Quarterly Report -Quarter 2
For the Interim Period ended December 31, 2013.

Management's Discussion and Analysis

February 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 six months ended December 31, 2013. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the six months ended December 31 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

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 in China. Having a national class I construction qualification, the Company is qualified to participate in construction projects up to 40 storeys with a gross construction area of 200,000 square meters and with a contract value of less than five times of the registered capital of Zhejiang Boyuan Construction Co., Ltd., the operating entity in China.

The Company has completed 46 material projects in the past three fiscal years. Currently the Company has a significant project backlog including residential, commercial, industrial, and hotels. The duration of these projects ranges from one to three years. The majority of these projects are located in the Yangtze River Delta, Shandong Province, and Hainan Island.

The Company’s common shares are publicly traded on the Toronto Stock Exchange (the “**Exchange**” or the “**TSX**”) under the symbol “BOY”. The Company's 11.75% secured convertible debentures due February 28, 2013 (the “**Secured Debentures**”) were traded on the Exchange under the symbol "BOY.DB" until March 3, 2013 and the Company's 10% unsecured convertible debentures due October 31, 2015 (the "**Unsecured Debentures**") are traded on the Exchange under the symbol "BOY.DB.A".

Significant Accounting Policies

Special Purpose Entity Agreements

The Company through its subsidiary entity effectively takes on all the rights and privileges of beneficial ownership of Zhejiang Boyuan Construction Co., Ltd. ("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, allowance for doubtful accounts and estimates in amortization and impairment of property and equipment.

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.

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from our unaudited consolidated financial statements for the three and six months ended December 31, 2013 and December 31, 2012 and our financial positions as at December 31, 2013 and June 30, 2013.

US$'000 (except earnings per share amounts)	For the three months ended December 31 2013	For the three months ended December 31 2012	For the six months ended December 31 2013	For the six months ended December 31 2012
Operating Results				
Construction revenue	61,990	54,241	111,028	106,336
Cost of construction	52,940	46,219	94,761	90,500
Gross profit	9,049	8,022	16,268	15,836
Net income	3,617	1,594	5,955	4,282
Earnings per share				
Basic	0.14	0.06	0.23	0.17
Diluted	0.13	0.06	0.22	0.17
Financial Position	As at December 31, 2013	As at June 30, 2013		
Current assets	196,952	174,611		
Non-current assets	18,941	19,736		
Total assets	215,893	194,347		
Current liabilities	105,022	94,816		
Long term liabilities	17,023	12,356		
Shareholders' equity	93,848	87,176		
Cash dividend per share	Nil	Nil		
Common shares outstanding	25,420,065	25,420,065		

RESULTS OF OPERATIONS

Revenue for the second quarter ended December 31, 2013 was $62 million, an increase of $7.7 million or 14.3% from the corresponding period last year. Revenue for the first six months of FY2014 was $111 million, an increase of $4.7 million or 4.4% for the same period of FY2013. The Company has been gradually more proactive in securing construction projects since the 11.75% secured debentures have been paid off in May 2013. Construction has already been commenced on a number of material projects in the last few months contributing to the increase in revenue.

Cost of construction for Q2 FY2014 was $52.9 million, up 14.5% from $46.2 million for Q2 FY2013. Cost of construction for the first six months of FY2014 was $94.8 million, an increase of 4.7% from $90.5 million for the corresponding period in FY2013. Cost of construction includes all direct material, labor, 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 $37.8 million and labour costs were $13.2 million in this quarter. In comparison, direct material costs and labour costs were $32.4 million and $11.4 million respectively in the same quarter last year.

Gross profit for Q2 FY2014 was $9 million, which represented a margin of 14.6% on revenue. Gross profit for the corresponding period of last year was $8 million, which represented a margin of 14.8% 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%. On a six month basis, gross profit for FY2014 was $16.3 million, which represented a margin of 14.7% on revenue. In the same period of FY2013, gross profit and gross margins were $15.8 million and 14.9%, respectively.

G&A expenses were $1.39 million this quarter compared to $1.44 million in the same quarter last year. G&A expenses for the six months period ended December 31, 2013 were $2.63 million, representing an increase of $0.08 million in the same period last year. The G&A expenses has been fairly stable for this quarter and the current six months period compared to the same periods last year.

Interest expense for Q2 FY2014 was $1.8 million, a significant decrease of $1.3 million over the same period last year. On a year-to-date basis, interest expense for FY2014 was $3.6 million, down from $5 million for FY2013. The decrease was mainly due to a decrease in interest paid on receivables discounting. The Company has discounted less receivables in the period as a result of improved cash flow position of the Company..

After-tax net income for Q2 FY2014 was $3.6 million, or $0.13 per fully diluted share, compared to net income of $1.6 million, or $0.06 per fully diluted share, for Q2 FY2013. On a six-month basis, net income for FY2014 was $6 million or $0.22 per share fully diluted. This compares to a net income of $4.3 million, or $0.17 per share fully diluted, for the same period of FY2013. The increase in net income was a result of increase revenue and a decrease of interest expenses in the period.

The Company had working capital of $91.9 million, including cash and cash equivalents of $7.6 million for the period ended December 31, 2013. This compares to $79.8 million and $4.6 million, respectively, at June 30, 2013. The increase in working capital is due to the contribution of net earnings and improved working capital management.

TRANSACTIONS WITH RELATED PARTIES

	December 31, 2013	June 30, 2013
	$	$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	61,117	60,892

The amounts due from 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:

	Six Months Ended	
	December 31, 2013	December 31, 2012
	$	$
Chairman and CEO	113,172	112,824
Chief Financial Officer	60,390	60,380
Secretary	16,409	15,975
Vice President	9,416	9,159
Directors	52,200	41,000
Total	251,587	239,338

Share-based compensation of $33,646 (December 31, 2012 - $84,285) 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 which approximate the fair value.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2013:

US$'000 (except EPS amounts)	Revenue	Net Income	Basic EPS	Diluted EPS
Q2, FY2014	61,990	3,617	0.14	0.13
Q1, FY2014	49,039	2,338	0.09	0.09
Q4, FY2013	61,483	2,311	0.09	0.09
Q3, FY2013	41,387	1,353	0.05	0.05
Q2, FY2013	54,241	1,594	0.06	0.06
Q1, FY2013	52,096	2,688	0.10	0.10
Q4, FY2012	42,891	1,287	0.05	0.05
Q3, FY2012	38,737	2,186	0.08	0.08

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q2, FY2014	Q2, FY2013	YTD2014	YTD2013
Operating activities	2,621	8,262	(1,361)	5,157
Investing activities	(203)	(25)	(263)	195
Financing activities	(365)	(1,494)	4,501	95
Effect of currency translation	91	6	52	15
Net Increase in cash and cash equivalents	2,144	6,749	2,929	5,462

Net cash provided by operating activities was $2.6 million for this quarter versus $8.3 million for the same quarter last year. For YTD 2014 the net cash used was $1.4 million compared to net cash provided of $5.2 million for YTD 2013. The reduction was mainly due to increase in unbilled revenue and advances to suppliers as a result of a number of new construction projects taken up in the last few months.

Net cash used in investing activities in this quarter was $0.2 million compared to $0.02 million for the same quarter last year, a very small increase of $0.18 million. Net cash used by investing activities was $0.26 million for YTD2014 compared to net cash provided of $0.2 million for YTD2013. The change was due to the disposal of the trust fund investment last year.

For Q2 FY2014 net cash used in financing activities was $0.4 million compared to net cash used of $1.5 million in Q2 FY2013. For YTD2014, net cash provided by financing activities was $4.5 million. Net cash provided by financing activities was $0.1 million for the same period last year. The change was primarily a result of the new loans taken up or repaid in the 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 equaling 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 $7.6 million as at December 31, 2013 as compared to a cash and cash equivalents balance of $4.6 million as at June 30, 2013. The Company had $197 million in current assets and $105 million in current liabilities as at December 31, 2013.

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

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 25,420,065 common shares outstanding. The Company has Unsecured Debentures outstanding of $15 million that can be converted into 5,769,230 common shares. The Company has no share options outstanding as at December 31, 2013.

Off Balance Sheet Arrangements

As at December 31, 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, 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 six months ended December 31, 2013, revenue from 2 largest customers accounted for 21% (December 31, 2012 – 5 largest customers accounted for 72%) of total revenue. At December 31, 2013, there were no customers owing 10% of more of outstanding amounts of the total accounts receivable and unbilled revenue (December 31, 2012 – outstanding amounts owed by 2 largest customers accounted for 26% 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.

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 which a change in foreign exchange rate during the six months ended December 31, 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 $4,353,000. An increase (decrease) of 10% in CDN$ 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 $1,302,000.

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, 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 December 31, 2013:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	53,287,595	53,287,595	53,287,595	-	-
Notes payable	13,887,798	13,887,798	13,887,798	-	-
Loan payable	5,051,078	5,968,639	2,170,414	2,170,414	1,627,811
Accounts payable	17,948,100	17,948,100	17,948,100	-	-
Automobile loans	174,533	181,054	82,308	86,683	12,063
Convertible debentures	13,046,049	15,000,000	-	15,000,000	-
Total	103,395,153	106,273,186	87,376,215	17,257,098	1,639,874

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 requ*ires 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 Chief Executive Officer (“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 December 31, 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 has 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.

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 December 31, 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 specialty 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 Six Months Ended

December 31, 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)

	December 31,2013 (Unaudited)	June 30, 2013 (Audited)
	$	$
Current Assets		
Cash and cash equivalents	7,574,385	4,645,388
Accounts receivable	17,033,269	9,706,093
Unbilled revenue (Note 4)	121,076,681	115,523,781
Restricted cash (Note 5)	6,355,222	8,675,868
Other receivables	2,672,774	1,731,943
Inventory	222,388	444,891
Advances and prepaid expenses (Note 6)	27,886,745	22,151,501
Deposits (Note 7)	14,069,005	11,670,259
Due from related parties (Note 8)	61,117	60,892
	196,951,586	174,610,616
Refundable deposit (Note 12)	581,452	-
Land use rights (Note 9)	122,356	125,433
Property and equipment (Note 10)	18,237,169	19,610,878
	215,892,563	194,346,927
Current Liabilities		
Bank loans (Note 11)	53,287,595	52,707,797
Bank notes payable (Note 11)	13,887,798	16,465,144
Current portion of loan payable (Note 12)	1,645,397	-
Accounts payable and accrued liabilities (Note 13)	28,588,673	18,861,302
Income taxes payable	4,498,305	2,527,302
Deferred revenue (Note 4)	3,043,096	4,185,991
Current portion of automobile loans	71,352	68,199
	105,022,216	94,815,735
Loan payable (Note 12)	3,405,681	-
Convertible debentures(Note 14)	13,046,049	12,169,260
Deferred tax liabilities (Note 17)	466,990	39,581
Automobile loans	103,181	146,694
	122,044,117	107,171,270
Shareholders' Equity		
Share capital (Note 15)	7,156,864	7,156,864
Contributed surplus	5,080,139	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	63,227,296	57,272,085
Accumulated other comprehensive income – foreign currency translation adjustment	8,951,696	8,276,529
	93,848,446	87,175,657
	215,892,563	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		Six Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	$	$	$	$
Construction revenue	61,989,559	54,240,900	111,028,377	106,336,479
Cost of construction	52,940,355	46,218,719	94,760,862	90,500,287
Gross profit	9,049,204	8,022,181	16,267,515	15,836,192
Expenses				
Amortization of property and equipment	873,086	846,285	1,704,706	1,660,073
General and administrative expenses	1,389,187	1,439,151	2,629,219	2,551,842
	2,262,273	2,285,436	4,333,925	4,211,915
Income from operations	6,786,931	5,736,745	11,933,590	11,624,277
Other Income (expense)				
Interest and other income	103,156	20,723	201,766	170,225
Foreign exchange gain (loss)	(873)	7,769	1,356	10,305
Interest expense	(1,798,957)	(3,107,630)	(3,564,465)	(4,988,917)
Share-based compensation	(8,689)	(29,700)	(42,411)	(117,656)
	(1,705,363)	(3,108,838)	(3,403,754)	(4,926,043)
Net income before income taxes	5,081,568	2,627,907	8,529,836	6,698,234
Income taxes (Note 17)	1,464,484	1,034,038	2,574,625	2,416,387
Net income for the period	3,617,084	1,593,869	5,955,211	4,281,847
Other Comprehensive Income				
Unrealized gain on foreign exchange translation	1,167,719	517,822	675,167	53,865
Comprehensive income for the period	4,784,803	2,111,691	6,630,378	4,335,712
Earnings per share, basic (Note 21)	0.14	0.06	0.23	0.17
Earnings per share, diluted (Note 21)	0.13	0.06	0.22	0.17
Weighted average number of common shares outstanding, basic(Note 21)	25,420,065	25,420,065	25,420,065	25,486,775
Weighted average number of common shares outstanding, diluted (Note 21)	31,189,296	34,490,421	31,189,296	34,557,131

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
Share-based compensation	-	29,700	-	-	-	-	29,700
Transfer to reserve	-	-	1,197,277	-	(1,197,277)	-	-
Net income for the period	-	-	-	-	1,593,869	-	1,593,869
Other comprehensive income	-	-	-	-	-	517,822	517,822
Balance, December 31, 2012	7,156,393	4,519,542	7,356,635	2,368,409	53,624,791	4,738,219	79,763,989
Balance, June 30, 2013	7,156,864	5,037,728	7,373,221	2,059,230	57,272,085	8,276,529	87,175,657
Share-based compensation	-	33,722	-	-	-	-	33,722
Net income for the period	-	-	-	-	2,338,127	-	2,338,127
Other comprehensive income	-	-	-	-	-	(492,552)	(492,552)
Balance, September 30, 2013	7,156,864	5,071,450	7,373,221	2,059,230	59,610,212	7,783,977	89,054,954
Share-based compensation		8,689					8,689
Net income for the period	-	-	-	-	3,617,084	-	3,617,084
Other comprehensive income	-	-	-	-	-	1,167,719	1,167,719
Balance, December 31, 2013	7,156,864	5,080,139	7,373,221	2,059,230	63,227,296	8,951,696	93,848,446

See accompanying notes to condensed interim consolidated financial statements.

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

	Six Months Ended	
	December 31,2013	December 31,2012
	$	$
OPERATING ACTIVITIES		
Net income for the period	5,955,211	4,281,847
Items not involving cash:		
Amortization	1,704,706	1,660,073
Interest accretion	1,113,654	1,948,639
Share-based compensation	42,411	117,656
Deferred income tax recovery	427,412	(687,490)
Unrealized foreign exchange (gain) loss	(426,164)	598,644
	8,817,230	7,919,369
Changes in non-cash working capital balances:		
Accounts receivables	(7,249,537)	6,415,444
Unbilled revenue	(5,096,515)	(22,124,476)
Other receivable	(930,899)	(1,006,532)
Inventories	222,863	166,283
Advance to suppliers and prepaid expenses	(5,620,888)	7,160,151
Deposits	(2,342,116)	2,051,395
Accounts payable and accrued liabilities	9,614,889	1,109,944
Deferred revenue	(1,151,733)	1,295,955
Income taxes payable	2,375,241	2,144,422
Due from / to related parties	-	25,339
Cash provided by (used in) operating activities	(1,361,465)	5,157,295
INVESTING ACTIVITIES		
Acquisition of property and equipment	(263,271)	(279,800)
Proceeds from disposal of investment	-	475,117
Cash provided by (used in) investing activities	(263,271)	195,317
FINANCING ACTIVITIES		
Restricted cash	2,339,240	1,583,837
Bank loans	382,162	4,648,224
Bank notes payable	(2,623,097)	457,193
Loan payable	4,444,025	(6,301,430)
Automobile loans	(40,918)	(42,527)
Convertible debentures, net	-	(195,169)
Share repurchases	-	(55,648)
Cash provided by financing activities	4,501,412	94,480
Effect of changes in exchange rates on cash	52,321	14,920
Change in cash	2,928,997	5,462,012
Cash and cash equivalents, beginning	4,645,388	3,084,640
Cash and cash equivalents, ending	7,574,385	8,546,652
Supplemental disclosure of cash flow information:		
Cash paid for interest	2,321,121	3,236,298
Cash paid for income taxes	199,384	275,099

See accompanying notes to condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

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

2. BASIS OF CONSOLIDATION AND PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB) 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 February 12, 2014.

(b) Summary of Significant Accounting Policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Company for the year ended June 30, 2013. The disclosure contained in these unaudited condensed interim consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" ("IAS 1"). Accordingly, the unaudited condensed interim consolidated financial statements should be read in conjunction with the audited 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 adopted effective July 1, 2013

- IFRS 10 *Consolidated Financial Statements - IFRS 10 requ*ires 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).

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 above were adopted by the Company beginning on July 1, 2013. The adoption of these standards did not impact the Company's interim financial statements.

New accounting standards effective January 1, 2017

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, 2017 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

(Expressed in US Dollars)

4. UNBILLED REVENUE

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

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Completed contracts	26,135,865	33,323,037
Contracts in progress	94,940,816	82,200,744
	121,076,681	115,523,781

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

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Aggregate cost of construction	280,383,214	189,885,615
Gross profit recognized	50,082,474	35,080,206
	330,465,688	224,965,821
Less: aggregate of progress billing and payments	235,524,872	142,765,077
Contracts in progress – unbilled portion, end of period	94,940,816	82,200,744
Deferred revenue - contract in progress, end of period	3,043,096	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

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Advances to project managers and suppliers	25,673,163	20,149,645
Prepaid expenses	241,771	205,130
Other	1,971,811	1,796,726
	27,886,745	22,151,501

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

(Expressed in US Dollars)

7. DEPOSITS

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Contract performance deposits	12,971,882	10,779,014
Project tender deposits	660,779	502,118
Other	436,344	389,127
	14,069,005	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

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	61,117	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:

	Six Months Ended December 31, 2013 (unaudited)	Six Months Ended December 31, 2012 (unaudited)
	$	$
Chairman and CEO	113,172	112,824
Chief Financial Officer	60,390	60,380
Secretary	16,409	15,975
Vice President	9,416	9,159
Directors	52,200	41,000
Total	251,587	239,338

Share-based compensation of $33,646 (December 31, 2012- $84,285) 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.

(Expressed in US Dollars)

9. LAND USE RIGHTS

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Cost		
Balance, beginning of period	136,874	128,738
Foreign exchange movement	506	8,136
Balance, end of period	137,380	136,874
Accumulated amortization		
Balance, beginning of period	11,441	8,424
Charge for the period	3,520	2,720
Foreign exchange movement	63	297
Balance, end of period	15,024	11,441
Net book value, end of period	122,356	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	Construction in progress	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 (disposal)	5,984	(14,545)	(148,727)	115,727	56,918	34,640	49,997
Foreign exchange movement	83,681	16,034	6,325	6,439	6,483	199	119,161
Balance, December 31, 2013 (unaudited)	22,718,100	4,362,116	1,800,267	1,683,745	1,728,882	34,839	32,327,949
Accumulated depreciation							
Balance, June 30, 2013 (audited)	7,834,646	2,057,125	1,062,083	814,832	779,227	-	12,547,913
Charge for the period	1,063,057	65,498	(41,855)	153,316	247,896	-	1,487,912
Foreign exchange movement	35,084	7,981	3,685	3,896	4,309	-	54,955
Balance, December 31, 2013 (unaudited)	8,932,787	2,130,604	1,023,913	972,044	1,031,432	-	14,090,780
Net book value							
At June 30, 2013 (audited)	14,793,789	2,303,502	880,586	746,747	886,254	-	19,610,878
At December 31, 2013 (unaudited)	13,785,313	2,231,512	776,354	711,701	697,450	34,839	18,237,169

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

(Expressed in US Dollars)

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 5.37% to 23.52% (June 30, 2013 –5.60% to 23.52%), weighted average at 7.59% (June 30, 2013 – 7.71%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $84,962,381 (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 ($180,868) 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 $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 December 31, 2013, the present value of the refundable amount is $581,452.

	$
Balance, June 30, 2013	-
Loan principal received on September 30, 2013	5,051,078
Less: current portion	(1,645,397)
Long-term portion, December 31, 2013 (unaudited)	3,405,681

	Year 1	Year 2	Year3	Total
	$	$	$	$
Total annual payments	2,170,414	2,170,414	1,627,811	5,968,639

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Accounts payable to suppliers	890,718	1,259,882
Salaries and wages payable	327,235	386,927
Taxes payable	7,603,909	7,590,410
Accrued expenses	3,036,664	3,833,378
Other	16,730,147	5,790,705
	28,588,673	18,861,302

(Expressed in US Dollars)

14. CONVERTIBLE DEBENTURES

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Balance, beginning of year	12,169,260	17,810,999
Interest accretion	1,113,654	3,262,777
Interest paid	-	(2,310,993)
Redemption of debentures	-	(6,588,849)
Foreign exchange gain on translation	(236,865)	(4,674)
Balance, end of period	13,046,049	12,169,260

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	14,022,623
Less: interest at weighted average effective interest rate of 15%	(976,574)
	13,046,049

Convertible Debentures – Principal Amount of $14,022,623

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 $2,059,230 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 December 31, 2013	25,420,065	7,156,864

(Expressed in US Dollars)

15. SHARE CAPITAL(continued)

Options

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

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

On December 31, 2013, the Company cancelled all of the 2,125,000 outstanding options.

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2013	2,125,000	$1.40
Cancelled	(2,125,000)	$1.40
Balance, December 31, 2013	-	-

Equity Component of Convertible Debentures

	$
Balance, June 30, 2013 and December 31,2013	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:

	December 31, 2013 (unaudited)	December 31, 2012 (unaudited)
	$	$
Current	2,147,213	3,103,877
Deferred	427,412	(687,490)
Total income tax expenses	2,574,625	2,416,387

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

	December 31, 2013 (unaudited)	June 30, 2013 (audited)
	$	$
Unbilled revenue, net of charges	(1,029,410)	(379,920)
Plant and equipment	562,420	340,339
Net deferred tax liabilities	(466,990)	(39,581)

(Expressed in US Dollars)

18. FINANCIAL INSTRUMENTS

Fair values

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

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

	December 31, 2013 (unaudited)	June 30,2013 (audited)
	$	$
Assets as FVPTL (i)	13,929,607	13,321,256
Loans and receivables (ii)	33,836,165	23,169,187
Other financial liabilities (iii)	103,395,153	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, bank notes payable, loan payable, 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 date

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

	Level 1	Level 2	Level 3	Total
	$	$	$	$
December 31,2013 (unaudited)				
Cash and cash equivalents and restricted cash	13,929,607	-	-	13,929,607
June 30, 2013 (audited)				
Cash and cash equivalents and restricted cash	13,321,256	-	-	13,321,256

(Expressed in US Dollars)

18. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, restricted cash, accounts receivable and other receivables. The Company has significant cash and cash equivalents and restricted cash balances. To minimize the interest rate and credit risk 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 6 months ended December 31, 2013, revenue from 2 customers accounted for 21% (December 31, 2012– 5 largest customers accounted for 72%) of total revenue. At December 31, 2013, there were no customers owing 10% of more of outstanding amounts of the total accounts receivable and unbilled revenue (December 31, 2012 – outstanding amounts owed by 2 customers accounted for 26% 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 December 31, 2013, a 1% increase or a 1% decrease in interest rates would have changed comprehensive earnings by $232,000.

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
	$	$	$	$	$
December 31, 2013					
Accounts receivable	7,811,369	4,299,789	4,422,920	499,191	17,033,269
June 30, 2013					
Accounts receivable	5,174,515	-	3,195,260	1,336,288	9,706,063

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.

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 December 31, 2013 through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $13,864,146 (June 30, 2013 - $13,276,018), accounts receivable and other receivables of $19,129,745(June 30, 2013 - $11,359,549), bank loans of $53,287,595 (June 30, 2013 - $52,707,797), bank notes payable of $13,887,798 (June 30, 2013 - $16,465,144), Loan payable of $5,051,078 (June 30, 2013 - $Nil), accounts payable of $17,170,090(June 30, 2013 - $6,592,779), amounts due from related parties of $61,117 (June 30, 2013 - $60,892), and automobile loans of $174,533 (June 30, 2013 - $214,893) which were denominated in RMB.

At December 31, 2013, the Company had cash of $23,254 (June 30, 2013 - $2,342) and convertible debentures of $13,046,049 (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 December 31, 2013:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	53,287,595	53,287,595	53,287,595	-	-
Notes payable	13,887,798	13,887,798	13,887,798	-	-
Loan payable	5,051,078	5,968,639	2,170,414	2,170,414	1,627,811
Accounts payable	17,948,100	17,948,100	17,948,100	-	-
Automobile loans	174,533	181,054	82,308	86,683	12,063
Convertible debentures	13,046,049	15,000,000	-	15,000,000	-
Total	103,395,153	106,273,186	87,376,215	17,257,097	1,639,874

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 $4,353,000. An increase (decrease) of 10% in CDN$ 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 $1,302,000.

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, bank loans, accounts payable and automobile loans, convertible debentures and amounts due to and due from related parties. The financial position of the Company may vary at the time that a change in the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

(Expressed in US Dollars)

19. GEOGRAPHIC DISCLOSURES

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

20. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

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

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

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

21. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

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

For the six months ended December 31, 2012	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share
	$		$
Net income for the three months ended December 31, 2012	4,281,847	-	-
Weighted average number of shares outstanding	-	25,486,775	-
Basic Earnings per Share	4,281,847	25,486,775	0.17
Effect of options and convertible debentures:			
• Convertible debentures	1,445,891	9,070,356	-
Diluted Earnings per Share	5,727,738	34,557,131	0.17

At December 31, 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.

(Expressed in US Dollars)

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 $9,813,543. 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	$	104,024
2015		216,369
2016		229,351
2017		77,921
	$	627,665