excess of actual billing amount. The difference is because revenues are recognized based on the percentage-of completion method and billings to customers are based on negotiated and contractual terms. The increase in unbilled revenue is due to the longer payment terms requested by our customers under the current depressed property market in the PRC.

Net cash used by investing activities was \$0.07 million in the first quarter this fiscal year, similar to \$0.06 million for Q1 FY2014. The cash used in this period was related to acquisition of equipment.

Net cash provided from financing activities was \$5.5 million in Q1 FY2015, an increase of \$0.7 million over Q1 FY2014. The increase was largely due to the increase in bank loan obtained in this period.

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 September 30, 2014 as compared to a cash and cash equivalents balance of \$4.5 million as at June 30, 2014. The Company had \$206.7 million in current assets and \$100.7 million in current liabilities as at September 30, 2014.

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

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 September 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 three months ended September 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.

The result of sensitivity analysis shows that an increase (decrease) of 10% in the RMB to US Dollar exchange rate could have no impact on the Company's net income but could have increased (decreased) the comprehensive income by approximately \$4,675,000. 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 \$1,276,000.

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

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 September 30, 2014:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	\$	\$	\$	\$	\$
Bank loans	55,192,039	55,192,039	55,192,039	-	-
Notes payable	18,456,790	18,456,790	18,456,790	-	-
Loan payable	3,808,705	4,311,212	2,155,606	2,155,606	-
Accounts payable	5,410,638	5,410,638	5,410,638	-	-
Automobile loans	214,828	221,302	127,433	82,448	11,422
Convertible debentures	12,762,566	13,442,065	-	13,442,065	-
Total	95,845,566	97,034,046	81,342,506	15,680,119	11,422

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, 2014 had no significant impact on the Company's financial statements for the current year or prior year presented. The following standards were adopted during the period:

- IAS 32 *Financial Instruments: Presentation* - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement.
- IAS 36 *Impairment of Assets* - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a cash-generating unit ("CGU") for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when an asset's or a CGU's recoverable amount is based on fair value less costs of disposal.

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

New accounting standards effective January 1, 2016

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

New accounting standards effective January 1, 2016 (continued)

- IAS 27 *Separate Financial Statements* – In August 2014, the IASB issued an amendment to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- IFRS 11 *Joint Arrangements* – In May 2014, the IASB issued an amendment to clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business.
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - In May 2014, the IASB issued amendments to IAS 16 and IAS 38. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

New accounting standards effective January 1, 2017

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

New accounting standards effective January 1, 2018

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

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for

liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

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

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its 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 September 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 have 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 September 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.

Boyuan Construction Group, Inc.
Condensed Interim Consolidated Financial Statements
For the Three Months Ended
September 30, 2014 and 2013
(Unaudited)

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

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

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

Boyuan Construction Group, Inc.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in US Dollars)

	September 30, 2014 (Unaudited)	June 30, 2014 (Audited)
	\$	\$
Current Assets		
Cash and cash equivalents	4,493,269	4,459,898
Accounts receivable	11,499,625	12,977,360
Unbilled revenue (Note 4)	152,615,319	145,188,974
Restricted cash (Note 5)	8,299,536	8,809,390
Other receivables	2,410,324	570,238
Inventory	685,576	653,920
Advances and prepaid expenses (Note 6)	17,302,507	10,275,211
Deposits (Note 7)	9,314,453	11,032,704
Due from related parties (Note 8)	60,700	60,236
	206,681,309	194,027,931
Refundable deposit (Note 12)	577,485	573,073
Land use rights (Note 9)	1,659,457	1,648,522
Property and equipment (Note 10)	14,459,665	15,052,973
	223,377,916	211,302,499
Current Liabilities		
Bank loans (Note 11)	55,192,039	48,902,568
Bank notes payable (Note 11)	18,456,790	18,127,156
Current portion of loan payable (Note 12)	1,789,282	1,722,585
Accounts payable and accrued liabilities (Note 13)	18,228,763	20,830,433
Income taxes payable	4,479,812	2,650,567
Deferred revenue (Note 4)	2,426,356	267,959
Current portion of automobile loans	114,444	111,837
	100,687,486	92,613,105
Loan payable (Note 12)	2,019,423	2,467,233
Convertible debentures (Note 14)	12,762,566	13,474,515
Deferred tax liabilities (Note 17)	1,164,582	1,427,356
Automobile loans	100,384	132,964
	116,734,441	110,115,173
Shareholders' Equity		
Share capital (Note 15)	7,156,864	7,156,864
Contributed surplus	5,437,221	5,340,721
Reserves (Note 16)	7,373,221	7,373,221
Equity component of convertible debentures (Note 15)	2,059,230	2,059,230
Retained earnings	75,931,175	72,034,867
Accumulated other comprehensive income – foreign currency translation adjustment	8,685,764	7,222,423
	106,643,475	101,187,326
	223,377,916	211,302,499

Approved on behalf of the Board of Directors:

“Jack Duffy”
Jack Duffy, Director

“Manhong Liu”
Manhong Liu, Director

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

Condensed Interim Consolidated Statements of Comprehensive Income
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended	
	September 30, 2014	September 30, 2013
	\$	\$
Construction revenue	67,732,119	49,038,818
Cost of construction	58,270,124	41,820,507
Gross profit	9,461,995	7,218,311
Expenses		
Amortization of property and equipment	784,033	831,620
General and administrative expenses	1,193,784	1,240,032
	1,977,817	2,071,652
Income from operations	7,484,178	5,146,659
Other Income (expense)		
Interest and other income	35,907	98,610
Foreign exchange gain (loss)	(13,874)	2,229
Interest expense	(1,869,480)	(1,765,508)
Share-based compensation	(96,500)	(33,722)
	(1,943,947)	(1,698,391)
Net income before income taxes	5,540,231	3,448,268
Income taxes (Note 17)	1,643,923	1,110,141
Net income for the period	3,896,308	2,338,127
Other Comprehensive Income		
Items that may be reclassified subsequently to income:		
Unrealized gain (loss) on foreign exchange translation	1,463,341	(492,552)
Comprehensive income for the period	5,359,649	1,845,575
Earnings per share, basic (Note 21)	0.15	0.09
Earnings per share, diluted (Note 21)	0.14	0.09
Weighted average number of common shares outstanding, basic (Note 21)	25,420,065	25,420,065
Weighted average number of common shares outstanding, diluted (Note 21)	31,562,753	31,189,296

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in US Dollars)

(Unaudited)

	Share Capital	Contributed Surplus	Reserves	Equity Component of Convertible Debentures	Retained Earnings	Foreign Currency Translation Adjustment	Total Shareholders' Equity
	\$	\$	\$	\$	\$	\$	\$
Balance, June 30, 2013	7,156,864	5,037,728	7,373,221	2,059,230	57,272,085	8,276,529	87,175,657
Share-based compensation	-	33,722	-	-	-	-	33,722
Net income for the period	-	-	-	-	2,338,127	-	2,338,127
Other comprehensive income	-	-	-	-	-	(492,552)	(492,552)
Balance, September 30, 2013	7,156,864	5,071,450	7,373,221	2,059,230	59,610,212	7,783,977	89,054,954
Balance, June 30, 2014	7,156,864	5,340,721	7,373,221	2,059,230	72,034,867	7,222,423	101,187,326
Share-based compensation	-	96,500	-	-	-	-	96,500
Net income for the period	-	-	-	-	3,896,308	-	3,896,308
Other comprehensive income	-	-	-	-	-	1,463,341	1,463,341
Balance, September 30, 2014	7,156,864	5,437,221	7,373,221	2,059,230	75,931,175	8,685,764	106,643,475

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended	
	September 30, 2014	September 30, 2013
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	3,896,308	2,338,127
Items not involving cash:		
Amortization	784,033	831,620
Interest accretion	606,355	722,961
Share-based compensation	96,500	33,722
Deferred income tax recovery	(262,774)	(953,519)
Unrealized foreign exchange loss	178,399	221,979
	5,298,821	3,194,890
Changes in non-cash working capital balances:		
Accounts receivables	1,576,053	(17,473,526)
Unbilled revenue	(6,302,000)	11,716,334
Other receivable	(1,838,511)	(135,336)
Inventories	(26,595)	(859,496)
Advance to suppliers and prepaid expenses	(6,941,158)	699,619
Deposits	1,801,366	(1,133,796)
Accounts payable and accrued liabilities	(2,729,060)	(940,720)
Deferred revenue	2,154,140	(59,390)
Income taxes payable	1,533,510	1,009,338
Cash used in operating activities	(5,473,434)	(3,982,083)
INVESTING ACTIVITY		
Acquisition of property and equipment	(73,412)	(60,582)
Cash used in investing activities	(73,412)	(60,582)
FINANCING ACTIVITIES		
Restricted cash	577,096	2,905,727
Bank loans	5,912,930	(972,520)
Bank notes payable	189,865	(2,429,679)
Loan payable	(412,953)	5,382,897
Automobile loans	(31,826)	(20,392)
Convertible debentures, net	(689,205)	-
Cash provided by financing activities	5,545,907	4,866,033
Effect of changes in exchange rates on cash	34,310	(38,527)
Change in cash	33,371	784,841
Cash and cash equivalents, beginning	4,459,898	4,645,388
Cash and cash equivalents, ending	4,493,269	5,430,229
Supplemental disclosure of cash flow information:		
Cash paid for interest	2,001,481	1,218,239
Cash paid for income taxes	110,413	100,803

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

1. NATURE OF OPERATIONS

Boyuan Construction Group, Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 4, 2007. The Company's registered office and principal place of business is located at No. 6 East Road, Jiaxing Port, Zhejiang Province, the People's Republic of China ("China" or "PRC"). The consolidated financial statements of the Company include the assets and operations of the Company, its subsidiaries and other entities it controls. The Company's primary business is in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in the PRC.

2. BASIS OF CONSOLIDATION AND PRESENTATION

(a) Statement of compliance

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

These unaudited condensed interim consolidated financial statements were approved by the Company's Audit Committee on behalf of the Board of Directors on November 12, 2014.

(b) Summary of significant accounting policies

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

(c) Basis of consolidation

These condensed interim 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.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

- IAS 32 *Financial Instruments: Presentation* - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement.
- IAS 36 *Impairment of Assets* - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a cash-generating unit ("CGU") for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when an asset's or a CGU's recoverable amount is based on fair value less costs of disposal.

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

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

New accounting standards effective January 1, 2016

- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - On September 2014, the IASB published an amendment to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.
- IAS 27 *Separate Financial Statements* – In August 2014, the IASB issued an amendment to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
- IFRS 11 *Joint Arrangements* – In May 2014, the IASB issued an amendment to clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business.
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - In May 2014, the IASB issued amendments to IAS 16 and IAS 38. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

New accounting standards effective January 1, 2017

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

New accounting standards effective January 1, 2018

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

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

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

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

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

4. UNBILLED REVENUE

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

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Completed contracts	23,438,215	24,144,503
Contracts in progress	129,177,104	121,044,471
	152,615,319	145,188,974

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

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Aggregate cost of construction	482,550,479	509,934,151
Gross profit recognized	86,945,139	92,110,398
	569,495,618	602,044,549
Less: aggregate of progress billing and payments	440,318,514	481,000,078
Contracts in progress – unbilled portion, end of period	129,177,104	121,044,471
Deferred revenue - contract in progress, end of period	2,426,356	267,959
Net position	126,750,748	120,776,512

Credit risk associated with unbilled revenue

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

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

5. RESTRICTED CASH

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

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

6. ADVANCES AND PREPAID EXPENSES

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Advances to project managers and suppliers	16,765,918	9,580,647
Prepaid expenses	82,511	96,663
Other	454,078	597,901
	17,302,507	10,275,211

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

7. DEPOSITS

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Contract performance deposits	8,561,660	10,008,880
Project tender deposits	399,610	672,212
Other	353,183	351,612
	9,314,453	11,032,704

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

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

8. RELATED PARTY BALANCES AND TRANSACTIONS

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,700	60,236

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

Key management personnel compensation

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

	Three Months Ended	
	September 30, 2014 (unaudited)	September 30, 2013 (unaudited)
	\$	\$
Salaries and benefits	77,487	125,729
Share-based compensation	72,031	16,204
Total	149,518	141,933

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

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

9. LAND USE RIGHTS

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Cost		
Balance, beginning of period	1,667,729	1,684,962
Foreign exchange movement	12,841	(17,233)
Balance, end of period	1,680,570	1,667,729
Accumulated amortization		
Balance, beginning of period	19,207	11,441
Charge for the period	1,756	7,054
Foreign exchange movement	150	712
Balance, end of period	21,113	19,207
Net book value, end of period	1,659,457	1,648,522

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

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

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

The Company's land leases are used as security for the bank loans described in Note 11(a). As at September 30, 2014, the carrying value of land use rights secured as collateral is \$116,247 (June 30, 2014 – \$117,103).

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2014 and 2013

(Expressed in US Dollars)

(Unaudited)

10. PROPERTY AND EQUIPMENT

	Machinery, Equipment and Scaffoldings	Buildings	Vehicles	Office Equipment	Leasehold Improvement	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, June 30, 2014 (audited)	21,912,286	4,302,316	1,950,608	1,772,180	1,647,545	31,584,935
Additions	20,391	-	-	54,454	-	74,845
Foreign exchange movement	168,741	33,127	15,019	13,701	12,687	243,275
Balance, September 30, 2014 (unaudited)	22,101,418	4,335,443	1,965,627	1,840,335	1,660,232	31,903,055
Accumulated depreciation						
Balance, June 30, 2014 (audited)	11,020,356	2,187,361	1,259,338	1,096,166	968,741	16,531,962
Depreciation expense for the period	519,136	39,531	56,266	93,725	75,051	783,709
Foreign exchange movement	85,010	16,883	9,754	8,536	7,536	127,719
Balance, September 30, 2014 (unaudited)	11,624,502	2,243,775	1,325,358	1,198,427	1,051,328	17,443,390
Net book value						
At June 30, 2014 (audited)	10,891,930	2,114,955	691,270	676,014	678,804	15,052,973
At September 30, 2014 (unaudited)	10,476,916	2,091,668	640,269	641,908	608,904	14,459,665

The Company's buildings are used as security for the bank loans described in Note 11(a). As at September 30, 2014, the carrying value of the buildings secured as collateral is \$2,091,668 (June 30, 2014 - \$2,114,955).

11. BANK LOANS AND NOTES PAYABLE

- (a) The bank loans are due within one year with interest paid monthly or quarterly at rates varying between 5.59% to 8.20% (June 30, 2014 - 5.9% to 8.20%), weighted average at 6.69% (June 30, 2014 - 6.12%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of \$53,110,786 (June 30, 2014 - \$46,176,290) in aggregate provided by construction project developers and the CEO of the Company.
- (b) The bank notes payable generally have terms six months or less. The notes are secured by compensating deposits held by the banks (see Note 5).

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2014 and 2013

(Expressed in US Dollars)

(Unaudited)

12. LOAN PAYABLE

On September 30, 2013, the Company obtained a loan of \$5,806,926 (RMB 35,550,000) from an unrelated company, 远东国际租赁有限公司, (“Yuandong”), located in Shanghai Pudong. The loan has a stated interest rate of 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 September 30, 2014, the present value of the refundable deposit is \$577,485.

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Balance, beginning of period	4,189,818	-
Loan principal	-	5,806,926
Less: service charge	-	(382,228)
	4,189,818	5,424,698
Repayments	(538,902)	(1,621,473)
Foreign exchange movement	157,789	386,593
Balance, end of period	3,808,705	4,189,818
Less: current portion	(1,789,282)	(1,722,585)
Balance, end of period, Long-term portion	2,019,423	2,467,233

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Accounts payable to suppliers	1,603,794	1,969,755
Salaries and wages payable	398,943	429,079
Taxes payable	8,747,742	9,248,992
Accrued expenses	3,672,474	4,249,525
Other	3,805,810	4,933,082
	18,228,763	20,830,433

14. CONVERTIBLE DEBENTURES

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Balance, beginning of period	13,474,515	12,169,260
Interest accretion	557,204	2,188,983
Interest paid	(689,205)	(706,438)
Foreign exchange gain on translation	(579,948)	(177,290)
Balance, end of period	12,762,566	13,474,515

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

14. CONVERTIBLE DEBENTURES (continued)

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

	\$
Due on October 31, 2015	13,442,065
Less: interest at weighted average effective interest rate of 17.64%	(679,499)
	<u>12,762,566</u>

Convertible Debentures – Principal Amount of \$13,442,065

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of \$987 (CDN\$1,000) per debenture for gross proceeds of \$14,799,000 (CDN\$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of CDN\$2.60 per share. The convertible debentures are redeemable by the Company at any time on or after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice. The Company paid 6% agent's fee of \$887,940 agent's legal and expenses of \$404,646 and other issue costs of \$94,451, totaling \$1,387,037.

The Company uses the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of \$2,657,900 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of \$11,003,593 was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum. Debenture issue costs of \$249,530 and deferred income tax expense of \$336,750 were allocated to the equity component.

15. SHARE CAPITAL

Authorized:

Unlimited number of common shares without par value.

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

Issued and outstanding:

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

Options

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

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

15. SHARE CAPITAL (continued)

Options (continued)

As of September 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 4.75 years.

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

Equity Component of Convertible Debentures

	\$
Balance, June 30, 2014 and September 30, 2014	2,059,230

16. RESERVES

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

17. INCOME TAX

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

Income tax expenses are as follows:

	September 30, 2014 (unaudited) \$	September 30, 2013 (unaudited) \$
Current	1,906,697	2,063,660
Deferred	(262,774)	(953,519)
Total income tax expenses	1,643,923	1,110,141

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:

	September 30, 2014 (unaudited) \$	June 30, 2014 (audited) \$
Unbilled revenue, net of charges	(1,913,767)	(2,160,692)
Plant and equipment	749,185	733,336
Net deferred tax liabilities	(1,164,582)	(1,427,356)

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

18. FINANCIAL INSTRUMENTS

Fair values

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

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

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
Assets as FVPTL (i)	12,792,805	13,269,288
Loans and receivables (ii)	23,862,587	25,760,214
Other financial liabilities (iii)	108,663,691	105,769,291

Fair values

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

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

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

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2014 (unaudited)				
Cash and cash equivalents and restricted cash	12,792,805	-	-	12,792,805
June 30, 2014 (audited)				
Cash and cash equivalents and restricted cash	13,269,288	-	-	13,269,288

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

18. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk

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

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

For the 3 months ended September 30, 2014, revenue from 2 customers accounted for 21% (September 30, 2013– 1 customer accounted for 10%) of total revenue. At September 30, 2014, outstanding amounts owed by 4 customers accounted for 66% of outstanding amounts of the total accounts receivable and unbilled revenue (September 30, 2013 – no customers owing 10% or more of outstanding amounts of the total accounts receivable and unbilled revenue).

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

The Company is exposed to interest rate risk on its bank loans and notes payable to the extent that its credit facilities are based on floating rates of interest. For the period ended September 30, 2014, a 10% increase or a 10% decrease in interest rates would have changed comprehensive earnings by \$131,000.

Financial assets past due

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

	September 30, 2014 (unaudited)	June 30, 2014 (audited)
	\$	\$
0 – 180 days	5,339,037	6,316,513
181 – 365 days	1,681,448	1,370,205
Over 1 year	2,298,984	5,292,448
Over 2 years	3,146,694	957,345
Accounts receivable	12,466,163	13,936,511
Less: allowance for doubtful accounts	(966,538)	(959,151)
	11,499,625	12,977,360

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

18. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk (continued)

During the period ended September 30, 2014 and 2013, the Company did not record a provision for doubtful accounts. All provisions for allowances for doubtful accounts are charged to general and administrative expenses. As at September 30, 2014, the balance of accounts receivable past due but not impaired is \$4,479,141 (June 30, 2014 - \$5,290,642).

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

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

Currency Risk

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

At September 30, 2014 through its subsidiaries, the Company had cash and cash equivalents and restricted cash of \$12,420,663 (June 30, 2014 - \$13,227,037), accounts receivable and other receivables of \$13,831,865 (June 30, 2014 - \$13,453,131), refundable deposit of \$577,485 (June 30, 2014 - \$573,073), bank loans of \$55,028,539 (June 30, 2014 - \$48,739,068), bank notes payable of \$18,456,790 (June 30, 2014 - \$18,127,156), Loan payable of \$3,808,705 (June 30, 2014 - \$4,189,818), accounts payable of \$5,013,161 (June 30, 2014 - \$10,732,439), amounts due from related parties of \$60,700 (June 30, 2014 - \$60,236), and automobile loans of \$214,828 (June 30, 2014 - \$244,801) which were denominated in RMB.

At September 30, 2014, the Company had cash of \$5,645 (June 30, 2014 - \$2,083) and convertible debentures of \$12,762,566 (June 30, 2014 - \$13,474,515) which were denominated in CDN\$.

Liquidity Risk

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

The following are the contractual maturities of financial liabilities as at September 30, 2014:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	\$	\$	\$	\$	\$
Bank loans	55,192,039	55,192,039	55,192,039	-	-
Notes payable	18,456,790	18,456,790	18,456,790	-	-
Loan payable	3,808,705	4,311,212	2,155,606	2,155,606	-
Accounts payable	5,410,638	5,410,638	5,410,638	-	-
Automobile loans	214,828	221,302	127,433	82,448	11,422
Convertible debentures	12,762,566	13,442,065	-	13,442,065	-
Total	95,845,566	97,034,046	81,342,506	15,680,119	11,422

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

18. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income which a change in foreign exchange rate during the year ended September 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.

The result of sensitivity analysis shows that an increase (decrease) of 10% in the RMB to US Dollar exchange rate could have no impact on the Company's net income but could have increased (decreased) the comprehensive income by approximately \$4,675,000. 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 \$1,276,000.

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

19. GEOGRAPHIC DISCLOSURES

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

20. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

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

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

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

21. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

For the three months ended September 30, 2014	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	\$		\$
Net income for the three months ended September 30, 2014	3,896,308	-	-
Weighted average number of shares outstanding	-	25,420,065	-
Basic Earnings per Share	3,896,308	25,420,065	0.15
Effect of options and convertible debentures:			
• Stock options	-	337,457	-
• Convertible debentures	378,908	5,769,231	-
Diluted Earnings per Share	4,275,216	31,526,753	0.14

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2014 and 2013
(Expressed in US Dollars)
(Unaudited)

21. EARNINGS PER SHARE (continued)

For the three months ended September 30, 2013	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	\$		\$
Net income for the three months ended September 30, 2013	2,338,127	-	-
Weighted average number of shares outstanding	-	25,420,065	-
Basic Earnings per Share	2,338,127	25,420,065	0.09
Effect of convertible debentures	437,815	5,769,231	-
Diluted Earnings per Share	2,775,942	31,189,296	0.09

At September 30, 2013, 2,125,000 options are not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

22. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Company has guaranteed the bank loans for other construction companies, in amounts totalling \$11,371,020. 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	\$	163,236
2016		227,786
2017		77,389
	\$	468,411