BOYUAN CONSTRUCTION GROUP, INC.



ANNUAL REPORT 2012

- Audited annual consolidated financial statements for the fiscal years ended June 30, 2012 and 2011
- Management discussion & analysis for the fiscal year ended June 30, 2012

Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011



MANNING ELLIOTT CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Boyuan Construction Group, Inc.

We have audited the accompanying consolidated financial statements of Boyuan Construction Group, Inc. which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended June 30, 2012 and 2011, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Boyuan Construction Group, Inc. as at June 30, 2012, June 30, 2011 and July 1, 2010, and its financial performance and cash flows for the years ended June 30, 2012 and 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(c) to these consolidated financial statements which describes the existence of a material uncertainty that may cast significant doubt about the ability of Boyuan Construction Group, Inc. to continue as a going concern.

CHARTERED ACCOUNTANTS

Manning Elliott LLP

Vancouver, British Columbia

December 2, 2012

Boyuan Construction Group, Inc.Consolidated Statements of Financial Position
As at June 30, 2012, 2011 and July 1, 2010 (Expressed in US Dollars)

(Expressed in US Dollars)	June 30, 2012	June 30, 2011	July 1, 2010
	\$	φ (Note 26)	Ψ (Note 26)
Current Assets			
Cash and cash equivalents	3,084,640	4,999,232	4,853,755
Accounts receivable	7,942,807	2,331,401	676,187
Unbilled revenue (Note 5)	84,098,041	76,000,785	49,778,594
Restricted cash (Note 6)	7,996,097	3,841,685	3,872,488
Other receivables	1,300,908	1,214,447	1,577,310
Inventory	1,464,697	1,790,311	390,130
Advances to suppliers and prepaid expenses (Note 7) Deposits (Note 8)	32,494,387	22,923,720	14,516,086
Due from related parties (Note 10)	10,962,665 83,996	7,528,300 1,397,730	9,385,787
Investment (Note 9)	472,180	1,397,730	-
	149,900,418	122,027,611	85,050,337
Land use rights (Note 11)	120,314	119,203	126,392
Property and equipment (Note 12)	22,664,691	17,426,538	8,213,535
	172,685,423	139,573,352	93,390,264
Current Liabilities			
Bank loans (Note 13)	37,640,670	19,773,793	19,480,040
Bank notes payable (Note 13)	13,091,997	10,067,924	6,151,475
Short-term loans (Note 14)	6,262,491	-	-
Accounts payable and accrued liabilities (Note 15)	18,325,863	17,385,942	12,679,266
Income taxes payable (Note 19)	1,291,993	3,603,017	3,121,947
Deferred revenue (Note 5)	1,310,580	5,171,128	1,057,840
Automobile loans	86,692	234,212	382,425
Due to related parties (Note 10) Current portion of convertible debentures (Note 16)	17,810,999	462,302 2,519,786	592,214 2,223,048
Current portion of convertible dependies (Note 10)			
	95,821,285	59,218,104	45,688,255
Convertible debentures (Note 16)	-	16,331,915	3,919,428
Deferred tax liabilities (Note 19)	1,498,000	1,095,000	246,000
	97,319,285	76,645,019	49,853,683
Shareholders' Equity			
Share capital	7,211,910	7,402,304	7,374,344
Contributed surplus	4,401,886	3,537,879	2,370,922
Reserves (Note 18)	6,159,358	4,297,509	2,774,998
Equity component of convertible debentures (Note 17)	2,368,409	2,442,651	372,533
Retained earnings	50,540,221	43,050,624	30,643,784
Accumulated other comprehensive income – foreign currency translation adjustment	4,684,354	2,197,366	
currency translation adjustment			40.500.500
	75,366,138	62,928,333	43,536,581
	172,685,423	139,573,352	93,390,264

GOING CONCERN (Note 2 c) COMMITMENTS AND CONTINGENT LIABILITIES (Note 25) SUBSEQUENT EVENTS (Note 27)

Approved on behalf of the Board:

"Liu Manhong"	"Jack Duffy"
Liu Manhong, Director	Jack Duffy, Director

Boyuan Construction Group, Inc.Consolidated Statements of Income and Comprehensive Income For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

	2012 \$	2011 \$ (Note 26)
Construction revenue	189,258,019	186,127,572
Cost of construction	158,619,288	154,969,068
Gross profit	30,638,731	31,158,504
Expenses Amortization of property and equipment General and administrative expenses	2,911,067 4,799,523 7,710,590	1,325,075 4,094,043 5,419,118
Income from operations	22,928,141	25,739,386
Other Income (expense) Interest and other income Foreign exchange loss Interest expense Debenture valuation gain Share-based compensation (Note 17) Interest related to minimum total return (Note 16)	569,607 (44,597) (7,444,534) 179,935 (779,626) (829,629)	341,543 (39,301) (4,387,639) 704,418 (1,164,860) (1,076,507) (5,622,346)
Net income before income taxes	14,579,297	20,117,040
Income taxes (Note 19)	5,227,851	6,187,689
Net income for the year	9,351,446	13,929,351
Other Comprehensive Income Unrealized gain on foreign exchange translation	2,486,988	2,197,366
Comprehensive income for the year	11,838,434	16,126,717
Earnings per share, basic (Note 24)	\$ 0.36	\$ 0.65
Earnings per share, diluted (Note 24)	\$ 0.36	\$ 0.54
Weighted average number of common shares outstanding, basic (Note 24)	25,736,160	21,428,556
Weighted average number of common shares outstanding, diluted (Note 24)	35,007,804	31,296,743

Boyuan Construction Group, Inc. Consolidated Statements of Changes in Equity For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

	Share Capital \$	Contributed Surplus \$	Reserves \$	Equity Component of Convertible Debentures \$	Retained Earnings (Note 26) \$	Foreign Currency Translation Adjustment (Note 26)	Total Shareholders' Equity (Note 26) \$
Balance, July 1, 2010	7,374,344	2,370,922	2,774,998	372,533	30,643,784	-	43,536,581
Share-based compensation	_	1,166,957	-	-	-	-	1,166,957
Exercise of warrants	7,895	-	-	-	-	-	7,895
Convertible debentures issued	· -	-	-	2,071,620	-	-	2,071,620
Conversion of convertible debentures	18,563	-	-	-	-	-	18,563
Debentures converted transferred to share capital	1,502	-	-	(1,502)	-	-	-
Net income for the year	-	-	-	-	13,929,351	-	13,929,351
Transfer to reserve	-	-	1,522,511	-	(1,522,511)	-	-
Other comprehensive income	-	-	-	-	-	2,197,366	2,197,366
Balance, June 30, 2011	7,402,304	3,537,879	4,297,509	2,442,651	43,050,624	2,197,366	62,928,333
Share-based compensation	_	789,765	-	_	-	_	789,765
Share repurchases	(190,394)	-	_	_	-	-	(190,394)
Net income for the year	-	-	_	-	9,351,446	-	9,351,446
Transfer to reserve	-	-	1,861,849	-	(1,861,849)	-	-
Redemption of debentures	-	74,242	· · · · -	(74,242)	-	-	-
Other comprehensive income	-	<u> </u>	-	-	-	2,486,988	2,486,988
Balance, June 30, 2012	7,211,910	4,401,886	6,159,358	2,368,409	50,540,221	4,684,354	75,366,138

Boyuan Construction Group, Inc. Consolidated Statements of Cash Flows For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

	2012	2011 (Note 26) \$
OPERATING ACTIVITIES	¥	<u> </u>
Net income for the year	9,351,446	13,929,351
Items not involving cash:		
Amortization Interest accretion Debenture valuation gain Interest related to minimum total return Share-based compensation Deferred income tax expenses (recovery) Unrealized foreign exchange (gain) loss	2,911,067 3,824,963 (179,935) 829,629 779,626 402,228 89,945	1,325,075 3,131,028 (704,418) 1,076,507 1,164,860 (336,700) (610,837)
	18,008,969	18,974,866
Changes in non-cash working capital balances (Note 20)	(29,640,834)	(23,609,174)
Cash used in operating activities	(11,631,865)	(4,634,308)
INVESTING ACTIVITIES		
Acquisition of property and equipment Proceeds from sale of equipment Acquisition of investment	(8,177,968) 59,963 (472,121)	(9,894,022) - -
Cash used in investing activities	(8,590,126)	(9,894,022)
FINANCING ACTIVITIES		
Restricted cash Proceeds from short-term bank loans Repayment of short-term bank loans Proceeds from short-term loans Repayment of short-term loans Bank notes payable Repayment of automobile loans Advances to developer (Note 10) Repayment from developer (Note 10) Convertible debentures, net Redemption of convertible debentures Proceeds from issuance of common stock, net Share repurchases	(4,088,633) 48,123,318 (30,599,751) 29,992,622 (23,973,912) 2,850,039 (238,223) - (2,365,681) (1,299,459) - (190,394)	216,022 25,219,977 (25,868,965) - 3,524,911 (162,941) (7,022,205) 7,022,205 11,496,038 - 7,895
Cash provided by financing activities	18,209,926	14,432,937
Effect of changes in exchange rates on cash	97,473	240,870
Increase (decrease) in cash	(1,914,592)	145,477
Cash and cash equivalents, beginning	4,999,232	4,853,755
Cash and cash equivalents, ending	3,084,640	4,999,232
Supplemental disclosure of cash flow information:		
Cash paid for interest Cash paid for income taxes	6,456,581 5,162,332	3,120,656 5,195,481

Significant non-cash transactions and non-cash working capital balances (Note 20)

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

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 is located at No. 6 East Road, Jiaxing Port, Zhejiang Province, the People's Republic of China ("China" or "PRC"). The consolidated financial statements of the Company include the assets and operations of the Company, its subsidiaries and other entities it controls. The Company's primary business is in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in the PRC.

2. BASIS OF CONSOLIDATION AND PRESENTATION

(a) Statement of compliance

These consolidated financial statements represent the first annual consolidated financial statements of the Company and its subsidiaries and Special Purpose Entity prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The transition date at which IFRS was applied was July 1, 2010.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Canadian GAAP differs in certain respects from IFRS. In preparing these consolidated financial statements, management has adopted and changed certain accounting, valuation and consolidation policies previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2011 were restated to reflect these adjustments. Note 26 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statements of financial position as at June 30, 2011 and July 1, 2010, and the statement of comprehensive income for the year ended June 30, 2011. Subject to the transition elections, the Company has consistently applied the same accounting policies in the opening IFRS statement of financial position at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

These consolidated financial statements for the year ended June 30, 2012 (including comparative figures) were approved and authorized for issue by the Corporation's Board of Directors on December 2, 2012.

(b) Basis of consolidation

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

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

- (i) an exclusive option agreement which ensures that China Privco can buy the equity interest in and all or part of the assets and business of Zhejiang at any time if legally permitted;
- (ii) a management agreement whereby Zhejiang entrusted China Privco to manage and operate the business of Zhejiang. China Privco will be remunerated with the net earnings before tax of Zhejiang and will assume all operation risks and bear all losses of Zhejiang;
- (iii) a share pledge agreement whereby the shareholders of Zhejiang agreed to pledge all of the shares of Zhejiang they own to China Privco; and
- (iv) a shareholders' voting proxy agreement whereby the shareholders of Zhejiang granted the right to exercise all of the voting rights to China Privco.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

2. BASIS OF CONSOLIDATION AND PRESENTATION (continued)

(b) Basis of consolidation (continued)

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

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

(c) Going concern

The Company has a significant amount of debt outstanding under various loans, bank notes payable and convertible debentures and has generated negative cash flows from its operations of \$11,631,865 (2011 - \$4,634,308). Subsequent to the year end the Company was in violation of its convertible debenture agreements as the Company failed to file its annual consolidated financial statements before the end of September, 2012. Under the terms of the convertible debenture agreements, such noncompliance constitutes an event of default which gives the holders of the convertible debentures the right to declare all outstanding principal and accrued interest under the agreements immediately due and payable after the passage of a 30 day waiting period and compliance with the default notice provisions. No assurances can be given that the Company will be able cure the default before the debt is accelerated or that it will be able to obtain any necessary modifications, amendments or waivers to the agreements in the future if the debt is accelerated.

Although the Company believes it is positioned to manage its liquidity requirements within its business over the next twelve months through funds expected to be generated from operations and available borrowing capacity, the Company's ability to manage its debt that becomes due in 2013 will be dependent upon its ability to:

- (i) refinance such existing debt:
- (ii) restructure or obtain replacement financing;
- (iii) realize its assets:
- (iv) discharge its liabilities.

There can be no assurances as to the Company's ability to complete any of the foregoing, or obtain any other necessary financing and, if available, whether any potential sources of funds would be available on terms and conditions acceptable to the Company.

(d) Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for the revaluation of certain financial instruments.

(e) Use of estimates and judgments

Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include recognition of revenue, allowance for doubtful accounts, 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.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

2. BASIS OF CONSOLIDATION AND PRESENTATION (continued)

(e) Use of estimates and judgments (continued)

Critical judgments

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

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

The value of construction contracts usually increases over the duration of the construction period. Change orders may be issued by developers to modify the original contract scope of work or conditions. Construction work related to a change order may proceed, and costs may be incurred, in advance of final determination of the value of the change order. Revenue on change orders is recognized by the Company to the extent that management estimates that realization is probable. As many change orders are settled at the end of the construction project, significant increases or decreases in revenue and income may arise during any particular accounting period.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash equivalents

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

(b) Accounts receivable

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

(c) Inventory

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Share issue costs

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

(e) Property and equipment

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

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

Buildings30 yearsMachinery and equipment10 yearsScaffoldings5 yearsOffice equipment10 yearsVehicles4 to 5 yearsLeasehold improvements3 years

(f) Construction-in-progress

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

(g) Land use rights

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

(h) Impairment of Long-Lived Assets

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

(i) Statutory reserve

Statutory reserve refers to the amount appropriated from the net income in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and, are to be used to expand production or operations. PRC laws prescribe that an enterprise operating at a profit must appropriate, on an annual basis, from its earnings an amount to the statutory reserve to be used for future company development. Such an appropriation is made until the reserve reaches a maximum equalling 50% of the enterprise's capital.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition

Construction revenue includes the initial amount agreed in the contract plus any variations in construction work and changes, to the extent that it is probable 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.

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

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

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

Costs of construction are recognized as expenses as incurred. Costs of construction include costs that relate directly to a specific contract such as all raw materials, direct labour, subcontractors and other costs and indirect costs related to contract performance, such as indirect salaries and wages and equipment repairs. In addition costs that are attributable to contract activity and can be charged to the contract under the agreed terms of the contract 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.

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

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

(k) Retirement benefits

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

(I) Income taxes

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

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Income taxes (continued)

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

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

(m) Foreign currency translation

The reporting currency of the Company is the US dollar.

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

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

(n) Share-based compensation

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

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

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

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Special purpose entities

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

(p) Earning per share

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

(q) Financial instruments

Non-derivative financial assets

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

i) Financial assets at fair value through profit or loss

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

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

Non-derivative financial liabilities

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

v) Financial liabilities at FVTPL

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

vi) Other financial liabilities

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

vii) Separable embedded derivative financial liabilities

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

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

(r) Convertible debentures

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

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

(s) Provisions

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2012, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective January 1, 2013

- Amendments to IFRS 7 Financial Instruments: Disclosures In October 2010, the IASB issued amendments
 to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The
 amendments are effective for annual periods beginning on or after July 1, 2013, with early adoption
 permitted. The Company does not anticipate this amendment to have a significant impact on its condensed
 interim financial statements.
- IFRS 10 Consolidated Financial Statements IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.
- IFRS 11 Joint Arrangements IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities Non-monetary Contributions by Venturers.
- IFRS 12 Disclosure of Interests in Other Entities IFRS 12 establishes disclosure requirements for interests
 in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet
 vehicles. The standard carries forward existing disclosures and also introduces significant additional
 disclosure requirements that address the nature of, and risks associated with, an entity's interests in other
 entities.
- IFRS 13 Fair Value Measurement IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.
- Amendments to IAS 1 Presentation of Financial Statements The IASB has amended IAS 1 to require
 entities to separate items presented in other comprehensive income ("OCI") into two groups, based on
 whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI
 items before tax will be required to show the amount of tax related to the two groups separately.

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

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

New accounting standards effective January 1, 2015

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

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

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

5. UNBILLED REVENUE

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

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Completed contracts	35,369,123	43,191,122	629,579
Contracts in progress	48,728,918	32,809,663	49,149,015
	84,098,041	76,000,785	49,778,594

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

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Aggregate cost of construction Gross profit recognized	185,492,453 37,172,214	252,970,311 56,175,510	175,849,150 46,922,296
	222,664,667	309,145,821	222,771,446
Less: aggregate of progress billing and payments	173,935,749	276,336,158	173,622,431
Contracts in progress – unbilled revenue portion, end of year	48,728,918	32,809,663	49,149,015
Deferred revenue related to contract in progress, end of year	1,310,580	5,171,128	1,057,840

6. RESTRICTED CASH

Restricted cash mainly represents compensating deposits held at banks to partially secure bank notes payable. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding bank notes payable, and the funds are only allowed to be used to settle bank notes payable (see Note 13(b)). The funds deposited as compensating balances are interest bearing. The amount of cash restricted varies based on the bank's credit policy at the time that the Company requests an increase or extension of its credit facilities.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

7. ADVANCES TO SUPPLIERS AND PREPAID EXPENSES

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Advances to suppliers	29,798,171	20,237,926	9,799,109
Prepaid expenses	1,835,899	1,578,097	2,981,735
Other	860,317	1,107,697	1,735,242
	32,494,387	22,923,720	14,516,086

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

8. DEPOSITS

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Contract performance deposits	9,639,503	6,815,256	9,134,896
Project tender deposits	736,728	239,824	51,613
Other	586,434	473,220	199,278
	10,962,665	7,528,300	9,385,787

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

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

9. INVESTMENT

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Due from related parties			
Due from company controlled by the Chairman and Chief Executive Officer ("CEO") Funds held in trust by CEO and his wife for the	83,966	82,572	-
Company	-	1,315,158	-
	83,966	1,397,730	_
Due to related parties			
Due to the Chairman and CEO Due to company controlled by the Chairman and CEO	- -	- 462,302	171,925 420,289
	-	462,302	592,214

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

Funds advanced to a related party

In the Company's consolidated financial statements for the year ended June 30, 2011, the Company reported that it had advanced \$7,022,205 to a developer (an unrelated party) for a construction project, of which \$4,286,948 was advanced through the wife of the CEO directly to the developer. In addition to the information contained in the 2011 consolidated financial statements the Company has added additional and enhanced disclosure as follows:

The balance of \$2,735,257 was advanced to a company ("Honsgain") in which the CEO's wife was the sole shareholder on title. On November 8, 2010 the CEO's wife entered into a declaration of trust with the developer to hold the shares of Honsgain in trust for the developer. The declaration of trust gave the developer control and beneficial ownership of Honsgain and the CEO's wife acted as a nominee for the beneficial owner.

The funds were advanced with the intention that the Company would be awarded the construction contract located in Haining, Zhejiang, PRC.

The advances were secured by a loan agreement dated November 1, 2010. The loan was non-interest bearing and the borrower agreed to repay the loan by May 30, 2011 ("Due Date"). In addition, the borrower agreed to pay a penalty of 2% per month if the loan was not repaid by the Due Date. The project did not materialize and the full amount was repaid to the Company by May 2011, of which \$1,012,955 was repaid through the wife of the CEO.

Funds held by a related party

At June 30, 2011, the Company's CEO and his wife together held \$1,315,158 (RMB8,500,000) in term deposits in trust for the Company. In 2012, these term deposits were transferred to the Company's bank account on maturity. During fiscal 2012, the Company reclassified the amounts due from the CEO and his wife as of June 30, 2011 from cash and cash equivalents to amounts due from related parties.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Key management personnel compensation

The Company incurred salaries and fees to the following key management personnel:

	2012	2011
	\$	\$
Chairman and CEO	226,600	202,000
Chief financial officer ("CFO")	115,891	101,000
Secretary	32,530	31,590
Vice president	18,177	16,200
Directors	79,297	76,459
	472,495	427,249

Share-based compensation expense of \$557,840 (2011- \$831,237) was recognized for options granted to key management personnel.

11. LAND USE RIGHTS

	2012 \$	2011 \$
Cost	φ	Ψ_
Balance, beginning of year Foreign exchange movement	123,963 4,775	133,114 (9,151)
Balance, end of year	128,738	123,963
Accumulated amortization		
Balance, beginning of year Charge for the year Foreign exchange movement	4,760 2,410 1,254	6,722 1,533 (429)
Balance, end of year	8,424	4,760
Net book value, end of year	120,314	119,203

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

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

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

Boyuan Construction Group, Inc. Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

12. PROPERTY AND EQUIPMENT

	Machinery, equipment and Scaffoldings \$	Buildings \$	Vehicles \$	Office Equipment \$	Leasehold Improvement \$	Construction in Progress	Total \$
Cost							
Balance, July 1, 2010	5,902,406	2,498,763	1,278,444	871,603	209,014	684,238	11,444,468
Additions (transfers) Foreign exchange movement	8,685,024 509,095	- 123,022	78,591 64,920	369,530 61,247	767,407 29,597	76,121 20,116	9,976,673 807,997
June 30, 2011	15,096,525	2,621,785	1,421,955	1,302,380	1,006,018	780,475	22,229,138
Additions (transfers) Foreign exchange movement	6,327,570 261,217	1,448,939 45,409	68,520 24,537	216,553 22,494	576,473 17,427	(780,475) -	7,857,580 371,084
Balance, June 30, 2012	21,685,312	4,116,133	1,515,012	1,541,427	1,599,918	-	30,457,802
Accumulated depreciation							
Balance, July 1, 2010	2,063,064	587,056	310,379	165,927	104,507	-	3,230,933
Depreciation expense for the year Foreign exchange movement	828,090 152,246	80,986 30,940	243,200 21,400	183,920 13,552	11,888 5,445	- -	1,348,084 223,583
Balance, June 30, 2011	3,043,400	698,982	574,979	363,399	121,840	-	4,802,600
Depreciation expense for the year Foreign exchange movement	1,078,823 22,279	1,192,558 12,207	227,525 9,947	133,828 6,286	304,918 2,140	- -	2,937,652 52,859
Balance, June 30, 2012	4,144,502	1,903,747	812,451	503,513	428,898	-	7,793,111
Net book value							
At July 1, 2010	3,839,342	1,911,707	968,065	705,676	104,507	684,238	8,213,535
At June 30, 2011	12,053,125	1,922,803	846,976	938,981	884,178	780,475	17,426,538
At June 30, 2012	17,540,810	2,212,386	702,561	1,037,914	1,171,020		22,664,691

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

13. BANK LOANS AND NOTES PAYABLE

- (a) The bank loans are due within one year with interest paid monthly or quarterly at rates varying between 5.47% to 9.45% (2011 5.31% to 7.31%), weighted average at 7.39% (2011 6.40%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of \$31,848,587 (2011-29,181,043) 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 and are issued at a discount. The notes are secured by compensating deposits held by the banks (see Note 6).

14. SHORT-TERM LOANS

	Zhongtai Loan	Mintai Loan	Total
	\$	\$	\$
Balance, July 1, 2010 and June 30, 2011	-	-	-
Loan principal received Interest accrued Repayment of principal Repayment of interest Foreign exchange movement	17,402,722 556,308 (11,384,012) (313,259) 732	12,589,900 501,403 (12,589,900) (501,403)	29,992,622 1,057,711 (23,973,912) (814,662) 732
Balance, June 30, 2012	6,262,491	-	6,262,491

The Company obtained the short-term loans from 2 unrelated companies, 海宁市中泰煤氣有限责任公司 ("Zhongtai") and 海宁市民泰煤氣有限责任公司 ("Mintai"), located in Hainin City, Zhijiang Province. These loans were unsecured, with no fixed date of maturity or fixed repayment terms and were interest bearing at effective interest rate of 7.9% and 4.3% per annum respectively.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Accounts payable to suppliers	1,906,424	668,687	3,997,165
Salaries and wages payable	221,330	95,741	335,647
Taxes payable	7,028,815	7,015,848	5,865,004
MTR payable (Note 16(c))	870,103	1,507,184	374,976
Accrued expenses	4,270,194	2,168,432	1,320,446
Other	4,028,997	5,930,050	786,028
	18,325,863	17,385,942	12,679,266

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

16. CONVERTIBLE DEBENTURES

	June 30, 2012 \$	June 30, 2011 \$
Balance, beginning of year	18,851,701	6,142,476
Gross proceeds from issue Issue costs Amount allocated to the equity component Interest accretion Interest paid Debenture valuation adjustment Transfer of debentures converted to common shares Redemption of debentures Foreign exchange (gain) loss on translation	3,818,047 (2,365,681) (182,325) - (1,299,459) (1,011,284)	14,799,000 (1,387,037) (2,408,370) 3,131,028 (1,915,925) (704,418) (18,563)
Balance, end of year	17,810,999	18,851,701

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

	\$
Due on February 28, 2013	6,478,510
Due on October 31, 2015	14,718,870
Total principal	21,197,380
Less: interest at weighted average effective interest rate of 20. 6%	(3,386,381)
	17,810,999

The Company was in default on its convertible debenture for failure to file its annual consolidated financial statements for the year ended June 30, 2012 by September 28, 2012. The principal amount of the debenture has been classified as a current liability as a result (see Note 27).

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

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of \$987 (CDN\$1,000) per debenture for gross proceeds of \$14,799,000 (CDN\$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and 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.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

16. CONVERTIBLE DEBENTURES (continued)

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

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

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

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

The Company uses the residual value method to allocate the principal amount of the Convertible Debentures between the liability and equity components. Under this method, the value of the equity component of \$235,488 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of \$3,182,881 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum.

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

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

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

16. CONVERTIBLE DEBENTURES (continued)

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

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

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

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

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

The Company uses the residual value method to allocate the principal amount of the Convertible Debentures between the liability and equity components. Under this method, the value of the equity component of \$234,850 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of \$2,840,150 was computed as the present value of future principal and interest payments discounted at a rate of 28% per annum.

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

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total return right ("MTR") of 25% per annum on their Units. The calculation will be based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on the Convertible Debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, on February 27, 2012. For the year ended June 30, 2012, the Company recorded MTR expenses of \$829,629 (2011- \$1,076,507) and charged to operations. At June 30, 2012 MTR payable was \$870,103 (June 30, 2011- \$1,507,145).

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

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

17. SHARE CAPITAL

Authorized:

Unlimited number of common shares without par value

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

Issued and outstanding:

3	Preferred Shares		Common	Shares
	Number	\$	Number	\$
Balance, July 1, 2010	9,592,059	-	16,187,941	7,374,344
Conversion of preferred shares into common	(9,592,059)	-	9,592,058	-
Conversion of convertible debentures	-	-	13,125	18,563
Transfer from equity component of convertible	-	-	-	
debentures				1,502
Exercise of warrants	-	-	3,800	7,895
Balance, June 30, 2011	-	-	25,795,924	7,402,304
Shares repurchased	-	-	(270,475)	(190,394)
Balance, June 30, 2012	-	-	25,526,449	7,211,910

On February 17, 2011, 35 units of convertible debt issued on February 27, 2009 were converted to 13,125 common shares at \$18,563. On April 14, 2011, 3,800 agent warrants were exercised and 3,800 common shares were issued for \$7,895 (CDN\$7,600).

During 2012, the Company repurchased 270,475 of its common shares for a total of \$190,394 from the market. At June 30, 2012, the Company cancelled 233,092 of the common shares repurchased, and held 37,383 common shares in treasury.

Options

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

As of June 30, 2012 the Company has stock options outstanding to directors and officers to acquire an aggregate of 2,210,500 common shares summarized as follows. The options have a weighted average remaining life of 3.59 years.

		Weighted	
	Number of	Average Exercise	Expiry
	Options	Price	Date
Balance, July 1, 2010	140,000	\$2.45	October 28, 2014
Granted	1,005,000	2.10	July 8, 2015
Balance, June 30, 2011	1,145,000	2.12	
Granted	1,070,000	0.80	October 11, 2016
Balance, June 30, 2012	2,215,000	\$1.49	
Exercisable at June 30, 2012	1,247,042		

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

17. SHARE CAPITAL (continued)

Options (continued)

During the year ended June 30, 2012, the Company granted 1,070,000 (2011 - 1,000,500) options. The 1,070,000 options vest one-third on the grant date, one-third on October 11, 2012 and the remaining one-third on October 28, 2013. Share-based compensation expense for current and previously granted and unvested options of \$779,626 (2011 - 1,000,000) was charged to operations. The Company uses the Black-Scholes option pricing model to value stock options which requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The weighted average assumptions are as follows:

	2012	2011
Share price at grant day	\$0.64	\$0.32
Risk-free interest rate (%)	1.30%	2.31%
Expected dividend yield (%)	-	-
Expected option life (years)	4	4
Expected stock price volatility (%)	144%	90%

The weighted average grant date fair value for the options was \$0.53 (2011 - \$1.28).

Warrants

	Number	Exercised Price
Warrants outstanding, July 1, 2010 Warrants exercised	3,133,700 (3,800)	\$ 1.96 (CDN\$2.00) \$2.08(CDN\$2.00)
Warrants outstanding, June 30, 2011 and 2012	3,129,900	

Warrants outstanding at June 30, 2012:

Exercise Price	Underlying Shares	Expiry
\$1.96 (CAD\$2.00)	1,219,950	February 27, 2013
\$1.96 (CAD\$2.00)	1,909,950	June 30, 2013
Outstanding, June 30, 2012	3,129,900	

Equity Component of Convertible Debentures

	2012 \$	2011 \$
Balance, beginning of year	2,442,651	372,533
Equity component of convertible debentures issued (Note 16)	-	2,071,620
Debentures converted transferred to share capital	-	(1,502)
Debentures redeemed transferred to contributed surplus	74,242	<u> </u>
Balance, end of year	2,368,409	2,442,651

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

18. RESERVES

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

19. INCOME TAX

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

Income tax expenses are as follows:

	2012	2011 (Note 26)
	\$	\$
Current	4,825,623	5,999,026
Deferred	402,228	188,663
Total income tax expenses	5,227,851	6,187,689

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

	2012	2011 (Note 26)
	\$	` \$ <u></u>
Canadian combined statutory rates	25.8%	27.5%
Income taxes at combined statutory rates	3,754,170	5,532,188
Difference in foreign income tax rates	(148,886)	(650,700)
Non-deductible items	368,050	616,376
Reduction in income tax rates	36,326	79,384
Tax losses for which no deferred income tax asset was recognized	1,218,191	610,442
Total income tax expenses	5,227,851	6,187,690

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:

	June 30,	June 30,	July 1,
	2012	2011	2010
	\$	\$	\$
Unbilled revenue, net of charges Plant and equipment	(1,684,000)	(1,170,000)	(229,000)
	186,000	75,000	(17,000)
Net deferred tax assets (liabilities)	(1,498,000)	(1,095,000)	(246,000)

As at June 30, 2012, the Company did not recognize the following deferred tax assets:

	June 30, 2012 \$	June 30, 2011 \$	July 1, 2010 \$
Non-capital losses	3,091,000	1,728,000	891,000
Share issue costs	35,000	64,000	92,000
Convertible debentures	(273,000)	(382,000)	(56,000)
Total deferred income tax assets not recognized	2,853,000	1,410,000	927,000

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

19. INCOME TAX (continued)

The Company has non-capital losses carried forward of \$12,084,465 which will expire from 2029 to 2032.

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

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

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

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

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

2012

2011

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

The Company has the following significant non-cash transactions:

	\$	\$
Interest related to minimum return	829,629	1,076,507
Share-based compensation	779,626	1,164,860
The following are the changes in non-cash working capital balances:		
	2012	2011
	\$	\$
Accounts receivables	(5,570,488)	(1,582,119)
Unbilled revenue	(6,785,363)	(23,188,056)
Other receivable	(68,681)	486,775
Inventories	356,453	(1,347,084)
Advance to suppliers and prepaid expenses	(9,180,046)	(7,264,256)
Deposits	(3,304,083)	2,024,057
Accounts payable and accrued liabilities	(77,150)	3,183,948
Deferred revenue	(3,950,002)	3,961,542
Income taxes payable	(1,992,970)	1,139,667
Due from / to related parties	931,496	(1,023,648)
Changes in non-cash working capital balances	(29,640,834)	(23,069,174)

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Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

21. 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:

	June 30, 2012	June 30, 2011	July 1, 2010
	\$	\$	\$
Assets as FVPTL (i)	11,080,737	8,840,917	8,726,243
Loans and receivables (ii)	20,290,376	12,471,878	11,639,284
Available-for-sale (iii)	472,180	-	· -
Liabilities as FVTPL (iv)	870,103	1,507,184	374,976
Other financial liabilities (v)	77,669,337	57,496,124	37,531,823

- (i) Cash and cash equivalents and restricted cash
- (ii) Accounts receivable, other receivables, deposits and amounts due from related parties
- (iii) Investment
- (iv) MTR payable
- (v) Bank loans, notes payable, short-term loans, accounts payable, automobile loans, 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
June 30, 2012	\$	\$	\$	\$
Cash and cash equivalents and restricted cash	11,080,737	-	-	11,031,732
MTR Payable	-	870,103	-	870,103
June 30, 2011				
Cash and cash equivalents and restricted cash	8,840,917	-	-	8,840,917
MTR Payable	-	1,507,184	-	1,507,184
July 1, 2010				
Cash and cash equivalents and restricted cash	8,726,243	-	-	8,726,243
MTR Payable	-	374,976	-	374,976

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

21. FINANCIAL INSTRUMENTS (continued)

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, restricted cash, accounts receivable and other receivables. The Company has significant cash and cash equivalents and restricted cash balances. To minimize the interest rate and credit risk the Company places these instruments with financial institutions located in Canada and PRC. Credit risk from accounts receivable and other receivables encompasses the default risk of customers. Management, on an ongoing basis, monitor the level of accounts and other receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

For the year ended June 30, 2012, revenue from 2 customer accounted for 35% (2011 – 1 customer accounted for 16%) of total revenue. At June 30, 2012, outstanding amounts owed by 1 customer accounted for 12% of the total accounts receivable and unbilled revenue (2011 – outstanding amounts owed by 1 customer accounted for 22% of total accounts receivable and unbilled revenue). Management does not believe that there is significant credit risk arising from any of the Company's customers. Under PRC regulations, a general contractor is entitled to first claim against assets of its customers, which gives a general contractor a "mechanic lien" senior to all other secured debt including but limited to bank loans, bank notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with the real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

The Company is exposed to interest rate risk on its bank loans and notes payable to the extent that its credit facilities are based on floating rates of interest. For the year ended June 30, 2012, a 1% increase or a 1% decrease in interest rates would have changed comprehensive earnings by \$507,000.

Financial assets past due

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

	0 – 180 Days	181 – 365 days	Over 1 Year	Over 2 Years	Carrying Value
	\$	\$	\$	\$	\$
June 30, 2012					
Accounts receivable	3,319,063	3,448,614	1,101,054	74,076	7,942,807
June 30, 2011					
Accounts receivable	2,007,559	113,391	58,251	152,200	2,331,401
July 1, 2010					
Accounts receivable	475,411	110,880	89,896	-	676,187

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.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

21. FINANCIAL INSTRUMENTS (continued)

Currency Risk

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

At June 30, 2012, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of \$10,877,024 (2011 - \$5,253,262), accounts receivable and other receivables of \$9,205,635 (2011 - \$3,499,483), bank loans of \$37,640,670 (2011 - \$19,773,793), bank notes payable of \$13,091,997 (2011 - \$10,067,924), short-term loans of \$6,262,491 (2011 - \$Nil), accounts payable of \$6,036,337 (2011 - \$6,596,721), amounts due from related parties of \$83,996 (2011 - \$1,397,730), amounts due to related parties of \$Nil (2011 - \$462,302), and automobile loans of \$86,692 (2011 - \$234,212) which were denominated in RMB.

At June 30, 2012, the Company had cash of \$162,559 (2011 - \$1,049,368) and convertible debentures of \$17,810,999 (2011 - \$18,851,701) which were denominated in CDN\$.

Liquidity Risk

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

The following are the contractual maturities of financial liabilities as at June 30, 2012:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	\$	\$	\$	\$	\$
Bank loans	37,640,670	37,640,670	37,640,670	-	-
Notes payable	13,091,997	13,091,997	13,091,997	-	-
Short-term loan	6,262,491	6,262,491	6,262,491	-	-
Accounts payable	6,805,525	6,805,525	6,805,525	-	-
Automobile loans	86,692	86,692	86,692	-	-
Convertible debentures	17,810,999	21,197,380	21,197,380		_
Total	81,698,374	85,084,755	85,084,755	-	-

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, 2012 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 \$800,000. 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 \$1,760,000.

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.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

22. 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.

23. 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.

24. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

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

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

For the year ended June 30, 2011	Net income	Weighted Average Number of Common Shares Outstanding	Earnings per Share \$
Net income for the year ended June 30, 2011 Weighted average number of shares outstanding	13,929,351 -	- 21,428,556	- -
Basic Earnings per Share	13,929,351	21,428,556	0.65
Effect of warrants and convertible debentures:Exercise of warrantsConvertible debentures	- 3,016,267	149,081 9,719,106	-
Diluted Earnings per Share	16,945,618	31,296,743	0.54

At June 30, 2011, 1,140,500 options outstanding were not included in the calculation of diluted earnings per share as their effect is anti-dilutive.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

25. 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 \$6,296,000. 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:

2013	\$ 188,880
2014	196,435
2015	208,221
2016	220,715
2017	74,986
	\$ 889,237

26. TRANSITION TO IFRS

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated July 1, 2010:

(a) Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occur on or after July 1, 2010.

(b) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

(c) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

(d) IAS 27 - Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

(e) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its Canadian GAAP estimates for that date.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

26. TRANSITION TO IFRS (continued)

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows, it has resulted in changes to the Company's reported financial position and comprehensive income. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP consolidated statements of comprehensive income, for the year ended June 30, 2011 have been reconciled to IFRS, with the resulting differences explained. In addition, the consolidated statements of financial position as at July 1, 2010 and June 30, 2011 have been reconciled with the resulting differences explained.

The July 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

		July 1, 2010		
		Canadian		
		GAAP	IFRS	IFRS
	Note	balances	adjustments	balances
Current Assets		\$	\$	\$
Cash		4,853,755		4,853,755
Accounts receivable		4,833,733 676,187	_	676,187
Unbilled revenue		49,778,594	_	49,778,594
Restricted cash		3,872,488	_	3,872,488
Other receivables		1,577,310	_	1,577,310
Inventory		390,130		390,130
Advances to suppliers and prepaid expenses		14,516,086		14,516,086
Deposits		9,385,787		9,385,787
Deferred tax assets	а	479,000	(479,000)	-
		85,529,337	(479,000)	85,050,337
Property and equipment			, ,	8,213,535
Land use right		8,213,535 126,392		126,392
Edita doo right		93,869,264	(479,000)	93,390,264
Oart Linkilities		00,000,00	(0,000)	33,333,23
Current Liabilities		40 400 040		40 400 040
Bank loans		19,480,040	-	19,480,040
Bank notes payable		6151,475	-	6,151,475
Accounts payable and accrued liabilities Income taxes payable	а	12,679,266 3,038,947	83,000	12,679,266 3,121,947
Deferred revenue	а	1,057,840	03,000	1,057,840
Automobile loans		382,425	_	382,425
Due to related parties		592,214	_	592,214
Current portion of convertible debentures		2,223,048	-	2,223,048
·		45,605,255	83,000	45,688,255
Convertible debentures		3,919,428		3,919,428
Deferred tax liabilities	а	808,000	(562,000)	246,000
		50,332,683	(479,000)	49,853,683
Shareholders' Equity			,	
Share capital		7,374,344		7,374,344
Contributed surplus	b	7,332,471	(4,961,549)	2,370,922
Reserves	~	2,774,998	(1,001,010)	2,774,998
Equity component of convertible debentures		372,533		372,533
Retained earnings		23,537,584	7,106,200	30,643,784
Accumulated other comprehensive income (loss) - foreign		-,,	,,	,,-
currency translation adjustment	С	2,144,651	(2,144,651)	<u> </u>
		43,536,581	-	43,536,581
		93,869,264	-	93,390,264

Boyuan Construction Group, Inc.Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

26. TRANSITION TO IFRS (continued)

The Canadian GAAP consolidated statement of financial position at June 30, 2011 has been reconciled to IFRS

Current Assets \$ \$ \$ Cash 4,999,232 - 4,999,232 Accounts receivable 2,331,401 - 2,331,401 Unbilled revenue 76,000,785 - 76,000,785 Restricted cash 3,841,685 - 3,841,685 Other receivables 1,214,447 - 1,214,447 Inventory 1,790,311 - 1,790,311 Advances to suppliers and prepaid expenses 22,923,720 - 7,528,300 Deposits 7,528,300 - 7,528,300 Due from related parties 122,027,611 - 122,027,611 Property and equipment 17,426,538 - 17,426,538 Land use right 119,203 - 119,203 Bank loans 19,773,735 - 119,203 Bank loans 19,773,735 - 19,773,793 Bank loans 19,773,793 - 19,773,793 Bank loans 19,773,793 - 19,773,793 Bank loans			June 30, 2011		
Note balances S S S Current Assets S S S S S S S S S					
Sample S		NI-4-		_	_
Cash 4,999,232 4,999,232 4,999,232 4,999,232 2,331,401 2,331,401 2,331,401 2,331,401 1,214,600,785 76,000,785 76,000,785 76,000,785 76,000,785 76,000,785 76,000,785 76,000,785 76,000,785 76,000,785 76,000,785 3,841,685 3,841,685 3,841,685 3,841,685 3,841,685 3,841,685 0,841,647 1,214,447 1 1,214,447 1 1,214,447 1 1,214,447 1 1,214,447 1 1,214,447 1 1,290,311 1 1,790,311 1 1,790,311 2 2,293,720 22,293,720 22,293,720 22,293,720 22,293,720 22,293,720 22,293,720 2 2,293,720 1,397,730 - 1,597,730 - 1,528,300 - 7,528,300 - 7,528,300 - 1,597,730 - 1,297,730 - 1,297,730 - 1,297,730 - 1,297,730 - 1,212,447 - 1,22,027,611 - 1,22,027,611 - 1,214,447		Note			
Cash Accounts receivable 4,999,232 - 4,999,232 Accounts receivable 2,331,401 - 2,331,401 Unbilled revenue 76,000,785 - 76,000,785 Restricted cash 3,841,685 - 3,841,685 Other receivables 1,214,447 - 1,214,447 Inventory 1,790,311 - 1,790,311 Advances to suppliers and prepaid expenses 22,923,720 - 22,923,720 Deposits 7,528,300 - 7,528,300 Due from related parties 1,397,730 - 1,397,730 Due from related parties 17,426,538 - 17,426,538 Land use right 119,203 - 119,203 Toursett Liabilities 19,773,793 - 19,773,793 Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,7385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 22,42,125 </td <td>Current Assets</td> <td></td> <td>Ф</td> <td>Ф</td> <td>Ф</td>	Current Assets		Ф	Ф	Ф
Accounts receivable			4 999 232	_	4 999 232
Deferred tabilities				-	
Other receivables 1,214,447 - 1,214,447 Inventory 1,790,311 - 1,790,311 Advances to suppliers and prepaid expenses 22,923,720 - 22,923,720 Deposits 7,528,300 - 7,528,300 Due from related parties 1,397,730 - 1,397,730 Property and equipment 17,426,538 - 17,426,538 Land use right 119,203 - 119,203 Land use right 139,573,352 - 139,573,352 Current Liabilities Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 - 17,112 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 2462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities 59,596,104 (378,000)<	Unbilled revenue			-	
Inventory	Restricted cash			-	
Advancés to suppliers and prepaid expenses Deposits 22,923,720 - 22,923,720 Due from related parties 7,528,300 - 7,528,300 Property and equipment 122,027,611 - 122,027,611 Property and equipment 17,426,538 - 17,426,538 Land use right 119,203 - 139,573,352 Current Liabilities Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities 717,000 378,000 - 7,402,304 Convertible debentures 16,331,915 - 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 <	Other receivables		1,214,447	-	
Deposits Due from related parties 7,528,300 1,397,730 7,528,300 1,397,730 7,528,300 1,397,730 7,528,300 1,397,730 7,528,300 1,397,730 7,528,300 1,397,730 1,397,730 1,397,730 1,290,7611 1 220,027,611 1 220,027,611 1 122,027,611 1 122,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,027,611 1 220,023 1 119,203 3 119,203 3 119,203 3 119,203 3 119,203 3 119,203 3 119,703,352 2 139,573,352 2 139,573,352 2 139,573,352 2 19,737,793 3 2 19,773,793 3 19,773,793 3 19,773,793 3 19,773,793 3 19,773,793 2 </td <td></td> <td></td> <td>, ,</td> <td>-</td> <td></td>			, ,	-	
Due from related parties 1,397,730 - 1,397,730 Property and equipment 17,426,538 - 17,426,538 Land use right 119,203 - 119,203 Current Liabilities Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5171,7128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities 393,000 (930,000) - Convertible debentures 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share ca				-	
Property and equipment				-	7,528,300
Property and equipment Land use right 17,426,538 119,203 - 17,426,538 119,203 - 17,426,538 119,203 - 119,203 - 119,203 - 119,203 - 119,203 - 119,203 - 119,203 - 119,203 - 19,573,352 - 139,573,352	Due from related parties		1,397,730	-	1,397,730
Land use right 119,203 - 119,203 Current Liabilities 139,573,352 - 139,573,352 Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) - Convertible debentures 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 <td></td> <td></td> <td>122,027,611</td> <td>-</td> <td>122,027,611</td>			122,027,611	-	122,027,611
Current Liabilities Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 - 234,212 Due to related parties 462,302 - 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) Convertible debentures 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity 5 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651	Property and equipment			-	
Current Liabilities Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) Convertible debentures 16,331,915 - 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,7779,401 (336,750) 2,442,651 </td <td>Land use right</td> <td></td> <td>119,203</td> <td>-</td> <td>119,203</td>	Land use right		119,203	-	119,203
Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) Convertible debentures 16,331,915 - 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 76,645,019 Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 <td></td> <td></td> <td>139,573,352</td> <td>-</td> <td>139,573,352</td>			139,573,352	-	139,573,352
Bank loans 19,773,793 - 19,773,793 Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) Convertible debentures 16,331,915 - 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 76,645,019 Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 <td>Current Liabilities</td> <td></td> <td></td> <td></td> <td></td>	Current Liabilities				
Bank notes payable 10,067,924 - 10,067,924 Accounts payable and accrued liabilities 17,385,942 - 17,385,942 Income taxes payable a 3,051,017 552,000 3,603,017 Deferred revenue 5,171,128 - 5,171,128 Automobile loans 234,212 - 234,212 Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) -			19.773.793	-	19.773.793
Income taxes payable	Bank notes payable			-	
Deferred revenue				-	
Automobile loans Due to related parties Current portion of convertible debentures Deferred tax liabilities Deferred ta		а		552,000	
Due to related parties 462,302 - 462,302 Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) - Convertible debentures 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366				-	
Current portion of convertible debentures 2,519,786 - 2,519,786 Deferred tax liabilities a 930,000 (930,000) - 59,596,104 (378,000) 59,218,104 Convertible debentures 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366				-	
Deferred tax liabilities a 930,000 (930,000) -				-	
Sp,596,104 (378,000) 59,218,104		_		(020,000)	2,519,786
Convertible debentures 16,331,915 - 16,331,915 Deferred tax liabilities 717,000 378,000 1,095,000 Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366	Deferred tax liabilities	а	-	, , ,	<u>-</u> _
Deferred tax liabilities 717,000 378,000 1,095,000 To percent tax liabilities 76,645,019 - 76,645,019 Share holders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366				(378,000)	
76,645,019 - 76,645,019 Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366					
Shareholders' Equity Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366	Deferred tax liabilities		717,000	378,000	1,095,000
Share capital 7,402,304 - 7,402,304 Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366			76,645,019	<u>-</u>	76,645,019
Contributed surplus b 8,499,428 (4,961,549) 3,537,879 Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366	Shareholders' Equity				
Reserves 4,297,509 - 4,297,509 Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366				-	
Equity component of convertible debentures d 2,779,401 (336,750) 2,442,651 Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366		b		(4,961,549)	
Retained earnings 35,607,674 7,442,950 43,050,624 Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366		_		-	
Accumulated other comprehensive income (loss) - foreign currency translation adjustment c 4,342,017 (2,144,651) 2,197,366		d			
currency translation adjustment c 4,342,017 (2,144,651) 2,197,366			35,607,674	7,442,950	43,050,624
		С	4.342.017	(2.144.651)	2.197.366
01,010,000				-	,
139,573,352 - 139,573,352				-	

Boyuan Construction Group, Inc.Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

26. TRANSITION TO IFRS (continued)

The Canadian GAAP consolidated statement of net income and comprehensive income for the year ended June 30, 2011 has been reconciled to IFRS as follows:

		Year Ended June 30, 2011			
	_	Canadian			
		GAAP	IFRS	IFRS	
	Note	balances	adjustments	balances	
		\$	\$	\$	
Construction revenue		186,127,572	-	186,127,572	
Cost of construction		154,969,068	-	154,969,068	
Gross profit		31,158,504	-	31,158,504	
Expenses					
Amortization of property and equipment		1,325,075	-	1,325,075	
General and administrative		4,094,043	-	4,094,043	
		5,419,118	-	5,419,118	
Income from operations		25,739,386	-	25,739,386	
Other Income (Expenses)					
Interest and other income		341,543	-	341,543	
Foreign exchange loss		(39,301)	-	(39,301)	
Interest expense		(4,387,639)	-	(4,387,639)	
Debenture valuation gain		704,418	-	704,418	
Stock-based compensation		(1,164,860)	-	(1,164,860)	
Interest related to minimum total return		(1,076,507)	-	(1,076,507)	
		(5,622,346)	<u>-</u>	(5,622,346)	
Net income before income taxes		20,117,040	_	20,117,040	
Income taxes (recovery)	d	6,524,439	(336,750)	6,187,689	
Net income		13,592,601	336,750	13,929,351	
Other Comprehensive Income					
Foreign exchange translation adjustment		2,197,366	-	2,197,366	
Comprehensive Income		15,789,967	336,750	16,126,717	

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

26. TRANSITION TO IFRS (continued)

Notes to the reconciliations

a) IAS 1, Presentation of Financial Statements, requires presentation of deferred income tax assets and deferred income tax liabilities as non-current assets and liabilities. pursuant to IAS 12, the Company reclassified deferred income tax assets and deferred income tax liabilities from current to non-current assets and liabilities.

The Company acquired certain machinery and equipment from the CEO as capital contribution from the CEO. The amortization of these machinery and equipment are not deductible for PRC tax purposes, resulting in a taxable temporary difference at the time of acquisition. IAS 12, *Income Taxes*, does not require recognition of deferred tax liability if the taxable temporary difference arises from the initial recognition of an asset which is not a business combination and does not affect accounting profit or taxable profit at the time of acquisition. The Company applied the IAS 12 retrospectively to not recognize the related deferred tax liability on the initial acquisition of these machinery and equipment. The impact was a reclassification of \$792,000 deferred income tax expenses to current income tax expenses.

- b) The Company recognized made good provision in 2009 and 2010 fiscal years totaling \$4,961,549 to operations and a corresponding credit to contributed surplus for escrow common shares transferred back to the original shareholders under certain terms of convertible debentures issued in 2009. There is no provision to recognize the expense under IFRS. Accordingly, the Company retroactively reversed the expenses to retained earnings and contributed surplus.
- c) The Company has elected to transfer the balance of its cumulative translation adjustments reported in accumulated other comprehensive income under Canadian GAAP to retained earnings upon transition to IFRS under IFRS 1.
- d) As at June 30, 2011, the Company recognized a deferred tax liability of \$336,750 under IFRS relating to the difference between the accounting and tax basis of the liability portion of the Company's convertible debenture issued November 2010 (Note 16(a)). Under Canadian GAAP, no temporary difference is recognized when the convertible debenture can be settled without the incidence of tax. Initial recognition of this temporary difference is recorded against the equity component of the convertible debenture, and subsequent reversal is recorded through comprehensive income. For the year ended June 30, 2011, this adjustment resulted in reduced deferred tax expense of \$336,750.

Under IFRS, deferred income tax balances are all classified as non-current, regardless of the classification of the asset or liability to which they relate. Under previous Canadian GAAP, the deferred tax balances were classified based upon the classification of the assets and liabilities to which they relate.

The following reconciliation of retained earnings provides a quantification of the effect of the transition to IFRS and the restated comparative year.

	Note	June 30, 2011 \$	July 1, 2010 \$
Retained earnings previously reported under Canadian GAAP		35,607,674	23,537,584
Make good provision reversed under IFRS Foreign currency translation adjustment transferred	b	4,961,549	4,961,549
to retained earnings Deferred income tax recovery for	С	2,144,651	2,144,651
temporary difference of convertible debt	d	336,750	<u>-</u>
Retained earnings reconciled to IFRS		43,050,624	30,643,784

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2012 and 2011 (Expressed in US Dollars)

27. SUBSEQUENT EVENTS

- a) On October 2, 2012, the Ontario Securities Commission issued a temporary management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the CEO and CFO of the Company for a period of 15 days as a result of the Company's delay in filing its audited annual financial statements for 2012.
- b) On October 15, 2012, the Ontario Securities Commission issued a management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the CEO and CFO of the Company until all required filings have been made.
- c) The Company received default notices from the trustee of the 11.75% secured convertible debentures due February 28, 2013 on November 7, 2012 and trustee of the 10% unsecured subordinated convertible debentures due October 31, 2015 on November 8, 2012 as a result of the delay in filing its audited annual financial statements for 2012. The trustee advised in the notices that it would be required to deliver default notices to debenture holders which would allow the holders to demand accelerated repayment of the debentures if the default was not cured by December 6, 2012 with respect to the secured debentures or by December 7, 2012 with respect to the unsecured debentures.

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

December 3, 2012

This Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Boyuan Construction Group, Inc. (the "Company") for the fiscal year ended June 30, 2012 ("FY2012") and the fiscal year ended June 30, 2011 ("FY2011"). It should be read in conjunction with the audited consolidated financial statements for FY2012 and FY2011 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. Previously, the Company reported its financial results under Canadian Generally Accepted Accounting Standards (GAAP). Financial results for the corresponding period in 2011 have been restated to reflect the adoption of IFRS. The transition to IFRS reporting has no material impact on the Company's 2011 income statement. Periods prior to 2011 have not been restated. 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 forwardlooking 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 FY2012 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 52 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. via four agreements entered into between the subsidiary entity and Zhejiang Boyuan Construction Co., Ltd. Under the IASB Standing Interpretation Committee Interpretation ("SIC") 12, Consolidation-Special Purpose Entities, this relationship is accounted for as a special purpose entity by the Company. The financial positions and the related results of operations, changes in equity and cash flow are therefore consolidated under the Company.

Recognition of revenue

Construction revenue includes the initial amount agreed in the contract plus any variations in construction work and changes, to the extent that it is probable that it will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be

estimated reliably, contract revenue is recognized in profit or loss using the percentage of completion method. The percentage of completion is assessed by reference to the proportion of the actual costs incurred to date compared to the estimated total costs at the end of each reporting period for each contract. Revenue and contract cost estimates are revised on an ongoing basis based on changes in price and in the scope of each contract. Any changes made to the contract scope are reflected in the percentage of completion of applicable contracts in the same period as the change in estimate occurs.

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

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

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

Critical Accounting Estimates and Judgments

Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

Critical judgments

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

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

The value of construction contracts usually increases over the duration of the construction period. Change orders may be issued by our customers to modify the original contract scope of work or conditions. Construction work related to a change order may proceed, and costs may be incurred, in advance of final determination of the value of the change order. Revenue on change orders is recognized by the Company to the extent that management estimates that realization is probable. As many change orders are settled at the end of the construction project, significant increases or decreases in revenue and income may arise during any particular accounting period.

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

OVERALL PERFORMANCE

Revenue for FY2012 was \$189.3 million, up 1.7% from \$186.1 million for FY2011. Net income after taxes for FY2012 was \$9.4 million or \$0.36 per share fully diluted. This compares to \$13.9 million, or \$0.54 per fully diluted share, for FY2011.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's audited consolidated financial statements for the three years ended June 30, 2012, 2011 and 2010:

US\$'000 (except earnings per share amounts)	2012	2011	2010
Operating Results			
Construction revenue	189,258	186,127	147,344
Cost of construction	158,619	154,969	121,775
Gross profit	30,639	31,158	25,569
Net income	9,351	13,929	10,057

US\$'000 (except earnings per share amounts)	2012	2011	2010
Adjusted net income	9,351	13,929	13,300
Earnings per share			
Basic	0.36	0.65	0.80
Diluted	0.36	0.54	0.43
Adjusted earnings per share (1)			
Basic	0.36	0.65	1.06
Diluted	0.36	0.54	0.51
Financial Position			
Current assets	149,900	122,028	85,050
Non-current assets	22,785	17,545	8,340
Total assets	172,685	139,573	93,390
Current liabilities	95,821	59,218	45,688
Long term debt	1,498	17,427	4,165
Shareholders' equity	75,366	62,928	43,537
Cash dividend per share	Nil	Nil	Nil
Common shares outstanding	25,526,449	25,796,924	16,187,941

⁽¹⁾ Adjusted net income is not a recognized measure under GAAP and excludes a non-cash, stock-based compensation charge of \$3.2 million in FY2010 related to the fair value transfer of shares under the make-good provisions of two separate financing agreements signed respectively in March and July of 2009. The adjusted net income was only applicable to FY2010.

RESULTS OF OPERATIONS

Revenue for FY2012 was \$189.3 million, up 1.7% from \$186.1 million for FY2011. Revenue is recognized on the percentage-of-completion method. The measures introduced by the Chinese central government last year to cool down the real estate market are starting to have a negative impact on our business activities resulting in only a single digit growth in revenue. This is the first time that this has occurred ever since the Company was founded. The Company has also become more selective in taking up new construction projects under the current uncertain economic environment. New projects taken up in FY2012 amounted to \$68.1 million. Most of the Company's projects have duration between 1 to 3 years.

Cost of construction for FY2012 was \$158.6 million, up 2.4% from \$155 million for FY2011. The increase was primarily as a result of higher expenses associated with greater project volume. Cost of construction includes all direct material, labour, subcontract and other related costs, such as equipment repairs. The two major components of the cost of construction are direct material and labour costs. Direct material costs were \$114.9 million and labour cost was \$39.4 million in FY2012. In comparison, direct material costs and labour costs were \$109.2 million and \$35.7 million in FY2011.

Gross profit for FY2012 was \$30.6 million, representing a margin of 16.2% on revenue. Gross profit for FY2011 was \$31.2 million, representing a margin of 16.7% on revenue. We have experienced a slight downward pressure on our margins under the current real estate market situation in China. Developers are becoming more prices sensitive and have longer development cycles thus eroding some of our normal margins. Historically, Boyuan's gross profit margins have been in the range of 15% to 17%.

G&A expenses were \$4.8 million in FY2012 compared to \$4.1 million in FY2011. The increase was a result of the Company having to continue to strengthen its management team in response to its listing status since March 2009. The increase in its business activities also contributed to the increase in general expenses such as travelling.

Interest expense was \$7.4 million in FY2012, an increase of \$3.1 million over FY2011. The increase was due to increase in borrowing of \$27.2 million and having to incur the full year's interest expense for the convertible debentures issued in November 2010. The average interest rates for bank loans were also higher this year due to the generally tight liquidity situation in the PRC.

The Company also incurred a minimum total return (MTR) charge of \$0.8 million for FY2012 compare to \$1.1 million in FY2011. MTR charges were determined based on the provisions of previous financing activities. Investors of the Company's convertible debentures issued on February 2009 were entitled to a MTR right of 25% per annum on their units. The calculation is based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on the convertible debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, on February 27, 2012. The final MTR payment incurred by the Company was \$2,188,503.

After-tax net income for FY2012 was \$9.4 million, or \$0.36 per fully diluted share, compared to net income of \$13.9 million, or \$0.54 per fully diluted share for FY2011. The decrease was principally due to smaller gross margin, increase in amortization expenses and interest expenses.

Boyuan had working capital of \$54.1 million, including cash, cash equivalents, and restricted cash totalling \$11.1 million as at June 30, 2012. This compares to \$62.8 million and \$8.8 million, respectively at June 30, 2011.

FOURTH QUARTER RESULTS

The following table sets forth the selected financial information in the three months ended June 30, 2012 and 2011:

US\$'000 (except earnings per share amounts)	Three months ended June 30		
Operating Results	2012	2011	
Revenue	42,891	56,578	
Cost of construction	35,264	46,998	
Gross profit	7,627	9,580	
Net income	1,287	4,274	
Earnings per share			
Basic	0.05	0.17	
Diluted	0.05	0.15	

Revenue for the three-month period ended June 30, 2012 was \$42.9 million, down 24.2% from \$56.6 million for Q4 FY2011. Historically, the fourth quarter was the Company's strongest and busiest period due to a variety of seasonal factors, and last year the Company had an exceptionally strong Q4. However, some of the current construction projects have

construction period longer than originally planned therefore reducing the revenue recorded in this period.

Cost of construction for Q4 FY2012 was \$35.3 million, down 25% from \$47 million for Q4 FY2011. The decrease was consistent with the decrease in construction revenue recorded in this period.

Gross profit for Q4 FY2012 was \$7.6 million, representing a margin of 17.8% on revenue. Gross profit for Q4 FY2011 was \$9.6 million, representing a margin of 16.9% on revenue.

Net income for Q4 FY2012 was \$1.3 million or \$0.05 per diluted share. These compare to \$4.3 million and \$0.15, respectively, for Q4 FY2011.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	June 30, 2012	June 30, 2011	July 1, 2010
	\$	\$	\$
Due from related parties			
Due from company controlled by the Chairman and			
Chief Executive Officer ("CEO")	83,966	82,572	-
Due from the Chairman and CEO and his wife	-	1,315,158	
	83,966	1,397,730	
Due to related parties			
Due to the Chairman and CEO Due to company controlled by the Chairman	-	-	171,925
and CEO	-	462,302	420,289
	-	462,302	592,214

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

Funds advanced to a related party

In the Company's consolidated financial statements for the year ended June 30, 2011, the Company reported that it had advanced \$7,022,205 to a developer (an unrelated party) for a construction project, of which \$4,286,948 was advanced through the wife of the CEO directly to the developer.

The balance of \$2,735,257 was advanced to a company ("Honsgain") in which the CEO's wife was the sole shareholder on title. On November 8, 2010 as requested by the developer the CEO's wife entered into a declaration of trust with the developer to hold the shares of Honsgain in trust for the developer. The CEO and the CEO's wife are not related to the developer. The declaration of trust gave the developer control and beneficial ownership of

Honsgain and the CEO's wife acted as a nominee for the beneficial owner.

The developer was a foreign invested company. The developer intended at the time to invest in a commercial development in Haining, a city in Zhejiang province, PRC. Under PRC regulations, the registered capital of a foreign invested company has to be in a foreign currency (i.e non RMB). The developer at the time was experiencing a cash flow problem for the purpose of meeting certain funding requirements, including foreign currency requirements, associated with the Haining Project. The developer thus asked the Boyuan for a short term loan in order to address their short term cash flow problems.

The funds were advanced with the intention that the Company would be awarded the construction contract in Haining. The total construction value of the project was estimated to be approximately CDN\$70 million.

The advances were secured by a loan agreement dated November 1, 2010. The loan was non-interest bearing and the borrower agreed to repay the loan by May 30, 2011 ("**Due Date**"). In addition, the borrower agreed to pay a penalty of 2% per month if the loan was not repaid by the Due Date. The project did not materialize and the full amount was repaid to the Company by May 2011, of which \$1,012,955 was repaid through the wife of the CEO.

Funds held by a related party

At June 30, 2011, the Company's CEO and his wife together held \$1,315,158 (RMB8,500,000) in term deposits in trust for the Company. In FY2012, these term deposits were transferred to the Company's bank account on maturity. During FY2012, the Company reclassified the amounts due from the CEO and his wife as of June 30, 2011 from cash and cash equivalents to amounts due from related parties.

Key management personnel compensation

The Company incurred salaries and fees to the following key management personnel:

	FY2012 \$	FY2011 \$
Chairman and CEO Chief financial officer Secretary Vice president Directors	226,600 115,891 32,530 18,177 79,297	202,000 101,000 31,590 16,200 76,459
	472,495	427,249

Share-based compensation expense of \$557,840 (FY2011- \$831,237) 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 the Company's selected quarterly financial information for each of the eight quarters ended June 30, 2012:

US\$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q4, FY2012	42,891	1,287	0.05	0.05
Q3, FY2012	38,737	2,186	0.08	0.08
Q2, FY2012	54,295	3,050	0.12	0.11
Q1, FY2012	53,334	2,828	0.13	0.12
Q4, FY2011	56,578	4,677	0.18	0.17
Q3, FY2011	41,042	3,145	0.12	0.10
Q2, FY2011	45,464	3,324	0.18	0.14
Q1, FY2011	43,044	2,783	0.17	0.10

LIQUIDITY AND CAPITAL RESOURCES

US\$'000	Q4, FY2012	Q4, FY2011	FY2012	FY2011
Operating activities	(1,678)	(4,206)	(11,632)	(4,634)
Investing activities	(7,697)	(3,633)	(8,590)	(9,894)
Financing activities	9,221	5,343	18,210	14,433
Effect of currency translation	(88)	76	97	241
Net Increase in cash and cash equivalents	(242)	(2,420)	(1,915)	146

Net cash used in operating activities was \$11.6 million for the FY2012 compared to \$4.6 million in FY2011. The increase was primarily caused by the increase in the Company's unbilled revenue and advances to suppliers and a smaller net income for FY2012.

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 in investing activities was \$8.6 million in FY2012 and \$7.7 million for the last quarter of FY2012. For FY2011 and the last quarter of FY2011, net cash used was \$9.9 million and \$3.6 million respectively. All cash used in investment activities were related to acquisition of equipment.

Net cash provided from financing activities was \$18.2 million in FY2012, an increase of \$3.8 million over FY2011. Net cash provided from financing activities was \$9.2 million in the last quarter of FY2012 and \$5.3 million in the corresponding quarter in FY2011. Most of the

increase came from the increase in the bank borrowing. In FY2012 the Company also redeemed \$1.3 million of the Secured Debentures maturing on February 27, 2013.

As a result of the rapid expansion of construction activities, the Company has experienced negative operating cash flows in a number of years prior to FY2012 due to the time lag between construction costs incurred and revenue received. In FY2012, the Company was more selective in taking on new projects under the current uncertain real estate market and the tight liquidity situation in PRC thus restricting the growth of the construction activities in the year. Under the current market conditions, developers tend to extent their development cycle (thus construction period) and take longer time to pay their suppliers. This was the main reason why the Company continued to experience negative operating cash flows in FY2012 despite the lack of growth in construction activities.

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 \$3.1 million as at June 30, 2012 as compared to a cash and cash equivalents balance of \$5 million as at June 30, 2011. The Company had \$149.9 million in current assets and \$95.8 million in current liabilities as at June 30, 2012.

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

non-transferable warrants, 250 non-transferable rights and 250 non-transferable additional rights.

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

On 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 Secured Debentures outstanding of \$6.5 million and Unsecured Debentures outstanding of \$15 million that can be converted into 3,301,250 and 5,769,230 common shares respectively. The Company also has 3,129,900 warrants outstanding exercisable into 3,129,900 common shares. The outstanding share options granted to directors and officers are 2,215,000.

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.

On February 27, 2012, the Company redeemed CDN\$1,297,250 of the Secured Debentures outstanding.

Off Balance Sheet Arrangements

As at June 30, 2012, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

FINANCIAL INSTRUMENTS

Interest Rate and Credit Risk

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

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

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

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

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

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in Canada and China and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company

to foreign exchange risks. A significant change in the currency exchange rates between the US or Canadian dollar relative to the RMB could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the period which a change in foreign exchange rate during the year ended June 30, 2012 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 \$800,000. 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 \$1,760,000.

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 June 30, 2012:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	\$	\$	\$	\$	\$
Bank loans	37,640,670	(37,640,670)	(19,773,793)	-	-
Notes payable	13,091,997	(13,091,997)	(10,067,924)	-	-
Short - term loan	6,262,491	(6,262,491)	(8,106,192)	-	-
Accounts payable	6,805,525	(6,805,525)	(462,302)	-	-
Automobile loans	86,692	(86,692)	(234,212)	-	-
Convertible debentures	17,810,999	(21,197,380)	(21,197,380)	-	-
Total	81,698,374	(85,084,755)	(85,084,755)	-	-

Economic, political, & legal risk

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

RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("**IFRIC**") that are mandatory for accounting periods beginning after January 1, 2012, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective January 1, 2013

- Amendments to IFRS 7 Financial Instruments: Disclosures In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2013, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed interim financial statements.
- IFRS 10 Consolidated Financial Statements IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.
- IFRS 11 *Joint Arrangements* IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities Non-monetary Contributions by Venturers*.
- IFRS 12 Disclosure of Interests in Other Entities IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

- IFRS 13 Fair Value Measurement IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.
- Amendments to IAS 1 *Presentation of Financial Statements* The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

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

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

New accounting standards effective January 1, 2015

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

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. The Company has not yet begun the process of assessing the impact

that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

TRANSITION TO IFRS

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated July 1, 2010:

(a) Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occur on or after July 1, 2010.

(b) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

(c) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

(d) IAS 27 – Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

(e) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP,

unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its Canadian GAAP estimates for that date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP consolidated statements of operations and comprehensive income (loss), for the three months ended September 30, 2010 and the year ended June 30, 2011 have been reconciled to IFRS, with the resulting differences explained. In addition, the consolidated statements of financial position as at September 30, 2010 and July 1, 2011 have been reconciled with the resulting differences explained in the audited consolidated financial statements for FY2012.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109. The control framework used in the design of both DC&P and ICFR is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management does not expect the Company's disclosure controls and internal controls can prevent all errors or fraud. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all controls issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

The design and effectiveness of internal controls over financial reporting was assessed as of June 30, 2012. 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 migrated its first component, the accounting and financial reporting module, into the new system.

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. The Company is in the process of implementing the rest of the recommendations and also plans to engage the same consulting company for an updated review and make additional recommendations.

There has been no change in the design of the Company's internal controls over financial reporting during the quarter ended June 30, 2012 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

SUBSEQUENT EVENTS

- a) On October 2, 2012, the Ontario Securities Commission issued a temporary management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the CEO and CFO of the Company for a period of 15 days as a result of the Company's delay in filing its audited annual financial statements for 2012.
- b) On October 15, 2012, the Ontario Securities Commission issued a management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the CEO and CFO of the Company until all required filings have been made.
- c) The Company received default notices from the trustee of the Secured Debentures due on November 7, 2012 and trustee of the 10% unsecured subordinated convertible debentures due October 31, 2015 on November 8, 2012 as a result of the delay in filing its audited annual financial statements for 2012. The trustee advised in the notices that it would be required to deliver default notices to debenture holders which would allow the holders to demand accelerated repayment of the debentures if the default was not cured by December 6, 2012 with respect to the Secured Debentures or by December 7, 2012 with respect to the unsecured debentures.

OUTLOOK

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

CORPORATE DIRECTORY

Management

Shou Cailiang
Chairman, President & Chief Executive Officer

Paul Law Chief Financial Officer

Shu Ren Secretary

Board of Directors

Shou Cailiang
Chairman, Director, President &
Chief Executive Officer

Francis Leong Lead Director

Manhong Liu *Director*

John (Jack) Duffy *Director*

Dr. Fan Lixin *Director*

Shu Ren
Director and Secretary

Tang Wei
Director and Vice President

Corporate Office

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Auditors

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Transfer Agent

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Stock Exchange Listing

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