Boyuan Construction Group, Inc.

Consolidated Financial Statements

For The Nine Months Ended

March 31, 2011 and 2010

(Unaudited)

Notice of No Auditor Review of Interim Consolidated Financial Statements

The accompanying unaudited interim Consolidated financial statements have been prepared by management and approved by the Audit Committee.

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

Boyuan Construction Group, Inc.

Consolidated Balance Sheets
(Expressed in US Dollars)

	(Unaudited) March 31, 2011 $	(Audited) June 30, 2010 $
Current Assets		
Cash and cash equivalents	8,734,249	4,853,755
Restricted cash (Note 6)	11,664,582	3,872,488
Accounts receivable	827,378	676,187
Unbilled revenue	57,345,420	49,778,594
Other receivables	5,855,314	1,577,310
Inventory	112,631	390,130
Advances to suppliers and prepaid expenses	25,869,446	14,516,086
Deposits	11,218,019	9,385,787
Future income tax assets	294,000	479,000
	121,921,039	85,529,337
Property and equipment (Note 8)	9,488,467	8,213,535
Land use rights (Note 9)	135,559	126,392
	131,545,065	93,869,264
Current Liabilities		
Bank loans (Note 10)	19,193,010	19,480,040
Bank notes payable (Note 10)	11,674,099	6,151,475
Accounts payable and accrued liabilities	13,890,646	12,304,290
Income taxes payable	7,118,499	3,038,947
Deferred revenue	1,634,949	1,057,840
Automobile loans	241,136	382,425
Due to related parties (Note 7)	83,713	592,214
Current portion of convertible debentures (Note 11)	2,530,591	2,223,048
	56,366,643	45,230,279
Accrued liabilities (Note 11)	1,140,242	374,976
Future income tax	930,000	808,000
Convertible debentures (Note 11)	16,197,585	3,919,428
	74,634,470	50,332,683
Shareholders' Equity		
Share capital (Note 12)	7,422,943	7,374,344
Contributed surplus (Note 13)	8,295,165	7,332,471
Reserve (Note 14)	4,300,710	2,774,998
Equity component of convertible debentures (Note 11)	2,780,946	372,533
	22,799,764	17,854,346
Retained earnings	31,330,384	23,537,584
Accumulated other comprehensive income	2,780,447	2,144,651
	34,110,831	25,682,235
	56,910,595	43,536,581
	131,545,065	93,869,264

Approved on behalf of the Board:

"David Horsley"
David Horsley, Director

"Francis Leong"
Francis Leong, Director

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Income and Comprehensive Income
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2011 $	March 31, 2010 $	March 31, 2011 $	March 31, 2010 $
Construction revenue	41,042,195	31,047,790	129,550,344	103,663,405
Cost of construction	34,107,605	25,888,544	107,970,636	86,113,559
Gross profit	6,934,590	5,159,246	21,579,708	17,549,846
Expenses				
Amortization of property and equipment	293,031	149,460	822,933	438,690
General and administrative expenses	1,043,641	1,135,091	2,982,389	2,910,749
	1,336,672	1,284,551	3,805,322	3,349,439
Income from operations	5,597,918	3,874,695	17,774,386	14,200,407
Other Income (expense)				
Interest and other income	22,074	28,264	180,502	215,042
Foreign exchange gain (loss)	4,091	(21,071)	114,137	(88,569)
Interest expense	(1,131,346)	(547,253)	(2,999,608)	(1,684,514)
MTR expense	(312,756)	-	(962,721)	-
Debentures valuation gain (Note 11)	704,418	-	704,418	-
Stock- based compensation (Note 12)	(308,011)	(101,028)	(962,694)	(101,028)
Make good provision (Note 11(b))	-	-	-	(3,243,192)
	(1,021,530)	(641,088)	(3,925,966)	(4,902,261)
Net income before income taxes	4,576,388	3,233,607	13,848,420	9,298,146
Income taxes (Note 15)	(1,409,550)	(1,077,153)	(4,529,908)	(3,834,860)
Net income for the period	3,166,838	2,156,454	9,318,512	5,463,286
Other Comprehensive Income (loss)				
Unrealized gain (loss) on foreign exchange translation	(88,920)	15,950	635,796	11,993
Comprehensive income for the period	3,077,918	2,172,404	9,954,308	5,475,279
Earnings per share, basic (Note 20)	$0.12	$0.16	$0.47	$0.47
Earnings per share, diluted (Note 20)	$0.10	$ 0.09	$0.37	$0.24
Weighted average number of common shares outstanding, basic (Note 20)	25,782,308	13,763,663	19,972,642	11,506,584
Weighted average number of common shares outstanding, diluted (Note 20)	35,567,219	29,716,735	29,757,553	27,459,656

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

Consolidated Statements of Retained Earnings
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2011 $	March 31, 2010 $	March 31, 2011 $	March 31, 2010 $
Retained earnings, beginning of period	28,163,546	16,801,911	23,537,584	14,326,995
Net income for the period	3,166,838	2,156,454	9,318,512	5,463,286
Transfer to reserve	-	-	(1,525,712)	(831,916)
Retained earnings, end of period	31,330,384	18,958,365	31,330,384	18,958,365

Consolidated Statements of Accumulated Other Comprehensive Income
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2011 $	March 31, 2010 $	March 31, 2011 $	March 31, 2010 $
Accumulated other comprehensive income, beginning of period	2,869,367	1,749,668	2,144,651	1,753,625
Foreign exchange translation adjustment	(88,920)	15,950	635,796	11,993
Accumulated other comprehensive income, end of period	2,780,447	1,765,618	2,780,447	1,765,618

Boyuan Construction Group, Inc.

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

	Three Months Ended		Nine Months Ended	
	March 31, 2011 $	March 31, 2010 $	March 31, 2011 $	March 31, 2010 $
OPERATING ACTIVITIES				
Net income (loss) for the period	3,166,838	2,156,454	9,318,512	5,463,286
Items not involving cash:				
Amortization of property and equipment	293,031	149,460	822,933	438,690
Interest accretion	999,363	389,211	2,180,711	1,105,567
Make good provision	-	-	-	3,243,192
Debentures valuation gain	(704,418)	-	(704,418)	-
Stock- based compensation	308,011	101,028	962,694	101,028
Unrealized foreign exchange gain (loss)	965,956	(244,733)	517,597	18,772
	5,028,781	2,551,420	13,098,029	10,370,535
Changes in other assets and liabilities:				
Accounts receivables	346,383	(1,338,825)	(129,075)	2,939,430
Unbilled revenue	11,403,144	(1,396,565)	(8,254,377)	(11,708,022)
Other receivable	(252,593)	(1,471,071)	(4,244,955)	(5,917,794)
Inventories	7,297	5,989	289,190	656,863
Advance to suppliers and prepaid expenses	(7,565,876)	(3,247,046)	(10,854,843)	(11,262,142)
Deposits	(646,097)	-	(1,526,037)	-
Accounts payable and accrued liabilities	(4,147,627)	185,130	3,268,568	2,752,050
Deferred revenue	(1,159,595)	(352,252)	541,581	(1,320,311)
Income taxes payable	1,914,784	1,027,852	4,781,322	3,739,895
Due from / to related parties	(429,796)	2,949	(507,666)	(250,645)
Cash provided by (used in) operating activities	4,498,805	(4,032,419)	(3,538,263)	(10,000,141)
INVESTING ACTIVITIES				
Acquisition of equipment	(1,248,440)	(179,049)	(1,835,963)	(1,541,542)
Acquisition of intangible assets	-	-	-	1,158
Cash used in investing activities	(1,248,440)	(179,049)	(1,835,963)	(1,540,384)
FINANCING ACTIVITIES				
Restricted cash	(4,242,324)	-	(7,645,153)	-
Bank loans	62,809	5,493,135	(910,553)	6,174,388
Bank notes payable	299,372	-	5,309,285	-
Auto loan	(49,578)	(30,179)	(153,132)	(35,611)
Convertible debentures, net	(166,644)	(227,875)	12,462,442	2,994,801
Deferred financing costs	-	103,858	-	(106,761)
Proceeds from issuance of common stock, net	26,606	76,040	26,606	1,284,310
Contribution from shareholders (Note 13)	-	-	-	1,850,714
Cash provided by financing activities	(4,069,759)	5,414,979	9,089,495	12,161,841
Effect of changes in exchange rates on cash	(32,668)	1,145	165,225	7,103
Increase (decrease) in cash	(852,062)	1,204,656	3,880,494	628,419
Cash and cash equivalents, beginning	9,586,311	4,890,690	4,853,755	5,466,927
Cash and cash equivalents, ending	8,734,249	6,095,346	8,734,249	6,095,346
Supplemental disclosure of cash flow information:				
Cash paid for interest	481,630	383,667	1,726,287	1,520,928
Cash paid for income taxes	10,568	24,283	17,774	71,370

Significant non-cash transactions (Note 16)

See accompanying notes to consolidated financial statements.

(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Boyuan Construction Group, Inc. (the "Company"), formerly SND Energy Ltd. ("SND"), was incorporated under the Canada Business Corporations Act on May 4, 2007.

On February 27, 2009, SND and Hong Kong Wealthy Holdings Limited ("HKCo"), a company incorporated on July 4, 2008 under the Companies Ordinance of Hong Kong, entered into an agreement whereby SND acquired HKCo and its wholly-owned subsidiary Zhejiang Boyuan Trading Co., Limited ("China Privco"). China Privco is a wholly foreign owned enterprise and was incorporated on November 25, 2008 under the business laws of the Peoples Republic of China ("PRC" or "China"). China Privco consolidates the accounts of Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang") through its variable interest entity relationship as it is the primary beneficiary of Zhejiang. The acquisition was accomplished through an exchange of shares which resulted in the former shareholders of HKCo obtaining control of SND. Accordingly, this transaction was recorded as a reverse takeover ("RTO") for accounting purposes as HKCo was deemed to be the acquirer and these consolidated financial statements are deemed to be a continuation of the financial statements of HKCo and its predecessors, China Privco and Zhejiang, while the capital structure is that of SND. These consolidated financial statements are presented on a continuity of interest basis and reflect the financial position, results of operations and cash flows as if the Company had always carried on the business formerly carried on by HKCo, China Privco.

Concurrent with this transaction, the Company changed its name from SND Energy Ltd. to Boyuan Construction Group, Inc. The Company's primary business, through its interest in Zhejiang, is in the construction of residential and business buildings, municipal infrastructure and engineering projects in PRC.

2. ACQUISITION

Acquisition of HKCo

On February 27, 2009, SND entered into an agreement to acquire all of the issued and outstanding shares in HKCo. Pursuant to the terms of the agreement, the Company consolidated its share capital on the basis of 1 post-consolidation share for every 1,258.0342 pre-consolidation shares. The Company issued 3,104,741 of its post-consolidated common shares and 21,270,259 of its preferred shares to complete the acquisition. As the transaction resulted in the shareholders of HKCo owning 98.6% of the issued shares of the Company, the acquisition has been accounted for as a capital transaction resulting from a reverse takeover as described above. The Company paid a sponsorship fee of $323,673 in connection with the acquisition.

As the shares of the Company were thinly traded and were not considered to represent the best estimate of the fair value of the net assets acquired, and accordingly, the acquisition fair value of net assets acquired was recorded based on carrying amounts as follows. The $323,671 excess of transaction costs over net asses acquired was charged to retained earnings for the year ended June 30, 2009.

Net assets acquired	$	-
Transaction costs		(323,672)
Excess of transaction costs over net assets acquired	$	(323,672)

2. ACQUISITION (continued)

Consolidation of Variable Interest Entity (Zhejiang)

Pursuant to four agreements dated January 10, 2009 among China Privo, 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) 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.

China Privco effectively is in control of and is the primary beneficiary of Zhejiang's operations. Accordingly, management determined that China Privco has a variable interest in Zhejiang and China Privco consolidates the accounts of Zhejiang. Zhejiang was incorporated on January 17, 2000 under the business laws of PRC and was a company owned by the common shareholders of HKCo on January 10, 2009. As the agreements are only a rearrangement of the legal interest of the controlling shareholders, the Company applied the "continuity-of-interest" accounting whereby the consolidated financial statements reflect the Company's financial position, statements of income and comprehensive income and cash flows as if Zhejiang had always been the combined entity. The reported income of the combined entity includes income of the combined companies for the entire fiscal period in which the combination took place, and the consolidated financial statements of the combined entity presented for prior periods are restated to reflect the financial position and results of operations as if the companies had been combined since their inception. Assets and liabilities of the combined entity are reflected at their net book value as reported in the financial statements of the combined companies.

3. BASIS OF CONSOLIDATION AND PRESENTATION

These consolidated financial statements include the assets and operations of the Company, HKCo, China Privco and Zhejiang. The Company has contractual agreements with Zhejiang whereby the Company has control in and is the primary beneficiary of Zhejiang's operations effective January 10, 2009.

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

4. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly, do not include all information and note disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented, have been made. Results for the interim periods presented are not necessarily indicative of the results that may be expected for the year or for any other period. These unaudited interim consolidated financial statements have been prepared using the same accounting policies used in the preparation of the Company's audited consolidated financial statements for the year ended June 30, 2010, and should be read in conjunction with those financial statements and notes thereto.

These consolidated financial statements are expressed in US Dollars and are prepared in accordance with Canadian generally accepted accounting principles.

(Expressed in US Dollars)

5. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2009, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. In July 2009 AcSB announced that early adoption will be allowed in 2010 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

6. RESTRICTED CASH

Restricted cash represents compensating balances held at banks to partially secure banking facilities in the form of loans and notes payable. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding loans and notes payable, and the funds are only allowed to be used to settle bank indebtedness (see Note 10). 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 for increase or extension of credit facilities.

7. DUE TO RELATED PARTIES

	March 31, 2011 $	June 30, 2010 $
Due to the Chairman and Chief Executive Officer ("CEO")	-	171,925
Due to companies controlled by the Chairman and CEO	83,713	420,289
	83,713	592,214

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

8. PROPERTY AND EQUIPMENT

	At March 31, 2011			At June 30, 2010
	Cost $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Machinery and equipment	6,338,490	2,693,835	3,644,655	3,839,342
Buildings	2,579,087	667,180	1,911,907	1,911,707
Vehicles	1,429,879	508,242	921,637	968,065
Construction in progress	1,532,852	-	1,532,852	684,238
Office equipment	1,058,775	290,768	768,007	705,676
Leasehold improvements	989,634	280,225	709,409	104,507
	13,928,717	4,440,250	9,488,467	8,213,535

9. LAND USE RIGHTS

	March 31, 2011 $	June 30, 2010 $
Balance, at cost	138,598	133,114
Accumulated amortization	(3,039)	(6,722)
Net book value	135,559	126,392

In June 2006, Zhejiang acquired a 50 year land use right from a company controlled by the Chairman and Chief Executive Officer at a nominal carrying value. The right expires on July 19, 2050. In June 2007, Zhejiang acquired another 50 year land use right for RMB769,719 for a piece of land in Jiaxing, Zhejiang, PRC. The right expires on August 23, 2056.

(Expressed in US Dollars)

10. BANK LOANS AND NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates of 4.94% to 6.97% (June 30, 2010 – 4% to 9.36%), weighted average at 5.56% (June 30, 2010 – 5.64%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $16,737,200 in aggregate provided by construction project developers and the Chairman and CEO of the Company.

(b) The bank notes are due within six months and are non-interest bearing. The notes are secured by compensating deposit held by the banks (see Note 6).

11 CONVERTIBLE DEBENTURES

	March 31, 2011 $	June 30, 2010 $
Balance, beginning of period	6,142,476	1,880,200
Gross proceeds from issue	14,799,000	4,174,620
Issue costs	(1,387,035)	(756,251)
Amount allocated to the equity component	(2,408,413)	(235,488)
Interest accretion	2,180,711	1,510,837
Interest paid	(949,523)	(913,300)
Transfer of debentures converted to common shares	(21,607)	(3,566)
Debenture valuation adjustment	(704,418)	-
Foreign exchange loss on translation	1,076,985	485,424
Balance, end of period	18,728,176	6,142,476

The amount of convertible debentures due, if unconverted, in the next three years are as follows:

	$
Due on February 28, 2012	2,718,250
Due on February 28, 2013	5,404,880
Due on October 31, 2015	15,424,160
Total principal	23,547,290
Less: interest at weighted average effective interest rate of 19.41%	(4,819,114)
	18,728,176
Less: current portion	(2,530,591)
Non-current portion	16,197,585

(a) Convertible Debentures – Principle Amount of $2,531,180

Concurrent with the RTO transaction described in Notes 1 and 2, the Company completed a financing of $3,226,568 (CDN$4,100,000). 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 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 February 27, 2013.

11 CONVERTIBLE DEBENTURES (continued)

(a) Convertible Debentures – Principle Amount of $2,531,180 (continued)

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 $137,295 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 $1,660,377 was computed as the present value of future principal and interest payments discounted at a rate of 28% per annum.

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.

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, 2013. For the nine months ended March 31, 2011, the Company recorded MTR expenses of $962,721 and charged to operations. At March 31, 2011 accrued liability for MTR totalled $1,140,242 (June 30, 2010- $374,976)

On February 27, 2011, the redemption of one third of the debenture outstanding principal of $1,065,181 was not exercised by the holders. Based on the redemption date of February 27, 2013 and effective interest rate of 32.64%, the principal amount of the one third outstanding debenture at February 27, 2011 was recalculated to be $751,231. The decreased amount of $313,950 was accounted for as valuation gain and credited to operations.

(b) Convertible Debentures – Principal Amount of $4,175,600

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.

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. On September 30, 2009, a make good provision of $3,243,192 for the fair value of the shares deemed to have been returned to the original shareholders on June 30, 2009 was charged to operations and included in contributed surplus.

On February 27, 2011, the redemption of one third of the debenture outstanding principal of $1,679,185 was not exercised by the holders. Based on the redemption date of February 27, 2013 and an effective interest rate of 28.94%, the principal amount of the one third outstanding debenture at February 27, 2011 was recalculated to be $1,288,717. The decreased amount of $390,468 was accounted for as valuation gain and credited to operations.

(Expressed in US Dollars)

(c) Convertible Debentures – Principal Amount of $12,021,396

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 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 3,846,153 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. The Company paid 6% agents fee of $887,940 and agents legal and expenses of $404,646,and other issue costs of $94,449.

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 $2,408,413 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 $11,003,552 was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum.

12. 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:

	Preferred Shares		Common Shares	
	Number	$	Number	$
Balance, June 30, 2010	9,592,059	-	16,187,941	7,374,344
Conversion of preferred shares into common	(9,592,059)		9,592,059	-
Conversion of debentures	-		13,125	26,992
Transfer from debentures	-		-	21,607
Balance, March 31, 2011	-		25,793,125	7,422,943

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.

On July 9, 2010, 1,000,500 options were granted to directors and officers of the Company, 25% of the options will vest every six months from the date of grant. As of September 30, 2010 the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,140,500 common shares summarized as follows. The options have a weighted average remaining life of 4.19 years.

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance, June 30, 2010	140,000	$2.70 (CAD$2.63)	October 28, 2014
Granted	1,000,500	$2.16 (CAD$2.10)	July 8, 2015
Balance, March 31, 2011	1,140,500	$2.23 (CAD$2.17)	
Exercisable at March 31, 2011	93,334		

(Expressed in US Dollars)

12. SHARE CAPITAL (continued)

Options (continued)

During the nine months ended March 31, 2011, the Company recorded stock-based compensation of $962,694 for the options described above and 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:

	July 8, 2010 Options	October 28, 2009 Options
Risk-free interest rate (%)	2.31%	2.44%
Expected dividend yield (%)	-	-
Expected option life (years)	4	4
Expected stock price volatility (%)	100%	90%

The weighted average grant date fair value for the options was $1.40 for the July 8, 2010 issuance and $1.45 for the October 28, 2009 issuance.

Warrants

	Underlying Shares
Warrants outstanding, June 30, 2010 and March 31, 2011	3,133,700

During the nine months ended March 31, 2010, the Company recorded share issue costs of $272,548 for the 323,700 finders' warrants issued (see Note 11(b)), using the Black-Scholes model with the following weighted average assumptions and resulting issue date fair value:

Risk-free interest rate (%)	2.27%
Expected dividend yield (%)	-
Expected option life (years)	4
Expected stock price volatility (%)	70%

The weighted average issue date fair value for the warrants was $0.84.

Warrants outstanding at March 31, 2011 are as follows:

Exercise Price	Underlying Shares	Expiry
$2.06 (CAD$2.00)	1,223,750	February 28, 2013
$2.06 (CAD$2.00)	1,909,950	July 7, 2013
	3,133,700	

13. CONTRIBUTED SURPLUS

	$
Balance, June 30, 2010	7,332,471
Stock-based compensation (Note 12)	962,694
Balance, March 31, 2011	8,295,165

(Expressed in US Dollars)

14. RESERVE

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. Transfers to the Zhejiang's reserves are as follows:

	$
Balance, June 30, 2010	2,774,998
Transfer from retained earnings	1,525,712
Balance, March 31, 2011	4,300,710

15. 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:

	Nine Months Ended	
	March 31, 2011 $	March 31, 2010 $
Current	4,223,578	3,741,612
Future	306,330	93,248
Total income tax expenses	4,529,908	3,834,860

16. SIGNIFICANT NON-CASH TRANSACTIONS

The Company has the following significant non-cash transactions:

	Nine Months Ended	
	March 31, 2011 $	March 31, 2010 $
Agent's warrants issued pursuant to a public offering	-	272,548
Make good provision	-	3,243,192
Stock-based compensation	962,694	101,028

17. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments includes 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 in amounts 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 in convertible debentures. The fair value of these financial instruments approximates their carrying value under the effective interest method.

(Expressed in US Dollars)

17. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

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

	March 31, 2011 $
Held for trading (i)	20,398,831
Loans and receivables (ii)	17,900,711
Other financial liabilities (iii)	55,975,215

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

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

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

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

	Level 1	Level 2	Level 3	Total 2011
				$
Cash and cash equivalents and restricted cash	$ 20,398,831	$ -	$ -	20,398,831

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and accounts and other receivables. The Company has significant cash and restricted cash balances. To minimize the interest rate and credit risk the Company places these instruments with high credit quality financial institutions located in Canada and PRC. Credit risk from accounts 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 period ended March 31, 2011, revenue from the 2 largest customers accounted for 27% (March 31, 2010 – 5 largest customers accounted for 66%) of total revenue. At March 31, 2011, amounts outstanding from the 5 largest customers accounted for 64% (March 31, 2010 – 53%) of total accounts and other receivables. 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 of assets against its customers, which gives a general contractor a “mechanic lien” 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. 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.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired at March 31, 2011:

	Current	31 – 60 days	61 – 90 days	91 + days	Carrying Value
Accounts receivable	$ 94,000	$ 35,559	$ 18,019	$ -	$ 147,578

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.

17. FINANCIAL INSTRUMENTS (continued)

Financial assets past due (continued)

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

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in Canada and PRC 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 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 March 31, 2011, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $20,308,317, accounts and other receivables of $7,291,083, bank loans and notes payable of $30,867,109, accounts payable of $4,829,678and automobile loan of $241,136 which were denominated in RMB.

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 March 31, 2011:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Above 4 years
	$	$	$	$	$
Bank loans	19,193,010	(19,193,010)	(19,193,010)	-	
Notes payable	11,674,099	(11,674,099)	(11,674,099)	-	
Accounts payable	6,055,081	(6,055,081)	(6,055,081)	-	
Due to related parties	83,713	(83,713)	(83,713)	-	
Automobile loans	241,136	(241,136)	(241,136)	-	
Convertible debentures	18,728,176	(23,547,290)	(2,718,250)	(5,404,880)	(15,424,160)
Total	55,975,215	(60,794,329)	(39,965,289)	(5,404,880)	(15,424,160)

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 period ended March 31, 2011 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 an increase (decrease) of 10% in RMB exchange rate could have no impact on the Company's net income but could have increased or decreased the comprehensive income by approximately $2,279,000.

The above result arises primarily as a result of the Company having RMB denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, bank loans, accounts payable and automobile loans. The financial position of the Company may vary at the time that a change of the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

18. GEOGRAPHIC DISCLOSURES

The Company has two operating segments, the construction of residential and business building, municipal infrastructure and engineering projects in PRC. These two segments share similar economic characteristics and are aggregated into one reporting segment for financial statement presentation purposes.

The Zhejiang's 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 PRC.

(Expressed in US Dollars)

19. 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 bankers as compensating balances to 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.

20. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

	Net income $	Weighted Average No. of Shares outstanding	Earnings per Share $
For the period ended March 31, 2011			
Net income for the year ended March 31, 2011	9,318,512	-	
Weighted average number of shares outstanding	-	19,972,642	
Basic Earnings per Share	9,318,512	19,972,642	0.47
Effect of convertible securities:			
• Stock options	-	65,805	
• Convertible debentures	1,581,033	9,719,106	
Diluted Earnings per Share	10,899,545	29,757,553	0.37

	Net income $	Weighted Average No. of Shares outstanding	Loss per Share $
For the period ended March 31, 2010			
Net income for the period ended March 31, 2010	5,463,286	-	
Weighted average number of shares outstanding	-	11,506,584	
Basic Earnings per Share	5,463,286	11,506,584	0.47
Effects of preferred shares and convertible securities			
Preferred shares	-	11,990,072	
Convertible debentures	1,105,567	3,963,000	
Diluted earnings per Share	6,568,853	27,459,656	0.24