Quarterly Report -Quarter 2
For the Interim Period ended December 31, 2012.

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

For the three months ended September 30, 2012

December 17, 2012

This Management's Discussion and Analysis ("**MD&A**") relates to the results of operations and the financial condition of Boyuan Construction Group, Inc. (the "**Company**") for the three months ended September 30, 2012. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three months ended September 30 2012 and notes thereto. The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. Boyuan reported its financial results in accordance with International Financial Reporting Standards (IFRS), as required for public companies in Canada. Additional information about Boyuan including the Company's Annual Information Form and other filings are available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Caution Regarding Forward-Looking Information:

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

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

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

Critical judgments

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

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

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

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

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's unaudited condensed interim consolidated financial statements for the three months ended September 30, 2012 and 2011 and our financial positions as at September 30, 2012 and June 30, 2012

US$'000 (except earnings per share amounts)	**Q1 2013**	**Q1 2012**
Operating Results		
Construction revenue	52,096	53,335
Cost of construction	44,282	45,361
Gross profit	7,814	7,974
Net income	2,688	2,828
Earnings per share		
Basic	0.10	0.13
Diluted	0.10	0.12

US$'000 (except earnings per share amounts)	Q1 2013	Q1 2012
Financial Position	As at September 30, 2012	As at June 30, 2012
Current assets	159,181	149,900
Non-current assets	22,137	22,785
Total assets	181,318	172,685
Current liabilities	103,330	95,821
Long term debt	366	1,498
Shareholders' equity	77,623	75,366
Cash dividend per share	Nil	Nil
Common shares outstanding	25,420,065	25,526,499

RESULTS OF OPERATIONS

Revenue for the three months period ended September 30, 2012 was $52.1 million, down 2.3% from $53.3 million for the same period in 2011. 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. The Company has also become more selective in taking up new construction projects under the current uncertain economic environment. Cost of construction for Q1 FY2013 was $44.3 million, down 2.4% from $45.4 million for Q1 FY2012. The decrease was primarily as a result of lower expenses associated with smaller project volume. Cost of construction includes all direct material, labour, subcontract and other related costs, such as equipment repairs. The two major components of the cost of construction are direct material and labour costs. Direct material costs were $32.7 million and labour cost was $11.1 million in this quarter. In comparison, direct material costs and labour costs were $33.6 million and $10.9 million in the same quarter last year.

Gross profit for this period was $7.8 million, representing a margin of 15% on revenue. Gross profit for the same period last year was $8 million, representing a margin of 15% on revenue. We have experienced a slight downward pressure on our margins under the current real estate market situation in China. Developers are becoming more prices sensitive and have longer development cycles thus eroding some of our normal margins. Historically, Boyuan's gross profit margins have been in the range of 15% to 17%.

G&A expenses were $1.1 million in Q1 FY2013 compared to $0.9 million in Q1 FY2012. 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.

Interest expense was $1.9 million in the first quarter in FY2013, an increase of $0.3 million over the first quarter in FY2012. The increase was due to increase in borrowing as a result of longer payment cycles from our customers. The average interest rates for bank loans were also higher this year due to the generally tight liquidity situation in the PRC.

There was no minimum total return (MTR) charge in this quarter. The Company incurred a MTR charge of $0.6 million for the same quarter last year. 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.

After-tax net income for this period was $2.7 million, or $0.10 per fully diluted share, compared to net income of $2.8 million, or $0.12 per fully diluted share for the same period in FY2012. The decrease was principally due to increase in amortization expenses and interest expenses.

Boyuan had working capital of $55.9 million, including cash, cash equivalents, and restricted cash totalling $8.6 million as at September 30, 2012. This compares to $54.1 million and $11.1 million, respectively at June 30, 2012.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	September 30, 2012 $	June 30, 2012 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	58,994	83,966
	58,994	83,966

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

Transactions with key management personnel

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

10. DUE FROM / TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

	Three Months Ended	
	September 30, 2012 $	September 30, 2011 $
Chairman and CEO	56,555	50,000
Chief Financial Officer	30,430	25,000
Secretary	8,060	7,685
Vice President	4,260	7,685
Directors	18,440	18,500
Total	117,745	108,870

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

Share-based compensation of $62,912 (September 30, 2011 - $116,049) was recognized for options granted to key management personnel.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of the Company's selected quarterly financial information for each of the eight quarters ended September 30, 2012:

US$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q1, FY2013	52,096	2,688	0.10	0.10
Q4, FY2012	42,891	1,287	0.05	0.05
Q3, FY2012	38,737	2,186	0.08	0.08
Q2, FY2012	54,295	3,050	0.12	0.11
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

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q1, FY2013	Q1, FY2012
Operating activities	(3,105)	2,040
Investing activities	220	(305)
Financing activities	1,589	1,207
Effect of currency translation	9	52
Net change in cash and cash equivalents	(1,287)	2,994

Net cash used in operating activities was $3.1 million for the Q1 FY2013 compared to $2 million net cash provided in Q1 FY2012. The difference was primarily caused by the bigger increase in the Company's unbilled revenue and the smaller increases in accounts payable and deferred revenue offset somewhat by the smaller increase in advances to suppliers.

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 provided by investing activities was $0.2 million in the first quarter this fiscal year. Net cash used by investing activities was $0.3 million for the first quarter in FY2012. The cash provided in this quarter was mainly due to the partial maturing of our investment in the investment trust fund in PRC.

Net cash provided from financing activities was $1.6 million in Q1 FY2013, an increase of $0.4 million over Q1 FY2012. The increase was largely due to the increase in restricted cash.

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. Since then 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. 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 Q1 FY2013 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 $1.8 million as at September 30, 2012 as compared to a cash and cash equivalents balance of $3.1 million as at June 30, 2012. The Company had $159.2 million in current assets and $103.3 million in current liabilities as at September 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 September 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 three months ended September 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 $1,100,000. An increase (decrease) of 10% in CDN$ 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 $1,920,000.

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 September 30, 2012:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	$	$	$	$	$
Bank loans	39,104,831	39,104,831	39,104,831	-	-
Notes payable	12,721,819	12,721,819	12,721,819	-	-
Short - term loan	5,991,275	5,991,275	5,991,275	-	-

Accounts payable	9,762,417	9,762,417	9,762,417	-	-
Automobile loans	52,970	52,970	52,970	-	-
Convertible debentures	19,215,358	21,955,737	21,955,737	-	-
Total	86,848,670	89,589,049	89,589,049	-	-

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.

<u>New accounting standards effective January 1, 2013</u>

- 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.

<u>New accounting standards effective January 1, 2015</u>

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The design and effectiveness of internal controls over financial reporting was assessed as of 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 September 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.

d) On December 3, 2012, the Company filed its annual audited financial statements for the fiscal year ended June 30, 2012. As a result the event of default under the indenture for the 10% unsecured subordinated convertible debentures due October 31, 2013 was remedied.

e) On December 11, 2012, the Company received a notice from the trustee for the 11.75% secured convertible debentures due February 28, 2013 that an event of default continued under this indenture and acceleration occurred due to the fact that the filing of the annual audited financial statements was outside the 30 day cure period after receipt by the Company of a notice of default from a debenture holder dated September 29, 2012. The Company has requested the trustee to hold a debenture holders meeting on March 21, 2013 to waive the event of default and cancel the acceleration pursuant to the terms of this indenture.

OUTLOOK

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

Boyuan Construction Group, Inc.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended

September 30, 2012 and 2011

(Unaudited)

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

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

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

The Company's independent auditors have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the International Financial Reporting Standards (IFRS) for a review of interim financial statements by an entity's auditors.

Boyuan Construction Group, Inc.

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

	(Unaudited) September 30,2012 $	(Audited) June 30, 2012 $
Current Assets		
Cash and cash equivalents	1,797,375	3,084,640
Accounts receivable	8,066,226	7,942,807
Unbilled revenue (Note 4)	94,896,888	84,098,041
Restricted cash (Note 5)	6,795,864	7,996,097
Other receivables	3,071,164	1,300,908
Inventory	1,171,987	1,464,697
Advances to suppliers and prepaid expenses (Note 6)	32,372,641	32,494,387
Deposits (Note 7)	10,791,526	10,962,665
Due from related parties (Note 9)	58,994	83,996
Investment (Note 8)	157,878	472,180
	159,180,543	149,900,418
Land use rights (Note 10)	119,529	120,314
Property and equipment (Note 11)	22,018,069	22,664,691
	181,318,141	172,685,423
Current Liabilities		
Bank loans (Note 12)	39,104,831	37,640,670
Bank notes payable (Note 12)	12,721,819	13,091,997
Short-term loans (Note 13)	5,991,275	6,262,491
Accounts payable and accrued liabilities (Note 14)	19,918,382	18,325,863
Income taxes payable	3,736,344	1,291,993
Deferred revenue (Note 4)	2,588,564	1,310,580
Automobile loans	52,970	86,692
Current portion of convertible debentures (Note 15)	19,215,358	17,810,999
	103,329,543	95,821,285
Deferred tax liabilities (Note 18)	366,000	1,498,000
	103,695,543	97,319,285
Shareholders' Equity		
Share capital (Note 16)	7,156,393	7,211,910
Contributed surplus	4,489,842	4,401,886
Reserves (Note 17)	6,159,358	6,159,358
Equity component of convertible debentures (Note 16)	2,368,409	2,368,409
Retained earnings	53,228,199	50,540,221
Accumulated other comprehensive income – foreign currency translation adjustment	4,220,397	4,684,354
	77,622,598	75,366,138
	181,318,141	172,685,423

Approved on behalf of the Audit Committee:

"Francis Leong"
Francis Leong, Director

"Jack Duffy"
Jack Duffy, Director

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended September 30, 2012 $	Three Months Ended September 30, 2011 $
Construction revenue	52,095,579	53,334,826
Cost of construction	44,281,568	45,360,828
Gross profit	7,814,011	7,973,998
Expenses		
Amortization of property and equipment	813,788	515,265
General and administrative expenses	1,112,691	895,407
	1,926,479	1,411,672
Income from operations	5,887,532	6,562,326
Other Income (expense)		
Interest and other income	149,502	145,989
Foreign exchange gain (loss)	2,536	(87,433)
Interest expense	(1,881,287)	(1,492,390)
Share-based compensation	(87,956)	(158,910)
Interest related to minimum total return	-	(559,723)
	(1,817,205)	(2,152,467)
Net income before income taxes	4,070,327	4,409,859
Income taxes (Note 18)	1,382,349	1,582,097
Net income for the period	2,687,978	2,827,762
Other Comprehensive Income		
Unrealized gain on foreign exchange translation	(463,957)	2,577,231
Comprehensive income for the period	2,224,021	5,404,993
Earnings per share, basic (Note 22)	0.10	0.13
Earnings pre share, diluted (Note 22)	0.10	0.12
Weighted average number of common shares outstanding, basic(Note 22)	25,655,126	22,308,797
Weighted average number of common shares outstanding, diluted (Note 22)	34,725,482	32,027,903

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Share $	Contributed $	Reserves $	Equity Component of Convertible $	Retained Earnings $	Foreign Currency Translation Adjustment $	Total Shareholders' Equity $
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	-	158,910	-	-	-	-	158,910
Net income for the period	-	-	-	-	2,827,762	-	2,827,762
Other comprehensive income	-	-	-	-	-	2,577,231	2,577,231
Balance, September 30, 2011	7,402,304	3,696,789	4,297,509	2,442,651	45,878,386	4,774,597	68,492,236
Balance, June 30, 2012	7,211,910	4,401,886	6,159,358	2,368,409	50,540,221	4,684,354	75,366,138
Share-based compensation	-	87,956	-	-	-	-	87,956
Share repurchases	(55,517)	-	-	-	-	-	(55,517)
Net income for the year	-	-	-	-	2,687,978	-	2,687,978
Other comprehensive income	-	-	-	-	-	(463,957)	(463,957)
Balance, September 30, 2012	7,156,393	4,489,842	6,159,358	2,368,409	53,228,199	4,220,397	77,622,598

See accompanying notes to condensed interim consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended September 30,2012 $	Three Months Ended September 30,2011 $
OPERATING ACTIVITIES		
Net income for the year	2,687,978	2,827,762
Items not involving cash:		
Amortization	813,788	516,265
Interest accretion	952,474	976,984
Interest related to minimum total return	-	559,723
Stock based compensation	87,956	158,910
Deferred income tax recovery	(1,131,226)	(128,131)
Unrealized foreign exchange (gain) loss	(64,881)	(1,712)
	3,346,089	4,909,801
Changes in non-cash working capital balances:		
Accounts receivables	(99,008)	846,006
Unbilled revenue	(10,544,419)	(5,796,975)
Other receivable	(1,765,705)	(2,756,780)
Inventories	297,344	1,682,803
Advance to suppliers and prepaid expenses	221,906	(6,114,235)
Deposits	204,976	(1,036,690)
Accounts payable and accrued liabilities	1,499,016	4,274,242
Deferred revenue	1,274,490	4,282,142
Income taxes payable	2,435,540	1,749,785
Due from / to related parties	25,271	-
Cash provided by (used in) operating activities	(3,104,500)	2,040,099
INVESTING ACTIVITIES		
Acquisition of property and equipment	(95,930)	(304,930)
Proceeds from disposal of investment	315,890	-
Cash provided by (used in) investing activities	219,960	(304,930)
FINANCING ACTIVITIES		
Restricted cash	1,225,370	90,798
Bank loans	1,348,852	1,961,685
Bank notes payable	(410,658)	(583,835)
Short-term loans	(290,619)	-
Automobile loans	(34,003)	(38,920)
Convertible debentures, net	(194,709)	(222,705)
Share repurchases	(55,517)	-
Cash provided by financing activities	1,588,716	1,207,023
Effect of changes in exchange rates on cash	8,559	52,459
Change in cash	(1,287,265)	2,994,651
Cash and cash equivalents, beginning	3,084,640	6,314,390
Cash and cash equivalents, ending	1,797,375	9,309,041
Supplemental disclosure of cash flow information:		
Cash paid for interest	2,090,916	738,112
Cash paid for income taxes	78,035	66,220

See accompanying notes to condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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 unaudited condensed interim consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies under International Financial Reporting Standards ("IFRS") for interim financial information. The same accounting policies and principles were followed in respect of the preparation of these unaudited condensed interim consolidated financial statements as were followed in the preparation of the audited annual consolidated financial statements for the year ended June 30, 2012.

These unaudited condensed consolidated interim financial statements were approved by the Company's Board of Directors on December 17, 2012.

(b) Summary of Significant Accounting Policies

These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended June 30, 2012. The disclosure contained in these condensed interim consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" ("IAS 1"). Accordingly, the condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2012.

(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 $3,104,500. 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 to 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 February 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.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for 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.

(Expressed in US Dollars)

3. 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.

4. UNBILLED REVENUE

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

	September 30, 2012 $	June 30, 2012 $
Completed contracts	31,722,377	35,369,123
Contracts in progress	63,174,511	48,728,918
	94,896,888	84,098,041

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

	September 30, 2012 $	June 30, 2012 $
Aggregate cost of construction	229,278,810	185,492,453
Gross profit recognized	43,394,174	37,172,214
	272,672,984	222,664,667
Less: aggregate of progress billing and	209,498,473	173,935,749
Contracts in progress – unbilled revenue portion,	63,174,511	48,728,918
Deferred revenue related to contract in progress,	2,588,564	1,310,580

5. RESTRICTED CASH

Restricted cash as at September 30, 2012 was $6,795,864 (June 30, 2012 - $7,996,097). Restricted cash mainly represents compensating deposits held at banks to partially secure bank notes. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding bank notes payable, and the funds are only allowed to be used to settle bank notes payable (see Note 12 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.

(Expressed in US Dollars)

6. ADVANCES TO SUPPLIERS AND PREPAID EXPENSES

	September 30, 2012 $	June 30, 2012 $
Advances to suppliers	30,305,721	29,798,171
Prepaid expenses	1,788,503	1,835,899
Other	278,417	860,317
	32,372,641	32,494,387

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

7. DEPOSITS

	September 30, 2012 $	June 30, 2012 $
Contract performance deposits	9,598,135	9,639,503
Project tender deposits	727,944	736,728
Other	465,447	586,434
	10,791,526	10,962,665

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

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

8. INVESTMENT

At September 30, 2012, the Company invested $157,878 (RMB1,000,000) in a investment trust fund in China which invested the funds raised in real estate development projects in China. The investment matures in August 2013. During the 3 months ended September 30, 2012, the Company withdrew $314,302 (RMB2,000,000) from the investment and received income distribution of $15,321 as other income. The remaining amount invested with final income distribution of $41,550 was received in full in October 2012 by the Company.

9. DUE FROM / TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

	September 30, 2012 $	June 30, 2012 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer (“CEO”)	58,994	83,966

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

(Expressed in US Dollars)

9. DUE FROM / TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

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

	Three Months Ended	
	September 30, 2012 $	September 30, 2011 $
Chairman and CEO	56,555	50,000
Chief Financial Officer	30,430	25,000
Secretary	8,060	7,685
Vice President	4,260	7,685
Directors	18,440	18,500
Total	117,745	108,870

Share-based compensation of $62,912 (September 30, 2011 - $116,049) 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.

10. LAND USE RIGHTS

	September 30, 2012 $	June 30, 2012 $
Cost		
Balance, beginning of year	128,738	123,963
Foreign exchange movement	4,278	4,775
Balance, end of year	133,016	128,738
Accumulated amortization		
Balance, beginning of year	8,424	4,760
Charge for the year	1,155	2,410
Foreign exchange movement	3,908	1,254
Balance, end of year	13,487	8,424
Net book value, end of year	119,529	120,314

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

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

The Company's land leases are used as security for the bank loans described in Note 12(a).

(Expressed in US Dollars)

11. PROPERTY AND EQUIPMENT

	Machinery, equipment and Scaffoldings $	Buildings $	Vehicles $	Office Equipment $	Leasehold Improvement $	Total $
Cost						
Balance, June 30, 2012	21,685,312	4,116,133	1,515,012	1,541,427	1,599,918	30,457,802
Additions (transfers)	-	-	62,013	9,671	18,682	90,366
Foreign exchange	66,762	12,671	4,665	4,746	4,925	93,769
Balance, September 30, 2012	21,752,074	4,128,804	1,581,690	1,555,843	1,623,525	30,641,936
Accumulated						
Balance, June 30, 2012	4,144,502	1,903,747	812,451	503,513	428,898	7,793,111
Depreciation expense for	516,572	32,686	70,795	58,182	128,529	806,764
Foreign exchange	12,759	5,862	2,501	1,550	1,320	23,992
Balance, September 30, 2012	4,673,833	1,942,295	885,747	563,245	558,747	8,623,867
Net book value						
At June 30, 2012	17,540,810	2,212,386	702,561	1,037,914	1,171,020	22,664,691
At September 30, 2012	17,078,241	2,186,509	695,943	992,598	1,064,778	22,018,069

The Company's buildings are used as security for the bank loans described in Note 12(a).

12. 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% (June 30, 2012 –5.47% to 9.45%), weighted average at 7.04% (June 30, 2012 –7.39%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $45,380,486 (June 30, 2012- $31,848,587) 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 5).

13. SHORT-TERM LOANS

	Zhongtai Loan $
Balance, June 30, 2012	6,262,491
Repayment of principal	(284,181)
Foreign exchange movement	12,965
Balance, September 30, 2012	5,991,275

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

(Expressed in US Dollars)

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2012 $	June 30, 2012 $
Accounts payable to suppliers	3,529,933	1,906,424
Salaries and wages payable	296,501	221,330
Taxes payable	7,224,303	7,028,815
MTR payable (Note 15(c))	641,043	870,103
Accrued expenses	2,635,161	4,270,194
Other	5,591,443	4,028,997
	19,918,382	18,325,863

15. CONVERTIBLE DEBENTURES

	September 30, 2012 $	June 30, 2012 $
Balance, beginning of year	17,810,999	18,851,701
Interest accretion	952,474	3,818,047
Interest paid	(195,560)	(2,365,681)
Debenture valuation adjustment	-	(182,325)
Redemption of debentures	-	(1,299,459)
Foreign exchange (gain) loss on translation	647,445	(1,011,284)
Balance, end of year	19,215,358	17,810,999

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	6,710,286
Due on October 31, 2015	15,245,452
Total principal	21,955,737
Less: interest at weighted average effective interest rate of 20. 6%	(2,740,379)
	19,215,358

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.

(a) Convertible Debentures – Principal Amount of $12,830,468

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.

15. CONVERTIBLE DEBENTURES (continued)

(a) Convertible Debentures – Principal Amount of $12,830,468 (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 $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.

(b) Convertible Debentures – Principal Amount of $3,449,722

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.

15. CONVERTIBLE DEBENTURES (continued)

(c) Convertible Debentures – Principal Amount of $2,935,168

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 are entitled to a non-transferable minimum total return right ("MTR") 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.

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.

(Expressed in US Dollars)

16. 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, 2012	-	-	25,526,449	7,211,910
Shares repurchased	-	-	(106,384)	(55,517)
Balance, September 30, 2012	-	-	25,420,065	7,156,393

During the 3 months ended September 30, 2013, the Company repurchased 106,384 of its common shares for a total of $55,517 from the market. At September 30, 2012, the Company cancelled 92,972 of the common shares repurchased, and held 50,795 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.

	Number of Options	Weighted Average Exercise Price
Balance, June 30, 2012 and September 30,2012	2,215,000	$1.49
Exercisable at September 30, 2012	1,497,167	

Warrants

	Number
Warrants outstanding, June 30, 2012 and September 30, 2012	3,129,900

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, September 30, 2012	3,129,900	

Equity Component of Convertible Debentures

	$
Balance, June 30, 2012 and September 30,2012	2,368,409

(Expressed in US Dollars)

17. 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.

18. INCOME TAX

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

	September 30, 2012 $	September 30, 2011 $
Current	2,513,575	1,710,228
Deferred	(1,131,226)	(128,131)
Total income tax expenses	1,382,349	1,582,097

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

	September 30, 2012 $	June 30, 2012 $
Unbilled revenue, net of charges	(562,000)	(1,684,000)
Plant and equipment	196,000	186,000
Net deferred tax liabilities	(366,000)	(1,498,000)

19. FINANCIAL INSTRUMENTS

Fair values

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

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

	September 30, 2012 $	June 30,2012 $
Assets as FVPTL (i)	8,593,239	11,080,737
Loans and receivables (ii)	21,987,910	20,290,376
Available-for-sale (iii)	157,878	472,180
Liabilities as FVTPL (iv)	641,043	870,103
Other financial liabilities (v)	81,257,229	77,669,337

(Expressed in US Dollars)

19. FINANCIAL INSTRUMENTS (continued)
    (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 $
September 30, 2012				
Cash and cash equivalents and restricted cash	8,593,239	-	-	8,593,239
MTR Payable	-	641,043	-	641,043

Interest Rate and Credit Risk

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

For the 3 months ended September 30, 2012, revenue from 3 customer accounted for 57% (September 30, 2011 – 3 largest customers accounted for 64%) of total revenue. At September 30, 2012, outstanding amounts owed by 1 customer accounted for 12% of the total accounts receivable and unbilled revenue (September 30, 2011 – outstanding amounts owed by 3 customers accounted for 43% 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.

19. FINANCIAL INSTRUMENTS (continued)

Financial assets past due

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

	0 – 180 Days $	181 – 365 days $	Over 1 Year $	Over 2 Years $	Carrying Value $
September 30, 2012					
Accounts receivable	6,572,328	341,159	1,150,793	1,946	8,066,226

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

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

Currency Risk

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

At September 30, 2012, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $8,542,141 (June 30, 2012 - $10,877,024), accounts receivable and other receivables of $11,091,479 (June 30, 2012 - $9,205,635), bank loans of $39,104,831 (June 30, 2012 - $37,640,670), bank notes payable of $12,721,819 (June 30, 2012 - $13,091,997), short-term loans of $5,991,275 (June 30, 2012 - $6,262,491), accounts payable of $8,880,641 (June 30, 2012 - $6,036,337), amounts due from related parties of $58,994 (June 30, 2012 - $83,996), and automobile loans of $52,970 (June 30, 2012 - $86,692) which were denominated in RMB.

At September 30, 2012, the Company had cash of $10,327 (June 30, 2012 - $162,559) and convertible debentures of $19,215,358 (June 30, 2012 - $17,810,999) which were denominated in CDN$.

Liquidity Risk

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

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

	Carrying Amount $	Contractual Cash Flows $	Within 1 year $	Within 2 years $	Within 5 years $
Bank loans	39,104,831	39,104,831	39,104,831	-	-
Notes payable	12,721,819	12,721,819	12,721,819	-	-
Short-term loan	5,991,275	5,991,275	5,991,275	-	-
Accounts payable	9,762,417	9,762,417	9,762,417	-	-
Automobile loans	52,970	52,970	52,970	-	-
Convertible debentures	19,215,358	21,955,737	21,955,737	-	-
Total	86,848,670	89,589,049	89,589,049	-	-

(Expressed in US Dollars)

19. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income which a change in foreign exchange rate during the three months ended September 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 $1,100,000. An increase (decrease) of 10% in CDN$ 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 $1,920,000.

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.

20. 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.

21. 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.

22. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

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

(Expressed in US Dollars)

22. EARNINGS PER SHARE (continued)

At September 30, 2012, 2,210,500 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, 2012	Net income $	Weighted Average Number of Common Shares Outstanding	Earnings per Share $
Net income for the year ended June 30, 2012	2,827,762	-	-
Weighted average number of shares outstanding	-	22,308,797	-
Basic Earnings per Share	2,827,762	22,308,797	0.13
Effect of options and convertible debentures:			
• Convertible debentures	1,114,112	9,719,106	-
Diluted Earnings per Share	3,941,874	32,027,903	0.12

At September 30, 2011, 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.

23. 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 $6,315,000. 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

24. 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.

d) On December 3, 2012, the Company filed its annual audited financial statements for the fiscal year ended June 30, 2012. As a result the event of default under the indenture for the 10% unsecured subordinated convertible debentures due October 31, 2015 was remedied.

e) On December 11, 2012, the Company received a notice from the trustee for the 11.75% secured convertible debentures due February 28, 2013 that an event of default continued under this indenture and acceleration occurred due to the fact that the filing of the annual audited financial statements was outside the 30 day cure period after receipt by the Company of a notice of default from a debenture holder dated September 29, 2012. The Company has requested the trustee to hold a debenture holders meeting on March 21, 2013 to waive the event of default and cancel the acceleration pursuant to the terms of this indenture.