



BOYUAN

**Quarterly Report -Quarter 1
For the Interim Period ended September 30, 2013.**

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

For the three months ended September 30, 2013

November 14, 2013

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, 2013. 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 2013 and notes thereto. The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. Boyuan reported its financial results in accordance with International Financial Reporting Standards (IFRS), as required for public companies in Canada. Additional information about Boyuan including the Company's Annual Information Form and other filings are available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Caution Regarding Forward-Looking Information:

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to future events or the Company's future performance and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, but is not limited to, management’s belief in the level of credit risk arising from the Company’s customers, management’s expectation on the effectiveness of the Company’s disclosure controls and internal controls, management’s plan to implement independent consultant’s recommendations on internal controls and the plan to engage the consultant to perform an updated review on the internal control system, the Company's outlook on China's ongoing expansion of middle class and the growth of China's tier-2 cities and on the continued demand for the Company's services, the Company's plan to increase focus on specialty construction projects, the Company's expectation of higher profit margins for the specialty construction projects, and the Company's plan to upgrade its construction licences and qualifications. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risk of macro-economy cycle, risk from competition, risk from insufficient marketing to secure new projects, risk in obtaining additional financing, risk involving permits and licenses, reliance on key management member, risk from supply of raw materials, risk of financial leverage, risk of bad debts in accounts receivables, risk

involved in real estate development, foreign exchange fluctuations, political and economic conditions in China and other risks included in the Company's Annual Information Form for FY2013 and in the Company's other public disclosure documents filed with certain Canadian securities regulatory authorities and available at www.sedar.com. The forward-looking information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law.

OVERVIEW OF BUSINESS

About Boyuan

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

The Company has completed 46 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 was listed on the TSX Venture Exchange (“**TSXV**”) on March 11, 2009 by completing the acquisition of SND Energy Ltd. through a reverse-takeover (RTO) transaction. On June 14, 2010, Boyuan's common shares and the 11.75% secured convertible debentures due February 27, 2013 (the “**Secured Debentures**”) were delisted from the TSXV and began trading on the Toronto Stock Exchange (“**TSX**”) under the symbol “**BOY**” and “**BOY.DB**” respectively.

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 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 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.

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, 2013 and 2012 and our financial positions as at September 30, 2013 and June 30, 2013

US\$'000 (except earnings per share amounts)	Q1 2014	Q1 2013
Operating Results		
Construction revenue	49,039	52,096
Cost of construction	41,821	44,282
Gross profit	7,218	7,814
Net income	2,338	2,688
Earnings per share		
Basic	0.09	0.10
Diluted	0.09	0.10
Financial Position	As at September 30, 2013	As at June 30, 2013
Current assets	179,457	174,611
Non-current assets	19,318	19,736
Total assets	198,775	194,347
Current liabilities	92,322	94,816
Long term debt	17,398	12,356
Shareholders' equity	89,055	87,176
Cash dividend per share	Nil	Nil
Common shares outstanding	25,420,265	25,655,126

RESULTS OF OPERATIONS

Revenue for the three months period ended September 30, 2013 was \$49 million, down 5.9% from \$52.1 million for the same period in 2012. Revenue is recognized on the percentage-of-completion method. The measures introduced by the Chinese central government two years ago to cool down the real estate market have had a negative impact on our business activities resulting in slower growth in revenue and a smaller gross margin. The Company has also become more selective in taking up new construction projects under the current uncertain economic environment. Most of the Company's projects have duration between 1 to 3 years.

Cost of construction for Q1 FY2014 was \$41.8 million, down 5.6% from \$44.3 million for Q1 FY2013. The decrease was primarily as a result of lower expenses associated with smaller 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 \$29.9 million and labour cost was \$10.3 million in this quarter. In comparison, direct material costs and labour costs were \$32.7 million and \$11.1 million in the same quarter last year.

Gross profit for this period was \$7.2 million, representing a margin of 14.7% on revenue. Gross profit for the same period last year was \$7.8 million, representing a margin of 15% 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 price 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 \$1.2 million in Q1 FY2014 compared to \$1.1 million in Q1 FY2013. The slight increase was mainly due to annual salaries adjustments and was in line with inflation during the period.

Interest expense was \$1.8 million in the first quarter in FY2014, a small decrease of \$0.1 million from \$1.9 million over the first quarter in FY2013. The decrease was mainly due to the maturity of the secured convertible debentures.

After-tax net income for this period was \$2.3 million, or \$0.09 per fully diluted share, compared to net income of \$2.7 million, or \$0.10 per fully diluted share for the same period in FY2013. The decrease was principally due to a small decrease in construction activities during the period.

Boyuan had working capital of \$87.1 million, including cash, cash equivalents, and restricted cash totalling \$11.2 million as at September 30, 2013. This compares to \$79.8 million and \$13.3 million, respectively at June 30, 2013.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	September 30, 2013	June 30, 2013
	\$	\$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,745	60,892
	<u>60,745</u>	<u>60,892</u>

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

Transactions with key management personnel

The Company incurred wages and benefits to the following key management personnel:

	Three Months Ended	
	September 30, 2013	September 30, 2012
	\$	\$
Chairman and CEO	56,565	56,555
Chief Financial Officer	30,195	30,430
Secretary	8,177	8,060
Vice President	4,692	4,260
Directors	26,100	18,440
	<u>125,729</u>	<u>117,745</u>
Total	125,729	117,745

Share-based compensation of \$16,204 (September 30, 2012- \$62,912) was recognized for options granted to key management personnel.

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, 2013:

US\$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
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
Q4, FY2012	42,891	1,287	0.05	0.05
Q3, FY2012	38,737	2,186	0.08	0.08
Q2, FY2012	54,295	3,050	0.12	0.11

LIQUIDITY AND CAPITAL RESOURCES

US\$'000	Q1, FY2014	Q1, FY2013
Operating activities	(3,982)	(3,105)
Investing activities	(61)	220
Financing activities	4,866	1,589
Effect of currency translation	(38)	9
Net change in cash and cash equivalents	785	(1,287)

Net cash used in operating activities was \$4.0 million for the Q1 FY2014 compared to \$3.1 million in Q1 FY2013. The small increase was primarily caused by an increase in accounts receivables and offset somewhat by the decrease in unbilled revenue.

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 \$0.06 million in the first quarter this fiscal year. Net cash provided by investing activities was \$0.22 million for the first quarter in FY2013. The small cash used in this period was related to acquisition of equipment. The cash provided in last quarter was mainly due to the partial maturing of our investment in the investment trust fund in PRC.

Net cash provided from financing activities was \$4.9 million in Q1 FY2014, an increase of \$3.3 million over Q1 FY2013. The increase was largely due to the increase in short term 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 \$5.4 million as at September 30, 2013 as compared to a cash and cash equivalents balance of \$4.6 million as at June 30, 2013. The Company had \$179.5 million in current assets and \$92.3 million in current liabilities as at September 30, 2013.

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 2,125,000.

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

Off Balance Sheet Arrangements

As at September 30, 2013, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

FINANCIAL INSTRUMENTS

Interest Rate and Credit Risk

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

The Company's accounts receivable are all from well-known customers located in China. Credit risk from accounts receivable encompasses the default risk of the Company's customers. The Company extends credit to its customer. The credit is secured by virtue of law. Under PRC regulations, a general contractor is entitled to first claim of assets against its customers. This entitlement gives the class I general contractor “mechanic lien” which is senior than all other secured debt including but limited to bank loans, notes, and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with that real property that is under construction.

Management, on an ongoing basis, monitor the level of accounts receivable attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

Management does not believe that there is significant credit risk arising from any of the Company's customers; however, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts.

The Company is exposed to interest rate risk on its bank loans and notes payable to the extent that its credit facilities are based on floating rates of interest.

Currency Risk

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

Sensitivity analysis

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

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

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 \$2,632,200. 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 \$1,288,450.

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, 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 September 30, 2013:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
Bank loans	\$ 51,605,203	\$ 51,605,203	\$ 51,605,203	\$ -	\$ -
Notes payable	13,988,686	13,988,686	13,988,686	-	-
Short-term loan	5,398,771	6,471,655	2,157,218	2,157,218	2,157,219
Accounts payable	7,277,135	7,277,135	7,277,135	-	-
Automobile loans	193,925	200,405	81,808	81,808	36,789
Convertible debentures	12,956,939	15,000,000	-	-	15,000,000
Total	91,420,659	94,543,084	75,110,050	2,239,026	17,194,008

Economic, political, & legal risk

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

RECENT ACCOUNTING PRONOUNCEMENTS

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

Accounting standards effective July 1, 2013

- IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.
- IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements

that address the nature of, and risks associated with, an entity's interests in other entities.

- IAS 27 *Separate Financial Statements* - IAS 27 requires an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).
- 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.

Each of the new standards is effective for the Company beginning on July 1, 2013 with early adoption permitted. The Company is in the process of assessing the impact that the new standards will have on its consolidated financial statements.

New accounting standards effective January 1, 2015

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

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

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

1. Concentration of authority, or lack of segregation of duties.
2. Inadequate written policies and procedures for recording transactions.
3. Inadequate inventory and fixed asset management systems.
4. Inadequate IT support system.

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

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

On May 31, 2013, Boyuan announced that the OSC had issued a Notice of Hearing to consider a settlement agreement (the “**Settlement Agreement**”) that had been reached by the Staff of the OSC (the “**Staff**”) with Boyuan. The Settlement Agreement related to allegations

made by the Staff regarding certain inaccurate documents and information provided by Boyuan to the Staff and to Boyuan's auditors for a related party loan transaction entered into by the CEO on behalf of Boyuan and to Boyuan's lack of adequate internal control procedures on related party transactions and provision of information to its auditor and regulator. On June 5, 2013, Boyuan announced that the OSC issued an Order approving the Settlement Agreement. Pursuant to the terms of the OSC Order, Boyuan is required to engage an internal control consultant to review the internal control and financial reporting procedures and policies of Boyuan, to make recommendations for improvement and to report to the Staff on its review and Boyuan's progress in implementing the consultant's recommendations. The consultant is required to report to the Staff on its recommendations within three months of its engagement by Boyuan, and Boyuan is required to implement the consultant's recommendations within nine months, subject to certain time extensions that may be approved by the Staff. Under the OSC Order, Boyuan voluntarily paid a penalty of \$200,000, and was required to make a \$100,000 contribution towards the costs of the OSC investigation.

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

OUTLOOK

The continued growth of China's middle class and the ongoing development of tier two cities as a result of urbanization suggest that higher demand for the Company's construction services will remain strong in the long term. In the near term, the restrictive measures imposed by the central government on the residential market and the tightening of financing facilities to property developers has already led to a slower pace of growth for the Company. The Company believes this situation will continue in the short term and therefore the Company has been very selective in taking on new construction projects to minimize risks and to preserve capital. Over the longer term, the Company believes that its growth will be driven by expanding its reach in tier-two cities and increasing focus on speciality construction projects, which the Company believes will deliver higher profit margins. As a part of this new strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.

Boyuan Construction Group, Inc.
Condensed Interim Consolidated Financial Statements
For the Three Months Ended
September 30, 2013 and 2012
(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)
(Unaudited)

	September 30, 2013 (Unaudited)	June 30, 2013 (Audited)
	\$	\$
Current Assets		
Cash and cash equivalents	5,430,229	4,645,388
Accounts receivable	27,207,795	9,706,093
Unbilled revenue (Note 4)	103,494,951	115,523,781
Restricted cash (Note 5)	5,740,698	8,675,868
Other receivables	1,864,861	1,731,943
Inventory	1,305,852	444,891
Advances and prepaid expenses (Note 6)	21,572,970	22,151,501
Deposits (Note 7)	12,779,320	11,670,259
Due from related parties (Note 8)	60,745	60,892
	179,457,421	174,610,616
Refundable deposit (Note 12)	401,707	-
Land use rights (Note 9)	123,372	125,433
Property and equipment (Note 10)	18,792,143	19,610,878
	198,774,643	194,346,927
Current Liabilities		
Bank loans (Note 11)	51,605,203	52,707,797
Bank notes payable (Note 11)	13,988,686	16,465,144
Current portion of loan payable (Note 12)	1,587,218	-
Accounts payable and accrued liabilities (Note 13)	17,886,789	18,861,302
Income taxes payable	3,068,482	2,527,302
Deferred revenue (Note 4)	4,116,354	4,185,991
Current portion of automobile loans	69,462	68,199
	92,322,194	94,815,735
Loan payable (Note 12)	3,811,553	-
Convertible debentures (Note 14)	12,956,939	12,169,260
Deferred tax liabilities (Note 17)	504,540	39,581
Automobile loans	124,463	146,694
	109,719,689	107,171,270
Shareholders' Equity		
Share capital (Note 15)	7,156,864	7,156,864
Contributed surplus	5,071,450	5,037,728
Reserves (Note 16)	7,373,221	7,373,221
Equity component of convertible debentures (Note 15)	2,059,230	2,059,230
Retained earnings	59,610,212	57,272,085
Accumulated other comprehensive income – foreign currency translation adjustment	7,783,977	8,276,529
	89,054,954	87,175,657
	198,774,643	194,346,927

Approved on behalf of the Audit Committee:

“Francis Leong”

Francis Leong, Director

“Jack Duffy”

Jack Duffy, Director

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended	
	September 30, 2013	September 30, 2012
	\$	\$
Construction revenue	49,038,818	52,095,579
Cost of construction	41,820,507	44,281,568
Gross profit	7,218,311	7,814,011
Expenses		
Amortization of property and equipment	831,620	813,788
General and administrative expenses	1,240,032	1,112,691
	2,071,652	1,926,479
Income from operations	5,146,659	5,887,532
Other Income (expense)		
Interest and other income	98,610	149,502
Foreign exchange gain (loss)	2,229	2,536
Interest expense	(1,765,508)	(1,881,287)
Share-based compensation	(33,722)	(87,956)
	(1,698,391)	(1,817,205)
Net income before income taxes	3,448,268	4,070,327
Income taxes (Note 17)	1,110,141	1,382,349
Net income for the period	2,338,127	2,687,978
Other Comprehensive Income		
Unrealized loss on foreign exchange translation	(492,552)	(463,957)
Comprehensive income for the period	1,845,575	2,224,021
Earnings per share, basic (Note 21)	0.09	0.10
Earnings per share, diluted (Note 21)	0.09	0.10
Weighted average number of common shares outstanding, basic(Note 21)	25,420,065	25,655,126
Weighted average number of common shares outstanding, diluted (Note 21)	31,189,296	34,725,482

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Share	Contributed Surplus	Reserves	Equity Component of Convertible Debentures	Retained Earnings	Foreign Currency Translation Adjustment	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	-	87,956	-	-	-	-	87,956
Share repurchases	(55,517)	-	-	-	-	-	(55,517)
Net income for the period	-	-	-	-	2,687,978	-	2,687,978
Other comprehensive income	-	-	-	-	-	(463,957)	(463,957)
Balance, September 30, 2012	7,156,393	4,489,842	6,159,358	2,368,409	53,228,199	4,220,397	77,622,598
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

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 30,2013	September 30,2012
	\$	\$
OPERATING ACTIVITIES		
Net income for the period	2,338,127	2,687,978
Items not involving cash:		
Amortization	831,620	813,788
Interest accretion	722,961	952,474
Share- based compensation	33,722	87,956
Deferred income tax recovery	(953,519)	(1,131,226)
Unrealized foreign exchange (gain) loss	221,979	(64,881)
	3,194,890	3,346,089
Changes in non-cash working capital balances:		
Accounts receivables	(17,473,526)	(99,008)
Unbilled revenue	11,716,334	(10,544,419)
Other receivable	(135,336)	(1,765,705)
Inventories	(859,496)	297,344
Advance to suppliers and prepaid expenses	699,619	221,906
Deposits	(1,133,796)	204,976
Accounts payable and accrued liabilities	(940,720)	1,499,016
Deferred revenue	(59,390)	1,274,490
Income taxes payable	1,009,338	2,435,540
Due from / to related parties	-	25,271
Cash provided by (used in) operating activities	(3,982,083)	(3,104,500)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(60,582)	(95,930)
Proceeds from disposal of investment	-	315,890
Cash provided by (used in) investing activities	(60,582)	219,960
FINANCING ACTIVITIES		
Restricted cash	2,905,727	1,225,370
Bank loans	(972,520)	1,348,852
Bank notes payable	(2,429,679)	(410,658)
Loan payable	5,382,897	(290,619)
Automobile loans	(20,392)	(34,003)
Convertible debentures, net	-	(194,709)
Share repurchases	-	(55,517)
Cash provided by financing activities	4,866,033	1,588,716
Effect of changes in exchange rates on cash	(38,527)	8,559
Change in cash	784,841	(1,287,265)
Cash and cash equivalents, beginning	4,645,388	3,084,640
Cash and cash equivalents, ending	5,430,229	1,797,375
Supplemental disclosure of cash flow information:		
Cash paid for interest	1,218,239	2,090,916
Cash paid for income taxes	100,803	78,035

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, 2013 and 2012

(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, 2013.

These unaudited condensed interim consolidated financial statements were approved by the Company's Board of Directors on November 14, 2013.

(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, 2013. 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, 2013.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

Accounting standards effective July 1, 2013

- IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.
- IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.
- IAS 27 *Separate Financial Statements* - IAS 27 requires an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Accounting standards adopted effective July 1, 2013 (continued)

- 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.

Each of the new standards is effective for the Company beginning on July 1, 2013 with early adoption permitted. The Company is in the process of assessing the impact that the new standards will have on its consolidated financial statements.

New accounting standards effective January 1, 2015

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

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2013 and 2012
(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, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Completed contracts	12,876,362	33,323,037
Contracts in progress	90,618,589	82,200,744
	103,494,951	115,523,781

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

	September 30, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Aggregate cost of construction	229,649,729	189,885,615
Gross profit recognized	42,216,235	35,080,206
	271,865,964	224,965,821
Less: aggregate of progress billing and payments	181,247,375	142,765,077
Contracts in progress – unbilled portion, end of period	90,618,589	82,200,744
Deferred revenue - contract in progress, end of period	4,116,354	4,185,991

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.

6. ADVANCES AND PREPAID EXPENSES

	September 30, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Advances to project managers and suppliers	19,449,864	20,149,645
Prepaid expenses	1,728,338	205,130
Other	394,768	1,796,726
	21,572,970	22,151,501

The Company advances money to suppliers and project managers in order to secure construction materials and pay suppliers.

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

7. DEPOSITS

	September 30, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Contract performance deposits	11,882,336	10,779,014
Project tender deposits	494,326	502,118
Other	402,658	389,127
	12,779,320	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.

8. RELATED PARTY BALANCES AND TRANSACTIONS

	September 30, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	60,745	60,892

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, 2013 (unaudited)	September 30, 2012 (unaudited)
	\$	\$
Chairman and CEO	56,565	56,555
Chief Financial Officer	30,195	30,430
Secretary	8,177	8,060
Vice President	4,692	4,260
Directors	26,100	18,440
Total	125,729	117,745

Share-based compensation of \$16,204 (September 30, 2012- \$62,912) was recognized for options granted to key management personnel.

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, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

9. LAND USE RIGHTS

	September 30, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Cost		
Balance, beginning of period	136,874	128,738
Foreign exchange movement	(329)	8,136
Balance, end of period	136,545	136,874
Accumulated amortization		
Balance, beginning of period	11,441	8,424
Charge for the period	1,754	2,720
Foreign exchange movement	(22)	297
Balance, end of period	13,173	11,441
Net book value, end of period	123,372	125,433

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

In June 2007, Zhejiang acquired another 50 year land use right for \$121,149 (RMB769,719) for a piece of land in Jiaxing, Zhejiang, PRC. The right expires on August 23, 2056. The Company completed the construction of 2 residential buildings as employee quarters on this land in 2012.

The Company's land leases are used as security for the bank loans described in Note 11(a)

10. PROPERTY AND EQUIPMENT

	Machinery, equipment and Scaffoldings	Buildings	Vehicles	Office Equipment	Leasehold Improvement	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, June 30, 2013 (audited)	22,628,435	4,360,627	1,942,669	1,561,579	1,665,481	32,158,791
Additions	3,404	-	32,107	26,826	-	62,337
Foreign exchange movement	(54,432)	(10,492)	(4,579)	(3,678)	(4,008)	(77,189)
Balance, September 30, 2013 (unaudited)	22,577,407	4,350,135	1,970,197	1,584,727	1,661,473	32,143,939
Accumulated depreciation						
Balance, June 30, 2013 (audited)	7,834,646	2,057,125	1,062,083	814,832	779,227	12,547,913
Depreciation expense for the period	529,754	34,248	84,389	67,154	116,075	831,620
Foreign exchange movement	(17,288)	(4,849)	(2,306)	(1,762)	(1,532)	(27,737)
Balance, September 30, 2013 (unaudited)	8,347,112	2,086,524	1,144,166	880,224	893,770	13,351,796
Net book value						
At June 30, 2013 (audited)	14,793,789	2,303,502	880,586	746,747	886,254	19,610,878
At September 30, 2013 (unaudited)	14,230,295	2,263,611	826,031	704,503	767,703	18,792,143

The Company's buildings are used as security for the bank loans described in Note 11(a).

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

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 6.00% to 23.52% (June 30, 2013 –5.60% to 23.52%), weighted average at 7.74% (June 30, 2013 – 7.71%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of \$84,445,817 (June 30, 2013- \$45,709,350) 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).

12. LOAN PAYABLE

On September 30, 2013, the Company obtained a loan of RMB 35.55 million from an unrelated company, 远东国际租赁有限公司, ("Yuandong"), located in Shanghai Pudong. The loan bears an effective interest rate of 12% and is payable in equal monthly installments of RMB 1,105,826 (\$180,581) over 36 months with a maturity date of September 30, 2016. The loan is secured and is guaranteed by an unrelated construction project developer. The Company also paid an upfront service charge of \$380,401 to Yuandong related to obtaining the loan.

In connection with the loan, the Company paid a security deposit of RMB 3,555,000 which will be refunded to the Company in full at the end of the 36 months. As at September 30, 2013, the present value of the refundable amount is \$401,707.

	\$
Balance, June 30, 2013	-
Loan principal received on September 30, 2013	5,398,771
Less: current portion	(1,587,218)
Long-term portion, September 30, 2013	3,811,553

	Year 1	Year 2	Year3	Total
	\$	\$	\$	\$
Total annual payments	2,157,218	2,157,218	2,157,219	6,471,655

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2013	June 30, 2013
	\$	\$
Accounts payable to suppliers	884,295	1,259,882
Salaries and wages payable	232,970	386,927
Taxes payable	7,345,687	7,590,410
Accrued expenses	3,263,967	3,833,378
Other	6,159,870	5,790,705
	17,886,789	18,861,302

14. CONVERTIBLE DEBENTURES

	September 30, 2013	June 30, 2013
	\$	\$
Balance, beginning of year	12,169,260	17,810,999
Interest accretion	547,269	3,262,777
Interest paid	-	(2,310,993)
Redemption of debentures	-	(6,588,849)
Foreign exchange (gain) loss on translation	240,410	(4,674)
Balance, end of year	12,956,939	12,169,260

Boyuan Construction Group, Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2013 and 2012
(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	14,546,160
Less: interest at weighted average effective interest rate of 15%	(1,589,221)
	<u>12,956,939</u>

Convertible Debentures – Principal Amount of \$14,546,160

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

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, 2013 and 2012
(Expressed in US Dollars)
(Unaudited)

15. SHARE CAPITAL(continued)

As of June 30, 2013 the Company has stock options outstanding to directors and officers to acquire an aggregate of 2,125,000 common shares summarized as follows. The options have a weighted average remaining life of 2.40 years.

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2013 and September 30,2013	2,125,000	\$1.40
Exercisable at September 30, 2013	1,751,668	

Equity Component of Convertible Debentures

	\$
Balance, June 30, 2013 and September 30,2013	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, 2013 (unaudited) \$	September 30, 2012 (unaudited) \$
Current	2,063,660	2,513,575
Deferred	(953,519)	(1,131,226)
Total income tax expenses	1,110,141	1,382,349

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, 2013 (unaudited) \$	June 30, 2013 (audited) \$
Unbilled revenue, net of charges	(1,043,170)	(379,920)
Plant and equipment	538,630	340,339
Net deferred tax liabilities	(504,540)	(39,581)

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18. FINANCIAL INSTRUMENTS

Fair values

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

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

	September 30, 2013 (unaudited)	June 30, 2013 (audited)
	\$	\$
Assets as FVPTL (i)	11,170,927	13,321,256
Loans and receivables (ii)	41,912,721	23,169,187
Other financial liabilities (iii)	91,420,659	88,994,608

Fair values

- (i) Cash and cash equivalents and restricted cash
- (ii) Accounts receivable, other receivables, deposits and amounts due from related parties
- (iii) Bank loans, notes payable, short-term loans, accounts payable, automobile loans, amounts due to related parties 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, 2013 (unaudited)				
Cash and cash equivalents and restricted cash	11,170,927	-	-	11,170,927
June 30, 2013 (audited)				
Cash and cash equivalents and restricted cash	13,321,256	-	-	13,321,256

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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 the Company places these instruments with financial institutions located in Canada and PRC. Credit risk from accounts receivable and other receivables encompasses the default risk of customers. Management, on an ongoing basis, monitor the level of accounts and other receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

For the 3 months ended September 30, 2013, revenue from 1 customer accounted for 10% (September 30, 2012– 3 largest customers accounted for 57%) of total revenue. At September 30, 2013, there were no customers owing 10% or more of outstanding amounts of the total accounts receivable and unbilled revenue (September 30, 2012 – outstanding amounts owed by 1 customer accounted for 12% of total accounts receivable and unbilled revenue). Management does not believe that there is significant credit risk arising from any of the Company's customers. Under PRC regulations, a general contractor is entitled to first claim against assets of its customers, which gives a general contractor a "mechanic lien" senior to all other secured debt including but limited to bank loans, bank notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with the real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

The Company is exposed to interest rate risk on its bank loans and notes payable to the extent that its credit facilities are based on floating rates of interest. For the period ended September 30, 2013, a 1% increase or a 1% decrease in interest rates would have changed comprehensive earnings by \$122,000.

Financial assets past due

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

	0 – 180 Days	181 – 365 days	Over 1 Year	Over 2 Years	Carrying Value
	\$	\$	\$	\$	\$
September 30, 2013					
Accounts receivable	12,186,298	6,133,163	3,759,938	5,128,396	27,207,795

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.

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18. FINANCIAL INSTRUMENTS (continued)

Currency Risk

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

At September 30, 2013 through its subsidiaries, the Company had cash and cash equivalents and restricted cash of \$11,054,546 (June 30, 2013 - \$13,276,018), accounts receivable and other receivables of \$28,971,819 (June 30, 2013 - \$11,359,549), bank loans of \$51,605,203 (June 30, 2013 - \$52,707,797), bank notes payable of \$13,988,686 (June 30, 2013 - \$16,465,144), Loan payable of \$5,398,771 (June 30, 2013 - \$Nil), accounts payable of \$6,408,322 (June 30, 2013 - \$6,592,779), amounts due from related parties of \$60,745 (June 30, 2013 - \$60,892), and automobile loans of \$193,925 (June 30, 2013 - \$214,893) which were denominated in RMB.

At September 30, 2013, the Company had cash of \$74,696 (June 30, 2013 - \$2,342) and convertible debentures of \$12,956,939 (June 30, 2013 - \$12,169,260) 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, 2013:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	\$	\$	\$	\$	\$
Bank loans	51,605,203	51,605,203	51,605,203	-	-
Notes payable	13,988,686	13,988,686	13,988,686	-	-
Loan payable	5,398,771	6,471,655	2,157,218	2,157,218	2,157,219
Accounts payable	7,277,135	7,277,135	7,277,135	-	-
Automobile loans	193,925	200,405	81,808	81,808	36,789
Convertible debentures	12,956,939	15,000,000	-	-	15,000,000
Total	91,420,659	94,543,084	75,110,050	2,239,026	17,194,008

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 June 30, 2013 would have had.

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

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 \$2,632,200. 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 \$1,288,450.

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, 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.

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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, 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 options and convertible debentures:			
• 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.

For the three months ended September 30, 2012	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	\$		\$
Net income for the three months ended September 30, 2012	2,687,978	-	-
Weighted average number of shares outstanding	-	25,655,126	-
Basic Earnings per Share	2,687,978	25,655,126	0.10
Effect of options and convertible debentures:			
• Convertible debentures	706,735	9,070,356	-
Diluted Earnings per Share	3,394,713	34,725,482	0.10

At September 30, 2012, 2,125,000 options and 3,129,900 warrants outstanding are not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

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22. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Company has guaranteed the bank loans on behalf of certain developers, which are also its customers, in amounts totalling \$9,753,877. No consideration has been specifically received by the Company for these guarantees.
- (b) The Company has an office lease in Hainan, PRC expiring October 17, 2016. Minimum lease payments are as follows:

2014	\$	154,111
2015		215,053
2016		227,957
2017		77,447
		<hr/>
	\$	674,568