
Boyuan Construction Group, Inc.
Interim Condensed Consolidated Financial Statements
For the Nine Months Ended
March 31, 2012 and 2011
(Unaudited)

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

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

The Company's independent auditors have not performed a review of these 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.

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

	March 31, 2012	June 30, 2011
	\$	\$
Current Assets		
Cash and cash equivalents	3,326,181	6,314,390
Accounts receivable	5,538,392	2,331,401
Unbilled revenue (Note 5)	92,071,952	76,000,785
Other receivables (Note 6)	12,057,001	5,056,132
Inventory	370,681	1,790,311
Advances to suppliers and prepaid expenses	35,419,476	22,923,720
Deposits	8,805,728	7,528,300
	157,589,411	121,945,039
Due from related parties (Note 7)	89,049	82,572
Property and equipment (Note 8)	17,222,218	17,426,538
Land use rights (Note 9)	116,143	119,203
	175,016,821	139,573,352
Current Liabilities		
Bank loans (Note 10)	24,869,163	19,773,793
Bank notes payable (Note 10)	19,811,216	10,067,924
Accounts payable and accrued liabilities	19,683,210	17,385,942
Income taxes payable	7,010,878	3,051,017
Deferred revenue	8,805,953	5,171,128
Automobile loans	119,335	234,212
Due to related parties (Note 7)	477,088	462,302
Current portion of convertible debentures (Note 11)	5,909,893	2,519,786
	86,686,736	58,666,104
Convertible debentures (Note 11)	12,300,465	16,331,915
Deferred income tax liabilities (Note 14)	1,188,000	971,000
	100,175,201	75,969,019
Shareholders' Equity		
Share capital (Note 12)	7,297,936	7,402,304
Contributed surplus	4,303,343	3,537,879
Reserves (Note 13)	6,160,121	4,297,509
Equity component of convertible debentures	2,779,401	2,779,401
Foreign currency translation Adjustment	4,709,775	2,197,366
Retained earnings	49,591,044	43,389,874
	74,841,620	63,604,333
	175,016,821	139,573,352

CONTINGENT LIABILITIES (Note 20)

Approved on behalf of the Audit Committee:

"Dave Horsley"
Dave Horsley, Director

"Francis Leong"
Francis Leong, Director

See accompanying notes to interim condensed consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 31, 2011 (Note 21)	March 31, 2012	March 31, 2011 (Note 21)
	\$	\$	\$	\$
Construction revenue	38,737,447	41,042,195	146,367,206	129,550,344
Cost of construction	32,435,854	34,107,605	123,355,763	107,970,636
Gross profit	6,301,593	6,934,590	23,011,443	21,579,708
Expenses				
Amortization of property and equipment	460,750	293,031	1,491,658	822,933
General and administrative expenses	1,212,690	1,043,641	3,263,756	2,982,389
	1,673,440	1,336,672	4,755,414	3,805,322
Income from operations	4,628,153	5,597,918	18,256,029	17,774,386
Other Income (expense)				
Interest and other income	62,200	22,074	244,395	180,502
Foreign exchange gain (loss)	19,372	4,091	(44,068)	114,137
Interest expense	(1,597,563)	(1,131,346)	(4,631,276)	(2,999,608)
Debenture valuation gain	182,720	704,418	182,720	704,418
Share based compensation (Note 12)	(159,606)	(308,011)	(755,325)	(962,694)
Interest related to minimum total return	121,497	(312,756)	(831,082)	(962,721)
	(1,371,380)	(1,021,530)	(5,834,636)	(3,925,966)
Net income before income taxes	3,256,773	4,576,388	12,421,393	13,848,420
Income taxes (Note 14)	1,071,135	1,431,550	4,357,611	4,595,908
Net income for the period	2,185,638	3,144,838	8,063,782	9,252,512
Other Comprehensive Income (loss)				
Unrealized gain (loss) on foreign exchange	49,700	(88,920)	2,512,409	635,796
Comprehensive income for the period	2,235,338	3,055,918	10,576,191	9,888,308
Earnings per share, basic (Note 19)	\$0.08	\$0.12	\$0.31	\$0.47
Earnings pre share, diluted (Note 19)	\$0.08	\$0.10	\$0.31	\$0.37
Weighted average number of common shares outstanding, basic (Note 19)	25,718,308	25,782,308	25,768,992	19,972,642
Weighted average number of common shares outstanding, diluted (Note 19)	34,788,664	35,567,219	34,839,348	29,757,553

See accompanying notes to interim condensed consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Common Share Capital \$	Contributed Surplus (Note 21) \$	Reserves \$	Equity Component of Convertible Debentures \$	Retained Earnings (Note 21) \$	Foreign Exchange Adjustment (Note 21) \$	Total Shareholders Equity (Note 21) \$
Balance, July 1, 2010	7,374,344	2,370,922	2,774,998	372,533	31,407,784	-	44,300,581
Share based compensation	-	262,037	-	-	-	-	262,037
Net income for the period	-	-	-	-	2,783,186	-	2,783,186
Other comprehensive income	-	-	-	-	-	495,915	495,915
Balance, September 30, 2010	7,374,344	2,632,959	2,774,998	372,533	34,190,970	495,915	47,841,719
Conversion of 9,592,059 preferred shares in to 9,592,059 common shares at no additional consideration	-	-	-	-	-	-	-
Transfer to reserve	-	-	1,525,712	-	(1,525,712)	-	-
Share based compensation	-	392,646	-	-	-	-	392,646
Equity component of convertible debentures issued	-	-	-	2,391,573	-	-	2,391,573
Net income for the period	-	-	-	-	3,324,488	-	3,324,488
Other comprehensive income	-	-	-	-	-	228,801	228,801
Balance, December 31, 2010	7,374,344	3,025,605	4,300,710	2,764,106	35,989,746	724,716	54,179,227
Issue costs adjustments	-	-	-	18,342	-	-	18,342
Conversion of convertible debentures	47,097	-	-	-	-	-	47,097
Transfer from equity component of convertible debentures	1,502	-	-	(1,502)	-	-	-
Share based compensation	-	308,011	-	-	-	-	308,011
Net income for the period	-	-	-	-	3,144,838	-	3,144,838
Other comprehensive income	-	-	-	-	-	(88,920)	(88,920)
Balance, March 31, 2011	7,422,943	3,333,616	4,300,710	2,780,946	39,134,584	635,796	57,608,595
Issue costs adjustments	(28,534)	-	-	(1,545)	-	-	(30,079)
Exercise of warrants	7,895	-	-	-	-	-	7,895
Share based compensation	-	204,263	-	-	-	-	204,263
Transfer from retained earnings	-	-	(3,201)	-	3,201	-	-
Net income for the period	-	-	-	-	4,252,762	-	4,252,762
Other comprehensive income	-	-	-	-	-	1,561,570	1,561,570
Balance, June 30, 2011	7,402,304	3,537,879	4,297,509	2,779,401	43,389,874	2,197,366	63,604,333
Stock base 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	2,779,401	46,217,636	4,774,597	69,168,236
Transfer to reserve	-	-	1,862,612	-	(1,862,612)	-	-
Share redemption	(21,934)	-	-	-	-	-	(21,934)
Share based compensation	-	436,809	-	-	-	-	436,809
Net income for the period	-	-	-	-	3,050,382	-	3,050,382
Other comprehensive income	-	-	-	-	-	(114,522)	(114,522)
Balance, December 31, 2011	7,380,370	4,133,598	6,160,121	2,779,401	47,405,406	4,660,075	72,518,971
Transfer to reserve	-	-	-	-	-	-	-
Share redemption	(82,434)	-	-	-	-	-	(82,434)
Share based compensation	-	169,745	-	-	-	-	169,745
Net income for the period	-	-	-	-	2,185,638	-	2,185,638
Other comprehensive income	-	-	-	-	-	49,700	49,700
Balance, March 31, 2012	7,297,936	4,303,343	6,160,121	2,779,401	49,591,044	4,709,775	74,841,620

See accompanying notes to interim condensed consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Nine Months Ended	
	March 31, 2012	March 31, 2011
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	8,063,782	9,252,512
Items not involving cash:		
Amortization	1,491,658	822,933
Interest accretion	2,900,784	2,180,711
Interest related to minimum total return	831,082	962,721
Debenture valuation gain	(182,720)	(704,418)
Share-based compensation	755,325	962,694
Deferred income taxes	217,000	373,000
Unrealized foreign exchange loss	169,657	517,597
	<u>14,246,568</u>	<u>14,367,750</u>
Changes in non-cash working capital balances:		
Accounts receivables	(3,131,761)	(129,075)
Unbilled revenue	(14,297,540)	(8,254,377)
Other receivable	(4,881,608)	(4,244,955)
Inventories	1,447,617	289,190
Advance to suppliers and prepaid expenses	(11,908,008)	(10,854,843)
Deposits	(1,104,154)	(1,526,037)
Accounts payable and accrued liabilities	1,167,264	3,268,568
Deferred revenue	3,339,508	(421,140)
Income taxes payable	3,853,583	4,474,322
Due from / to related parties	-	(507,666)
	<u>(11,268,531)</u>	<u>(3,538,263)</u>
Cash used in operating activities	(11,268,531)	(3,538,263)
INVESTING ACTIVITIES		
Acquisition of equipment	(893,426)	(1,835,963)
Cash used in investing activities	(893,426)	(1,835,963)
FINANCING ACTIVITIES		
Share redemption	(104,936)	-
Restricted cash	(1,958,203)	(7,645,153)
Bank loans	4,626,899	(910,553)
Bank notes payable	9,449,918	5,309,285
Automobile loans	(119,082)	(153,132)
Convertible debentures, net	(2,905,202)	12,462,442
Proceeds from issuance of common stock, net	-	26,606
	<u>8,989,394</u>	<u>9,089,495</u>
Cash provided by financing activities	8,989,394	9,089,495
Effect of changes in exchange rates on cash	184,354	165,225
Increase (decrease) in cash	(2,988,209)	3,880,494
Cash and cash equivalents, beginning	6,314,390	4,853,755
Cash and cash equivalents, ending	3,326,181	8,734,249
Supplemental disclosure of cash flow information:		
Cash paid for interest	3,132,170	1,726,287
Cash paid for income taxes	282,886	17,774

Significant non-cash transactions (Note 15)

See accompanying notes to interim condensed consolidated financial statements.

Boyuan Construction Group, Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended March 31, 2012 and 2011

(Expressed in US Dollars)

(Unaudited)

1. REPORTING ENTITY

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, PRC. The interim condensed consolidated financial statements of the Company include the assets and operations of the Company, its subsidiaries Hong Kong Wealthy Holdings Limited ("HKCo") and Zhejiang Boyuan Trading Co., Limited ("China Privco") and a special purpose entity ("SPE") Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang") which the Company has control and is the primary beneficiary of the assets and operations of Zhejiang. The Company's primary business, through its interest in Zhejiang, is in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in PRC.

2. BASIS OF PREPERATION

a) Statement of compliance

The interim condensed consolidated financial statements, including comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS and certain transition elections are included are described in the interim condensed consolidated financial statements for the three months ended September 30, 2011. The transition disclosures on March 31, 2011 balances are described in Note 21. Subject to the transition elections, the Company has consistently applied the same accounting policies in the opening IFRS statement of financial position as at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Previously, the Company prepared its annual and interim financial statement in accordance with GAAP.

The condensed interim financial statements were authorized for issue by the Board of Directors on May 15, 2012.

b) Basis of consolidation

These interim condensed consolidated financial statements include the assets and operations of the Company, its subsidiaries HKCo and China Privco and its SPE Zhejiang. Subsidiaries, including SPE, are all entities over which the Company has the power to control the financial and operating policies so as to benefit from its activities.

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

c) Basis of measurement

These interim condensed consolidated financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments carried at fair value where changes are recorded through profit or loss.

d) Functional and presentation currency

These interim condensed consolidated financial statements are presented in US dollars.

Boyuan Construction Group, Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the Nine Months Ended March 31, 2012 and 2011

(Expressed in US Dollars)

(Unaudited)

2. BASIS OF PREPERATION (continued)

e) Use of estimates and judgements

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make judgements, 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. The condensed interim financial statements do not include all of the information required for full annual financial statements.

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 critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim 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 recovery of deferred income tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash equivalents

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

b) Inventory

The Company's inventory comprises raw materials mainly steel and concrete, which are carried at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis. The cost of raw materials includes delivery costs. An allowance for obsolete, slow-moving or defective inventories is made where necessary.

c) Property and equipment

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

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

Buildings	30 years
Machinery and equipment	10 years
Scaffoldings	10 years
Office equipment	10 years
Vehicles	4 to 5 years
Leasehold improvements	3 years

d) Construction-in-progress

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

e) Land use rights

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

Boyuan Construction Group, Inc.

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(Expressed in US Dollars)

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Impairment of Long-Lived Assets

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

g) Statutory reserve

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

h) Revenue recognition

Revenues from contracts are recognized based on the percentage-of-completion method primarily based on costs incurred to date, excluding costs that are not representative of progress to completion, 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 revenues. Cash received in advance of revenue being recognized on contracts is classified as unearned revenue. A provision is made for losses on contracts in progress when such losses first become known. Revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

Contract costs include all raw materials, direct labour, subcontract and other costs and indirect costs related to contract performance, such as indirect salaries and wages and equipment repairs.

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.

i) Retirement benefits

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

Boyuan Construction Group, Inc.

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(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Income taxes

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

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

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

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

k) Foreign currency translation

The reporting currency of the Company is the US dollar.

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

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

l) Share issue costs

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

m) Share-based compensation

The Company accounts for share-based payments awards granted to employees and consultants using the fair value method. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period.

Boyuan Construction Group, Inc.

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(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Special purpose entity

The Company follows the recommendation of SIC 12, "Consolidation – Special Purpose Entities ("SPEs")" to consolidate the accounts of SPEs where the Company has control over the decision-making powers to obtain the majority of the benefits of the activities of the SPE and may be exposed to risks incident to the activities of the SPE and the activities of the SPE are being conducted on behalf of the Company.

o) Earning per share

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

p) Financial instruments

Non-derivative financial assets

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

i) Financial assets at fair value through profit or loss

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

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through operations.

Boyuan Construction Group, Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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(Expressed in US Dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financial instruments (continued)

Non-derivative financial liabilities

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

v) Financial liabilities at fair value through profit or loss

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

vi) Other financial liabilities

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

The Company has classified its cash and cash equivalents and restricted cash as financial assets at fair value through profit and loss, its accounts receivable, other receivables, advance to suppliers, deposits and due from related parties as loans and receivables, and its bank loans, notes payable, accounts payable, automobile loans, due to related parties and convertible debentures as other financial liabilities.

(s) Convertible debentures

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

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

4. RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2011, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		Effective Date
IAS 1 – Presentation of Financial Statements	In June 2011, the IASB issued an amendment to IAS 1, which requires entities to separately present items in other comprehensive income based on whether they may be recycled to profit or loss in future periods.	January 1, 2013
IAS 19 – Employee Future Benefits	In June 2011, the IASB issued an amendment to IAS 19, which changes the recognition, measurement and presentation of defined benefit pension expense and provides for additional disclosures for all employee benefits.	January 1, 2013
IFRS 10 – Consolidated Financial Statements	IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 changed the definition of control such that the same criteria are applied to all entities to determine control. IFRS 10 supersedes all of the guidance in IAS 27, <i>Consolidated and Separate Financial Statements</i> and SIC 12, <i>Consolidation – Special Purpose Entities</i> .	January 1, 2013

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4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

International Accounting Standards		Effective Date
IAS 12 – Income taxes	In March 2010, IAS 12 <i>Income Taxes</i> was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, <i>Income taxes – recovery of revalued non-depreciable assets</i> , will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	January 1, 2012
IFRS 9 – Financial Instruments	In November 2009, as part of the IASB project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , the IASB issued the first phase of IFRS 9 <i>Financial Instruments</i> , that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2015
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, <i>Interests in Joint Ventures</i> , and SIC 13, <i>Jointly Controlled Entities – Non-monetary Contributions</i> .	January 1, 2013
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.	January 1, 2013
	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.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 <i>Separate Financial Statements</i> has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013

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4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

International Accounting Standards		Effective Date
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

5. UNBILLED REVENUE

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

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

	March 31, 2012 \$	June 30, 2011 \$
Aggregate cost of construction	363,016,323	252,970,311
Gross profit recognized	73,766,860	56,175,510
	436,783,183	309,145,821
Aggregate progress billing and payments	370,678,894	276,336,158
<u>Unbilled revenue of contract in progress, end of period</u>	<u>66,104,289</u>	<u>32,809,663</u>
<u>Deferred revenue of contract in progress, end of period</u>	<u>4,062,645</u>	<u>5,171,128</u>

6. RESTRICTED CASH

Restricted cash included in other receivables was \$5,899,094 (June 30, 2011 - \$3,841,685, March 31, 2011 - \$11,664,582). 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 10 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.

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

	March 31, 2012 \$	June 30, 2011 \$
Due from related parties		
Due from companies controlled by the Chairman and Chief Executive Officer ("CEO")	89,049	82,572
Due to related parties		
Due to companies controlled by the Chairman and CEO	477,088	462,302

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:

	Nine Months Ended March 31, 2012 \$	Nine Months Ended March 30, 2011 \$
Chairman and CEO	150,000	150,000
Chief Financial Officer	85,000	75,000
Secretary	23,055	23,055
Vice President	23,055	21,133
Directors	59,500	55,500
	340,610	324,688
Share based compensation	541,632	682,797
Total	882,242	1,007,485

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

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8. PROPERTY AND EQUIPMENT

	Machinery, equipment and scaffolding \$	Buildings \$	Vehicles \$	Office Equipment \$	Leasehold improvements \$	Construction in progress \$	Total \$
Cost							
July 1, 2010	5,902,406	2,498,763	1,278,444	871,603	209,014	684,238	11,444,468
Additions (Transfer)	8,685,024	-	78,591	369,530	767,407	76,121	9,976,673
Foreign exchange movement	509,095	123,022	64,920	61,247	29,597	20,116	807,997
June 30, 2011	15,096,525	2,621,785	1,421,955	1,302,380	1,006,018	780,475	22,229,138
Additions (Transfer)	108,186	-	91,089	323,608	204,205	140,638	867,726
Foreign exchange movement	330,349	57,371	31,116	28,500	22,014	17,079	486,429
March 31, 2012	15,535,060	2,679,156	1,544,160	1,654,488	1,232,237	938,192	23,583,293
Accumulated amortization							
July 1, 2010	2,063,064	587,056	310,379	165,927	104,507	-	3,230,933
Additions	828,090	80,986	243,200	183,920	11,888	-	1,348,084
Foreign exchange movement	152,246	30,940	21,400	13,552	5,445	-	223,583
June 30, 2011	3,043,400	698,982	574,979	363,399	121,840	-	4,802,600
Additions	1,109,654	63,630	208,895	79,489	22,209	-	1,483,877
Foreign exchange movement	36,102	15,295	12,582	7,953	2,666	-	74,598
March 31, 2012	4,189,156	777,907	796,456	450,841	146,715	-	6,361,075
Net book value							
July 1, 2010	3,839,342	1,911,707	968,065	705,676	104,507	684,238	8,213,535
June 30, 2011	12,053,125	1,922,803	846,976	938,981	884,178	780,475	17,426,538
March 31, 2012	11,345,904	1,901,249	747,704	1,203,647	1,085,522	938,192	17,222,218

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9. LAND USE RIGHTS

	\$
Cost	
July 1, 2010	133,114
Foreign exchange movement	(9,151)
June 30, 2011	123,963
Additions	316
Foreign exchange movement	4,664
March 31, 2012	128,943
Accumulated amortization	
July 1, 2010	6,722
Foreign exchange movement	(1,962)
June 30, 2011	4,760
Additions	5,985
Foreign exchange movement	2,055
March 31, 2012	12,800
Net book value	
July 1, 2010	126,392
June 30, 2011	119,203
March 31, 2012	116,143

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

10. 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 8.20% (June 30, 2011 – 5.31% to 7.31%), weighted average at 6.60% (June 30, 2011 – 6.40%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of \$29,181,043 (June 30, 2011 – \$29,181,043) in aggregate provided by construction project developers and the Chairman and CEO of the Company.
- (b) The bank notes payable generally have terms nine months or less and are issued at a discount. The notes are secured by compensating deposit held by the banks (see Note 6).

11. CONVERTIBLE DEBENTURES

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	March 31, 2012	June 30, 2011 \$
Balance, beginning of period	18,851,701	6,142,476
Gross proceeds from issue	-	14,799,000
Issue costs	-	(1,387,037)
Amount allocated to the equity component	-	(2,408,370)
Interest accretion	2,900,784	3,131,028
Interest paid	(1,429,611)	(1,915,925)
Debenture valuation adjustment	(182,720)	(704,418)
Debentures redeemed	(1,299,459)	-
Debenture converted to common shares	-	(18,563)
Foreign exchange (gain) loss on translation	(630,337)	1,213,510
Balance, end of period	18,210,358	18,851,701

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

	\$
Due on February 28, 2013	6,620,375
Due on October 31, 2015	15,040,616
Total principal	21,660,991
Less: interest at weighted average effective interest rate of 20.6%	(3,450,633)
	18,210,358
Less: current portion	(5,909,893)
Non-current portion	12,300,465

(a) Convertible Debentures – Principal Amount of \$12,325,595

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of \$987 (CDN\$1,000) per debenture for gross proceeds of \$14,799,000 (CDN\$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of CDN\$2.60 per share. The convertible debentures are redeemable by the Company at any time on or after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice. The Company paid 6% agent's fee of \$887,940 agent's legal and expenses of \$404,646 and other issue costs of \$94,451, totaling \$1,387,037.

The Company uses the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of \$2,657,900 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of \$11,003,593 was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum. Debenture issue costs of \$249,530 was allocated to the equity component.

11. CONVERTIBLE DEBENTURES (continued)

(b) Convertible Debentures – Principal Amount of \$3,197,805

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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 period ended March 31, 2012, 1,730 Convertible Debentures were redeemed for \$1,299,459. 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.

(c) Convertible Debentures – Principal Amount of \$2,686,958

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

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

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

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11. CONVERTIBLE DEBENTURES (continued)

(c) Convertible Debentures – Principal Amount of \$2,686,958

Each additional right entitles 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 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 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.

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total return right ("MTR") of 25% per annum on their Units. The calculation will be based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on the Convertible Debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, 30 days after February 27, 2012. For the nine months ended March 31, 2012, the Company recorded MTR expenses of \$831,082 (March 31, 2011 - \$962,721) and charged to operations. At March 31, 2012 accrued liability for MTR totalled \$2,360,023 (June 30, 2011 - \$1,507,145).

12. SHARE CAPITAL

Authorized:

Unlimited number of common shares without par value

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

Issued and outstanding:

	Preferred Shares		Common Shares	
	Number	\$	Number	\$
Balance, June 30, 2011	-	-	25,796,924	7,402,304
Share redemption	-	-	(136,776)	(104,368)
Balance, March 31, 2012	-	-	25,660,148	7,297,936

During the period ended March 31, 2012, the Company purchased 136,776 of its common shares for a total of \$104,368 from the market for cancellation.

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12. SHARE CAPITAL (continued)

Options

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

As of March 31, 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 3.8 years.

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance, June 30, 2011	1,145,000	\$2.12	
Granted	1,070,000	0.80	October 11, 2016
Balance, June 30, 2011 and March 31, 2012	2,215,000	\$1.52	
Exercisable at March 31, 2012	1,247,042		

During the period ended March 31, 2012, the Company granted 1,070,000 options to directors and officers of the Company. The 1,070,000 options vest one-third on the grant date, one-third on October 11, 2012 and the remaining one-third on October 28, 2013. Share based compensation expense for previously granted and unvested options of \$755,325 (March 31, 2011 - \$962,694) was charged to operations. The Company uses the Black-Scholes option pricing model to value stock options which requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The weighted average assumptions are as follows:

	2012	2011
Risk-free interest rate (%)	1.35%	2.31%
Expected dividend yield (%)	-	-
Expected option life (years)	4	4
Expected stock price volatility (%)	144%	90%

The weighted average grant date fair value for the options granted in 2012 was \$0.70.

Warrants

Warrants outstanding at June 30, 2011 and March 31, 2012:

Exercise Price	Underlying Shares	Expiry
\$2.00 (CAD\$2.00)	1,219,950	February 28, 2013
\$2.00 (CAD\$2.00)	1,909,950	July 7, 2013
Outstanding, June 30, 2011 and March 31, 2012	3,129,900	

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

14. INCOME TAX

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

Income tax expenses are as follows:

	Nine Months Ended	
	March 31, 2012	March 31, 2011 (Note 21)
	\$	\$
Current	4,574,611	4,968,908
Deferred	(217,000)	(373,000)
Total income tax expenses	4,357,611	4,595,908

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

	Nine Months Ended	
	March 31, 2012	March 31, 2011 (Note 21)
	\$	\$
Canadian combined statutory rates	25.8%	27.5%
Income taxes at combined statutory rates	3,198,508	3,517,851
Difference in foreign income tax rates	(127,011)	(467,977)
Non-deductible items	362,067	264,741
Reduction in income tax rates	16,295	95,838
Tax losses for which no deferred income tax asset was recognized	907,752	1,185,454
Total income tax expenses	4,357,611	4,595,908

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

	March 31, 2012	March 31, 2011 (Note 21)
	\$	\$
Unbilled revenue, net of charges	(1,300,000)	294,000
Plant and equipment	112,000	(232,000)
Net deferred income tax assets (liabilities)	(1,188,000)	62,000

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14. INCOME TAX (continued)

As at the period ends, the Company had not recognized the following deferred tax assets:

	March 31, 2012	March 31, 2011
	\$	\$
Non-capital losses	2,503,000	1,506,000
Share issue costs	369,000	251,000
<u>Deferred tax assets not recognized</u>	<u>2,872,000</u>	<u>1,757,000</u>

The non-capital losses of approximately 9,765,000 expire from 2029 to 2032.

15. SIGNIFICANT NON-CASH TRANSACTIONS

The Company has the following significant non-cash transactions:

	Nine Months Ended	
	March 31, 2012	March 31, 2011
	\$	\$
Debenture valuation gain	182,720	704,418
Interest related to minimum return	(831,082)	(962,721)
Share based compensation	(755,325)	(962,694)

16. 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:

	March 31, 2012
FVTPL (i)	\$ 9,225,275
Loans and receivables (ii)	20,591,076
<u>Other financial liabilities (iii)</u>	<u>74,515,012</u>

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

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

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

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16. FINANCIAL INSTRUMENTS (continued)

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

	Level 1	Level 2	Level 3	Total March 31, 2012
Cash and cash equivalents and restricted cash	\$ 9,225,275	\$ -	\$ -	\$ 9,225,275

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and accounts and other receivables. The Company has significant cash and 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 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 nine-months period ended March 31, 2012, revenue from 2 largest customers accounted for 40% (March 31, 2011 – 2 largest customers accounted for 27%) of total revenue. At March 31, 2012, outstanding amounts owed by 3 customer accounted for 37% of the total accounts receivable and unbilled revenue (March 31, 2011 – outstanding amounts owed by 5 customers accounted for 64% 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.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired at March 31, 2012:

	0 – 180 days	181 – 365 days	Over 1 Year	Over 2 Years	Carrying Value
Accounts receivable	\$ 5,115,245	\$ 359,792	\$ 58,390	\$ 4,964	\$ 5,538,392

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

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

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16. FINANCIAL INSTRUMENTS (continued)

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in 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 March 31, 2012, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of \$9,081,934 (June 30, 2011 - \$5,253,262), accounts receivable, other receivables and deposits of \$20,480,776 (June 30, 2011 - \$11,027,783), bank loans of \$24,869,163 (June 30, 2011 - \$19,773,793), bank notes payable of \$19,811,216 (June 30, 2011 - \$10,067,924), accounts payable of \$8,781,772 (June 30, 2011 - \$6,596,721), amounts due from related parties of \$89,049 (June 30, 2011 - \$82,572), amounts due to related parties of \$477,088 (June 30, 2011 - \$462,302), and automobile loans of \$119,335 (June 30, 2011 - \$234,212) which were denominated in RMB.

At March 31, 2012, the Company had cash of \$143,341 (June 30, 2011 - \$1,049,368) and convertible debentures of \$18,210,358 (June 30, 2011 - \$18,851,701) which were denominated in CDN\$.

Liquidity Risk

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

The following are the contractual maturities of financial liabilities as at March 31, 2012:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 5 years
	\$	\$	\$	\$
Bank loans	24,869,163	(24,869,163)	(24,869,163)	
Notes payable	19,811,216	(19,811,216)	(19,811,216)	
Accounts payable	11,116,901	(11,116,901)	(11,116,901)	
Due to related parties	388,039	(388,039)	(388,039)	
Automobile loans	119,335	(119,335)	(119,335)	
Convertible debentures	18,210,358	(21,660,985)	(6,620,375)	(15,040,610)
Total	74,515,012	(77,965,639)	(62,925,029)	(15,040,610)

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 period ended March 31, 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 \$2,634,000. 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 \$1,812,000.

The above result arises primarily because the Company has RMB and CDN\$ denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, deposits, bank loans, accounts payable and automobile loans, convertible debentures and amounts due to and due from related parties. The financial position of the Company may vary at the time that a change in the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

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17. 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 PRC.

18. 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.

19. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

For the nine months ended March 31, 2012	Net income \$	Weighted Average Number of Common Shares Outstanding	Earnings per Share \$
Net income for the nine months ended March 31, 2012	8,063,782	-	
Weighted average number of shares outstanding	-	25,768,992	
Basic Earnings per Share	8,063,782	25,768,992	0.31
Effect of stock options, warrants and convertible debentures:			
• Convertible debentures	2,631,086	9,070,356	
Diluted Earnings per Share	10,694,868	34,839,348	0.31

For the nine months ended March 31, 2011	Net income \$	Weighted Average Number of Common Shares Outstanding	Earnings per Share \$
Net income for the nine months ended March 31, 2011	9,318,512	-	
Weighted average number of shares outstanding	-	19,972,642	
Basic Earnings per Share	9,318,512	19,972,642	0.47
Effect of preferred shares, stock options, warrants And convertible debentures:			
• Stock options	-	65,805	
• Convertible debentures	1,581,033	9,719,106	
Diluted Earnings per Share	10,899,545	29,757,553	0.37

20. CONTINGENT LIABILITIES

The Company has guaranteed the bank loans on behalf of certain developers, which are also its customers, in amounts totalling \$3,162,200. No consideration has been specifically received by the Company for these guarantees.

Boyuan Construction Group, Inc.

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21. TRANSITION TO IFRS

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

(a) *Business Combinations*

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

(b) *Cumulative translation differences*

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

(c) *Share-based payment transactions*

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

(d) *IAS 27 – Consolidated and Separate Financial Statements*

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

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

(e) *Estimates*

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

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP consolidated statements of net income and comprehensive income, for the three and nine months ended March 31, 2011 have been reconciled to IFRS, with the resulting differences explained. In addition, the consolidated statements of financial position as at March 31, 2011 have been reconciled with the resulting differences explained.

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Notes to the Interim Condensed Consolidated Financial Statements

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21. TRANSITION TO IFRS (continued)

The Canadian GAAP consolidated statements of net income and comprehensive income for the three months ended March 31, 2011 have been reconciled to IFRS as follows:

	Note	Three Months Ended March 31, 2011		
		Canadian GAAP balance	IFRS adjustments	IFRS balance
		\$	\$	\$
Construction revenue		41,042,195	-	41,042,195
Cost of construction		34,107,605	-	34,107,605
Gross profit		6,934,590	-	6,934,590
Expenses				
Amortization of property and equipment		293,031	-	293,031
General and administrative		1,043,641	-	1,043,641
		1,336,672	-	1,336,672
Income from operations		5,597,918	-	5,597,918
Other Income (Expenses)				
Interest and other income		22,074	-	22,074
Foreign exchange loss		4,091	-	4,091
Interest expenses		(1,131,346)	-	(1,131,346)
Minimum total return expenses		(312,756)	-	(312,756)
Debenture valuation gain		704,418	-	704,418
Stock-based compensation		(308,011)	-	(308,011)
		(1,021,530)	-	(1,021,530)
Net income before income taxes		4,576,388	-	4,576,388
Income taxes	b	1,409,550	22,000	1,431,550
Net income for the period		3,166,838	(22,000)	3,144,838
Other Comprehensive Income				
Foreign exchange translation adjustment		(88,920)	-	(88,920)
Comprehensive Income for the period		3,077,918	(22,000)	3,055,918

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21. TRANSITION TO IFRS (continued)

The Canadian GAAP consolidated statements of net income and comprehensive income for the nine months ended March 31, 2011 have been reconciled to IFRS as follows:

	Note	Nine months ended March 31, 2011		
		Canadian GAAP balance	IFRS adjustments	IFRS balance
		\$	\$	\$
Construction revenue		129,550,344	-	129,550,344
Cost of construction		107,970,636	-	107,970,636
Gross profit		21,579,708	-	21,579,708
Expenses				
Amortization of property and equipment		822,933	-	822,933
General and administrative		2,982,389	-	2,982,389
		3,805,322	-	3,805,322
Income from operations		17,774,386	-	17,774,386
Other Income (Expenses)				
Interest and other income		180,502	-	180,502
Foreign exchange loss		114,137	-	114,137
Interest expenses		(2,999,608)	-	(2,999,608)
Minimum total return expenses		(962,721)	-	(962,721)
Debenture valuation gain		704,418	-	704,418
Stock-based compensation		(962,694)	-	(962,694)
		(3,925,966)	-	(3,925,966)
Net income before income taxes		13,848,420	-	13,848,420
Income taxes	b	4,529,908	66,000	4,595,908
Net income for the period		9,318,512	(66,000)	9,252,512
Other Comprehensive Income				
Foreign exchange translation adjustment		635,796	-	635,796
Comprehensive Income for the period		9,954,308	(66,000)	9,888,308

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21. TRANSITION TO IFRS (continued)

The Canadian GAAP consolidated statement of financial position at March 31, 2011 has been reconciled to IFRS as follows:

	Note	March 31, 2011		
		Canadian GAAP balance	IFRS adjustments	IFRS balance
		\$	\$	\$
Current Assets				
Cash and cash equivalents		8,734,249	-	8,734,249
Restricted cash	a	11,664,582	(11,664,582)	11,664,582
Accounts receivable		827,378	-	827,378
Unbilled revenue		57,345,420	-	57,345,420
Other receivables	a	5,855,314	11,664,582	17,519,896
Inventory		112,631	-	112,631
Advances to suppliers and prepaid expenses		25,869,446	-	25,869,446
Deposits		11,218,019	-	11,218,019
Deferred income tax assets		294,000	(294,000)	-
		121,921,039	(294,000)	121,627,039
Deferred income tax assets		-	294,000	294,000
Property and equipment		9,488,467	-	9,488,467
Land use rights		135,559	-	135,559
		131,545,065	-	131,545,065
Current Liabilities				
Bank loans		19,193,010	-	19,193,010
Bank notes payable		11,674,099	-	11,674,099
Accounts payable and accrued liabilities		13,890,646	-	13,890,646
Income taxes payable		7,118,499	-	7,118,499
Deferred revenue		1,634,949	-	1,634,949
Automobile loans		241,136	-	241,136
Due to related parties		83,713	-	83,713
Current portion of convertible debentures		2,530,591	-	2,530,591
		56,366,643	-	56,366,643
Accrued liabilities		1,140,242	-	1,140,242
Convertible debentures		16,197,585	-	16,197,585
Deferred income tax liabilities	b	930,000	(698,000)	232,000
		74,634,470	(698,000)	73,936,470
Shareholders' Equity				
Share capital		7,422,943	-	7,422,943
Contributed surplus	c	8,295,165	(4,961,549)	3,333,616
Reserves		4,300,710	-	4,300,710
Equity component of convertible debentures		2,780,946	-	2,780,946
Foreign currency translation adjustment	d	2,780,447	(2,144,651)	635,796
Retained earnings	c,d	31,330,384	7,804,200	39,134,584
		56,910,595	698,000	57,608,595
		131,545,065	-	131,545,065

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21. TRANSITION TO IFRS (continued)

Notes to the reconciliations

(a) The Company had restricted cash as compensating deposits held at banks to partially secure bank notes (Note 6). IAS 39, Financial Instruments, Recognition and Measurement, requires restricted cash to be recognized as receivables from banks. The Company applied the IAS 39 and reclassified restricted cash to other receivables.

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

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

(c) The Company recognized a make good provision in 2009 and 2010 fiscal years totaling \$4,961,549 to operations and a corresponding credit to contributed surplus for escrow common shares transferred back to the original shareholders under certain terms of convertible debentures issued in 2009 (Note 11 (c)). There is no provision to recognize the expense under IFRS. Accordingly, the Company retroactively reversed the provision previously recorded.

(d) The Company has elected to transfer the balance of its cumulative translation adjustments reported in accumulated other comprehensive income under Canadian GAAP to retained earnings upon transition to IFRS under IFRS 1.

The following reconciliation of retained earnings provides a quantification of the effect of the transition to IFRS:

	Note	June 30, 2011 \$	March 31, 2011 \$
Retained earnings previously reported under Canadian GAAP		35,607,674	31,330,384
Make good provision reversed under IFRS	c	4,961,549	4,961,549
Foreign currency translation adjustment transferred to retained earnings	d	2,144,651	2,144,651
Deferred income tax liabilities for permanent difference on acquisition of machinery and equipment	b	676,000	698,000
Retained earnings, end of period		43,389,874	39,134,584