

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

November 15, 2010

This Management's Discussion and Analysis ("**MD&A**") relates to the financial condition and results of operations of Boyuan Construction Group, Inc. (the "**Company**") for the three months ended September 30, 2010 ("**2010**"). It should be read in conjunction with the audited consolidated financial statements for year ended June 30, 2010 and notes thereto. All financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("**GAAP**"). The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. 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, the Company's expectations regarding its net income in 2011, the Company's ability to sustain revenue generating momentum, 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 FY2010 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 more than 80 projects in the past three years with clients including Cargill and Dalian Shide Group, a billion dollar conglomerate whose partners include Dupont, Mitsubishi, and GE. 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 and Hainan Island. The Company has also recently expanded its business activities into the Province of Shandong.

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 and Critical Accounting Estimates

Variable Interest 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 generally accepted accounting principles in Canada this relationship is accounted for as a variable interest 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

Revenues are recognized on the percentage-of-completion method, measured by the ratio of costs incurred up to a given date to estimated total costs for each contract.

Contract costs include all direct material, labor, subcontract and other costs and those indirect costs related to contract performance, such as indirect salaries and wages, equipment repairs,

insurance and payroll taxes. Administrative and general expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount attributable to contract claims is included in revenues when realization is probable and the amount can be reliably estimated. The Company generally provides a two to three year warranty for workmanship under its contracts. Warranty claims historically have been inconsequential.

The asset, "Unbilled revenue" represents revenues recognized in excess of amounts billed on these contracts.

Allowance for doubtful receivables

The Company provides for an allowance for doubtful accounts when collection of an account is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, its customers' access to capital, its customers' willingness or ability to pay, general economic conditions and the ongoing relationship with the customer.

Useful lives of property and equipment

Management makes assumptions of the estimated useful lives of property and equipment which it believes are reasonable. The recoverability of tangible assets is significantly impacted by the estimated useful lives of assets. If a significant change in the estimated useful lives of the property and equipment is identified, the effect of such changes on amortization expense would be accounted for on a prospective basis. Reductions in the estimated useful lives of the property and equipment would result in additional amortization expense in future periods and may necessitate acceleration of planned capital expenditures.

Selected Consolidated Financial Information

The following selected consolidated financial information has been derived from the Company's unaudited consolidated financial statements for the three months ended September 30, 2010 and 2009 and our financial positions as at September 30, 2010 and June 30, 2010:

US\$'000 (except earnings per share amounts)	Q1 FY2011	Q1 FY2010
Operating Results		
Construction revenue	43,044	35,003
Cost of construction	35,990	29,324
Gross profit	7,053	5,679
Net income	2,805	(206)
Adjusted net income	2,805	3,037
Earnings per share		
Basic	0.17	(0.04)
Diluted	0.10	(0.04)
Adjusted earnings per share		
Basic	0.17	0.57
Diluted	0.10	0.12
Financial Position	As at September 30, 2010	As at June 30, 2010
Current assets	102,561	85,529
Non-current assets	8,378	8,340
Total assets	110,939	93,869
Current liabilities	57,973	45,605
Long term liabilities	5,866	4,727
Shareholders' equity	47,100	43,537
Cash dividend per share	Nil	Nil
Common shares outstanding	16,187,941	16,187,941

RESULTS OF OPERATIONS

Revenue for the three-month period ended September 30, 2010 was \$43 million, up 22.9% from \$35 million for the three-month period ended September 30, 2009. Revenue is recognized on the percentage-of-completion method. The significant growth was primarily attributable to an increase in the number of successful project bids by the Company as well as an increase in demand for construction and engineering services in the Yangtze River Delta and Hainan Island, Boyuan's core markets. Higher demand for construction and engineering services is due to ongoing urban migration and an expansion of China's middle class, both of which drive the need for new housing, commercial and public infrastructure projects. The growth was also due to the Company's decision to expand into Shandong Province. New projects taken up in FY 2010 amounted to \$175.7 million including commercial developments, residential developments, school, and hotels. On July 2010, the Company also

commenced work on a new residential project in Hainan Island with a contract value of \$44.3 million. Most of the Company's projects have duration of one to two years.

Cost of construction for this quarter was \$36 million, up 22.9% from \$29.3 million for the same quarter last year. The increase was primarily as a result of higher expenses associated with greater project volume and an expanded work force. 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 \$26.5 million and labour costs were \$7.5 million in this quarter. In comparison, direct material costs and labour costs were \$20.6 million and \$6.9 million in the same quarter last year. The relatively higher increase in raw material costs was a result of the commencement of our residential development project in Hainan Island in July 2010. This project is the largest single construction project (contract value of \$44.3 million) in the history of the Company. The Company normally focuses more on securing the direct material required for construction in the initial construction phase.

Gross profit for the first quarter this financial year was \$7.1 million, representing a margin of 16.4% on revenue. Gross profit for the same quarter last year was \$5.7 million, representing a margin of 16.2% on revenue. Historically, Boyuan's gross profit margins have been in the range of 15% to 16%.

G&A expenses were \$1 million in this quarter compared to \$0.8 million in the three-month ended September 30, 2009. The increase was mainly due to the increase in salary costs and consulting fees in relation to the review of the Company's internal controls system. The Company has strengthened its management team in response to its listing status since March 2009 and the increase in its business activities.

Interest expense was \$1.3 million in the three-month ended September 30, 2010, an increase of \$0.7 million over the same period last year. The increase was due to increase in bank loans and bank notes payable. Also included in the interest expense this period was a minimum total return ("MTR") charge of \$0.56 million. 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 will be based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on the convertible debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, on February 27, 2013. The MTR expense recorded in this period was a non-cash accrued expense based on the above calculations on September 30, 2010.

Net income after taxes for the three-month ended September 30, 2010 was \$2.8 million or \$0.10 per share fully diluted. Net loss for the three-month ended September 30, 2009 was \$0.2 million.

Adjusted net income for the three-month period ended September 30, 2009 was \$3 million. Adjusted net income is not a recognized measure under GAAP and excludes non-cash, stock-based compensation charge related to the fair value transfer of shares under the make-good provisions of two separate financing agreements signed respectively in March and July of 2009. As specified by the Company's make-good provisions, Boyuan forecasted an after-tax net income of \$11.5 million in March, 2009 and \$12.4 million in July, 2009, respectively, for FY2010.

Boyuan had working capital of \$44.6 million, including cash, equivalents, and restricted cash totalling \$14.5 million as at September 30, 2010. This compares to \$39.9 million and \$8.7 million, respectively at June 30, 2010.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	September 30, 2010	June 30, 2010
Due from the Chairman & CEO	\$ -	\$-
Due to Chairman & CEO	92,688	171,925
Due to affiliated companies	718,291	420,289

The amount due to the Chairman and CEO was used for travel and general business expenses incurred in the normal course of business. The amount did not bear interest and were uncollateralized.

Due to affiliated companies' balance of \$718, 291 was a result of payments made to suppliers on the Company's behalf by the Company's affiliated companies.

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, 2010:

US\$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q1, FY2011	43,044	2,805	0.17	0.10
Q4, FY2010	43,681	4,593	0.29	0.17
Q3, FY2010	31,048	2,156	0.16	0.09
Q2, FY2010	37,611	3,512	0.26	0.15
Q1, FY2010	35,003	(206)	(0.03)	(0.03)
Q4, FY2009	41,066	2,314	0.63	0.09
Q3, FY2009	15,939	1,160	0.36	0.05
Q2, FY2009	23,388	2,375	0.76	0.76

LIQUIDITY AND CAPITAL RESOURCES

US\$'000	2010	2009
Operating activities	2,208	(3,427)
Investing activities	(185)	(1,207)
Financing activities	1,288	4,139
Effect of currency translation	101	26
Net Increase (decrease) in cash and cash equivalents	3,413	(469)

Net cash provided in operating activities was \$2.2 million for the three-month ended September 2010 compared to cash used of \$3.4 million in the same period last year. The change was primarily caused by the cash provided from operations of \$3.7 million, the increase in the Company's accounts payable and accrued liabilities of \$8.5 million and income taxes payable of \$1.1 million, and decrease of advances to suppliers and prepaid expenses of \$2 million as well as a decrease in deposit of \$1.8 million. These were partially offset by cash used as a result of the increase of unbilled revenue of \$12.1 million and other receivable of \$2.9 million. 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 caused by 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 consistent with the increase in the backlog for the year as the Company has taken on a number of new contracts in the period and in FY2010. The increase in the backlog also caused a substantial increase in the Company's accounts payable and accrued expenses as the Company has to secure more raw materials in support of the additional contracts taken.

Net cash used in investing activities was \$0.2 million in the first quarter this financial year. For the same period last year, net cash used in investing activities was \$1.2 million . All cash used in investment activities were related to acquisition of equipment.

Net cash provided from financing activities was \$1.3 million in this period, a decrease of \$2.8 million over the same period last year. The major sources of cash from financing activities last period were from bank financing and the issue of the convertible debentures. The Company did not issue any convertible debentures in this period.

The Company's objectives when managing capital are:

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

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

The Company is subject to externally imposed capital requirements through its restricted cash and bank loan requirements. In addition the PRC law requires the Company to set aside a statutory reserve. Statutory reserve refers to the amount appropriated from the retained earnings in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and, are to be used to expand production or operations. PRC laws prescribe that an enterprise operating at a profit must appropriate, on an annual basis,

from its earnings an amount to the statutory reserve to be used for future company development. Such an appropriation is made until the reserve reaches a maximum equalling 50% of the enterprise's capital.

The Company's primary sources of funding have been short term loans from banks, Secured Debenture, 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 \$8.3 million as at September 30, 2010 as compared to a cash and cash equivalents balance of \$4.9 million as at June 30, 2009. The Company had \$102.6 million in current assets and \$58 million in current liabilities as at September 30, 2010.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 16,187,941 common shares and 9,592,059 preferred shares outstanding. The Company also has Secured Debentures outstanding of \$7.7 million (CDN\$7.9 million) that can be converted into 3,963,000 common shares and 3,133,700 warrants outstanding exercisable into 3,133,700 common shares. The outstanding share options granted to directors and officers are 1,145,000.

Off Balance Sheet Arrangements

As at September 30, 2010, 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 restricted cash and accounts receivable. The Company has significant cash 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.

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 period ended September 30, 2010 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 a an increase (decrease) of 10% in RMB exchange rate could have no impact of the Company's net income but could have increase (decrease) the comprehensive income by approximately \$1,790,000 (\$1,790,000).

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

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, 2010:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	\$	\$	\$	\$	\$
Bank loans	18,676,937	(18,676,937)	(18,676,937)	-	-
Notes payable	11,162,121	(11,162,121)	(11,162,121)	-	-
Accounts payable	12,134,009	(12,134,009)	(12,134,009)	-	-
Due to related parties	810,979	(810,979)	(810,979)	-	-
Automobile loans	330,288	(330,288)	(330,288)	-	-
Secured Debentures	6,526,677	(7,699,629)	(2,563,629)	(2,568,000)	(2,568,000)
Total	49,641,011	(50,813,963)	(45,677,963)	(2,568,000)	(2,568,000)

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

In January 2009, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The AcSB also issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which replace Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations". These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The adoption of this standard will affect the presentation and disclosure of the non-controlling interest. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("**IFRS**"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for FY2010. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period ended September 30, 2011, which includes presentation of its comparative results for the same period in 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company is in the process of developing an IFRS conversion plan comprised of various phases as follows:

Preliminary Planning and Scoping – This phase involves development of an internal diagnostic review designed to understand, identify and assess the overall effort required to produce financial information under IFRS. The review will include high level consideration of the impacts of IFRS on the Company's consolidated financial statements, internal control over financial reporting and information systems. Based on management's preliminary review and current Company processes, minimal impact is expected on information systems. The IFRS diagnostic review includes a high level impact assessment of IFRS, as relevant to the Company. This initial assessment will identify standards of high or medium priority to the Company. The Company will assess any such changes required as a component of its detailed Impact Assessment phase and update its IFRS conversion plan as appropriate.

Detailed Impact Assessment - This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's consolidated financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS. The Company is in the process of its detailed review of IFRS relevant to the Company and identification of key differences. The Company expects to complete this phase in through the remainder of fiscal 2011.

Implementation - This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business process. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective July 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The design and effectiveness of internal controls over financial reporting was assessed as of September 30, 2010. 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.

There has been no change in the design of the Company’s internal controls over financial reporting during the quarter ended September 30, 2010 that would materially affect, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

SUBSEQUENT EVENTS

On November 3, 2010, the Company completed a prospectus offering of CAD\$15 million unsecured subordinated convertible debentures. The debentures, which will bear an annual interest of 10% paid semi-annually, will be due on October 31, 2015 and are convertible by the holders into common shares of the Company at a conversion price of CAD\$2.60 per share. The 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.

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 coming periods. 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.
Consolidated Financial Statements
For The Three Months Ended
September 30, 2010 and 2009
(Unaudited)

Notice of No Auditor Review of Interim Consolidated Financial Statements

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

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

Boyuan Construction Group, Inc.

Consolidated Balance Sheets
(Expressed in US Dollars)

	(Unaudited)	(Audited)
	September 30, 2010	June 30, 2010
	\$	\$
Current Assets		
Cash and cash equivalents	8,267,149	4,853,755
Restricted cash (Note 6)	6,221,988	3,872,488
Accounts receivable	883,840	676,187
Unbilled revenue	62,580,376	49,778,594
Other receivables	3,846,562	1,577,310
Inventory	422,346	390,130
Advances to suppliers and prepaid expenses	12,631,188	14,516,086
Deposits	7,707,250	9,385,787
Future income tax assets	-	479,000
	102,560,699	85,529,337
Property and equipment (Note 8)	8,243,707	8,213,535
Land use rights (Note 9)	134,891	126,392
	110,939,297	93,869,264
Current Liabilities		
Bank loans (Note 10)	18,676,937	19,480,040
Bank notes payable (Note 10)	11,162,121	6,151,475
Accounts payable and accrued liabilities	19,447,683	12,679,266
Income taxes payable	3,701,831	3,038,947
Deferred revenue	1,225,495	1,057,840
Automobile loans	330,288	382,425
Due to related parties (Note 7)	810,979	592,214
Current portion of convertible debentures (Note 11)	2,390,713	2,223,048
Future income tax liabilities	227,000	-
	57,973,047	45,605,255
Accrued liabilities	942,567	-
Future income tax	788,000	808,000
Convertible debentures (Note 11)	4,135,964	3,919,428
	63,839,578	50,332,683
Shareholders' Equity		
Share capital (Note 12)	7,374,344	7,374,344
Contributed surplus (Note 13)	7,594,508	7,332,471
Reserve (Note 14)	2,774,998	2,774,998
Equity component of convertible debentures (Note 11)	372,533	372,533
	18,116,383	17,854,346
Retained earnings	26,342,770	23,537,584
Accumulated other comprehensive income	2,640,566	2,144,651
	28,983,336	25,682,235
	47,099,719	43,536,581
	110,939,297	93,869,264

Subsequent Event (Note 21)

Approved by the Audit Committee:

"Cailiang Shou"
Cailiang Shou, Director

"David Horsley"
David Horsley, Director

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended	
	September 30, 2010	September 30, 2009
	\$	\$
Construction revenue	43,043,655	35,003,807
Cost of construction	35,990,452	29,323,883
Gross profit	7,053,203	5,679,924
Expenses		
Amortization of property and equipment	256,313	142,041
General and administrative expenses	1,008,895	814,142
	1,265,208	956,183
Income from operations	5,787,995	4,723,741
Other Income (expense)		
Interest and other income	117,327	138,935
Foreign exchange loss	(24,591)	-
Interest expense	(703,316)	(564,781)
Minimum total return expense (Note 11(a))	(567,591)	-
Stock- based compensation (Note 12)	(262,037)	-
Make good provision (Note 11(b))	-	(3,243,192)
	(1,440,208)	(3,669,038)
Net income before income taxes	4,347,787	1,054,703
Income taxes (Note 15)	1,542,601	1,260,610
Net income (loss) for the period	2,805,186	(205,907)
Other Comprehensive Income (loss)		
Unrealized gain (loss) on foreign exchange translation	495,915	(55,350)
Comprehensive income (loss) for the period	3,301,101	(261,257)
Earnings (loss) per share, basic (Note 20)	\$ 0.17	\$(0.04)
Earnings (loss) per share, diluted (Note 20)	\$ 0.10	\$(0.04)
Weighted average number of common shares outstanding, basic (Note 20)	16,187,941	5,232,741
Weighted average number of common shares outstanding, diluted (Note 20)	29,908,440	5,232,741

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended	
	September 30, 2010	September 30, 2009
	\$	\$
Retained earnings, beginning of period	23,537,584	14,326,995
Net income (loss) for the period	2,805,186	(205,907)
Retained earnings, end of period	26,342,770	14,121,088

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

	Three Months Ended	
	September 30, 2010	September 30, 2009
	\$	\$
Accumulated other comprehensive income, beginning of period	2,144,651	1,753,625
Foreign exchange translation adjustment	495,915	(55,350)
Accumulated other comprehensive income, end of period	2,640,566	1,698,275

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

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

	Three Months Ended	
	September 30, 2010	September 30, 2009
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the period	2,805,186	(205,907)
Items not involving cash:		
Amortization of property and equipment	256,313	142,041
Interest accretion	419,879	347,579
Make good provision	-	3,243,192
Stock-based compensation	262,037	-
Unrealized foreign exchange gain (loss)	(16,291)	73,495
	<u>3,727,124</u>	<u>3,600,400</u>
Changes in other assets and liabilities:		
Accounts receivables	(196,837)	267,886
Unbilled revenue	(12,117,834)	(4,002,060)
Other receivable	(2,914,741)	(6,338,893)
Inventories	(27,038)	642,704
Advance to suppliers and prepaid expenses	2,032,716	(2,150,703)
Deposits	1,773,353	-
Accounts payable and accrued liabilities	8,488,078	54,718
Deferred revenue	152,706	1,491,777
Income taxes payable	1,072,766	2,916,085
Due from / to related parties	218,435	91,016
	<u>2,208,728</u>	<u>(3,427,070)</u>
Cash provided by (used in) operating activities	2,208,728	(3,427,070)
INVESTING ACTIVITIES		
Acquisition of equipment	(184,725)	(1,202,853)
Acquisition of intangible assets	-	(4,314)
	<u>(184,725)</u>	<u>(1,207,167)</u>
Cash used in investing activities	(184,725)	(1,207,167)
FINANCING ACTIVITIES		
Restricted cash	(2,273,492)	(2,026,621)
Bank loans	(1,032,400)	1,323,728
Bank notes payable	4,874,401	-
Auto loan	(56,197)	10,552
Convertible debentures, net	(223,869)	3,622,780
Proceeds from issuance of common stock, net	-	1,208,270
	<u>1,288,443</u>	<u>4,138,709</u>
Cash provided by financing activities	1,288,443	4,138,709
Effect of changes in exchange rates on cash	100,948	26,435
Increase (decrease) in cash	3,413,394	(469,093)
Cash and cash equivalents, beginning	4,853,755	2,365,738
Cash and cash equivalents, ending	8,267,149	1,896,645
Supplemental disclosure of cash flow information:		
Cash paid for interest	509,614	564,781
Cash paid for income taxes	5,830	-

Significant non-cash transactions (Note 16)

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
(Expressed in US Dollars)
(Unaudited)

1. NATURE OF OPERATIONS

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

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

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

2. ACQUISITION

Acquisition of HKCo

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

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

Net assets acquired	\$	-
Transaction costs		(323,672)
<u>Excess of transaction costs over net assets acquired</u>	<u>\$</u>	<u>(323,672)</u>

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
(Expressed in US Dollars)
(Unaudited)

2. ACQUISITION (continued)

Consolidation of Variable Interest Entity (Zhejiang)

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

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

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

3. BASIS OF CONSOLIDATION AND PRESENTATION

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
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5. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2009, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The AcSB also issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which replace Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations". These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The adoption of this standard will affect the presentation and disclosure of the non-controlling interest. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2010. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

6. RESTRICTED CASH

Restricted cash represents compensating balances held at banks to partially secure banking facilities in the form of loans and notes payable. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding loans and notes payable, and the funds are only allowed to be used to settle bank indebtedness (see Note 10). The funds deposited as compensating balances are interest bearing. The amount of cash restricted varies based on the Bank's credit policy at the time that the Company requests for increase or extension of credit facilities.

7. DUE TO RELATED PARTIES

	September 30, 2010	June 30, 2010
	\$	\$
Due to the Chairman and Chief Executive Officer ("CEO")	92,688	171,925
Due to companies controlled by the Chairman and CEO	718,291	420,289
	<u>810,979</u>	<u>592,214</u>

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

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
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(Unaudited)

8. PROPERTY AND EQUIPMENT

	At September 30, 2010		Net Book Value \$	At June 30, 2010 Net Book Value \$
	Cost \$	Accumulated Amortization \$		
Machinery and equipment	5,975,723	2,231,734	3,743,989	3,839,342
Buildings	2,529,800	614,375	1,915,425	1,911,707
Vehicles	1,324,812	370,448	954,364	968,065
Construction in progress	816,721	-	816,721	684,238
Office equipment	915,448	181,594	733,854	705,676
Leasehold improvements	211,611	132,257	79,354	104,507
	<u>11,774,115</u>	<u>3,530,408</u>	<u>8,243,707</u>	<u>8,213,535</u>

9. LAND USE RIGHTS

	September 30, 2010 \$	June 30, 2010 \$
Balance, at cost	136,024	133,114
Accumulated amortization	(1,133)	(6,722)
Net book value	<u>134,891</u>	<u>126,392</u>

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

10. BANK LOANS AND NOTES PAYABLE

- The bank loans are due within one year with interest paid monthly or quarterly at rates of 4% to 6.38% (June 30, 2010 – 4% to 9.36%), weighted average at 5.39% (June 30, 2010 – 5.64%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of \$16,737,200 in aggregate provided by construction project developers and the Chairman and CEO of the Company.
- The bank notes are due within six months and are non-interest bearing. The notes are secured by compensating deposit held by the banks (see Note 6).

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
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(Unaudited)

11 CONVERTIBLE DEBENTURES

	September 30, 2010 \$	June 30, 2010 \$
Balance, beginning of period	6,142,476	1,880,200
Gross proceeds from issue	-	4,174,620
Issue costs	-	(756,251)
Amount allocated to the equity component	-	(235,488)
Interest accretion	424,206	1,510,837
Interest paid	(226,177)	(913,300)
Transfer of debentures converted to common shares	-	(3,566)
Foreign exchange loss on translation	186,172	485,424
Balance, end of period	6,526,677	6,142,476

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

	\$
Due on February 28, 2011	2,563,629
Due on February 28, 2012	2,568,000
Due on February 28, 2013	2,568,000
Total principal	7,699,629
Less: interest at weighted average effective interest rate of 26.36%	(1,172,952)
	6,526,677
Less: current portion	(2,390,713)
Non-current portion	4,135,964

(a) Convertible Debentures – Principle Amount of \$2,982,804

Concurrent with the RTO transaction described in Notes 1 and 2, the Company completed a financing of \$3,226,568 (CDN\$4,100,000). The Company issued 4,100 subscription receipts at a price of \$787 (CDN\$1,000). Each subscription receipt was comprised of one unit (the "Units"). Each Unit consisted of one convertible debenture in the principal amount of \$590 (CDN\$750) (the "Convertible Debentures"), 125 common shares, 250 non-transferable warrants, 250 transferable rights and 250 non-transferable additional rights.

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

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

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.

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
(Expressed in US Dollars)
(Unaudited)

11 CONVERTIBLE DEBENTURES (continued)

(a) Convertible Debentures – Principle Amount of \$2,982,804 (continued)

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total return right (“MTR”) of 25% per annum on their Units. The calculation will be based upon the twenty day volume weighted average price of the Company’s common shares, less interest paid or payable on the Convertible Debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, on February 27, 2013. For the three months ended September 30, 2010, the Company recorded interest expenses of \$567,591 relating to the MTR and charged to operations.

The Company uses the residual value method to allocate the principal amount of the Convertible Debentures between the liability and equity components. Under this method, the value of the equity component of \$137,295 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of \$1,660,377 was computed as the present value of future principal and interest payments discounted at a rate of 28% per annum.

(b) Convertible Debentures – Principal Amount of \$4,716,825

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.

Pursuant to the Company achieving after tax net income (“ATNI”) of less than \$8,500,000 and \$12,400,000 for the years ended June 30, 2009 and 2010 respectively, each of the rights and additional rights entitles the holder, upon exercise at no additional consideration, to have one issued and outstanding common share of the Company transferred to the holder from shares which were deposited by management with an escrow agent. The Company’s ATNI exceeded the requirement and the rights and additional rights expired on and the escrow shares were deemed to have been returned to the original shareholders on June 30, 2009 and 2010 respectively. On September 30, 2009, a make good provision of \$3,243,192 for the fair value of the shares deemed to have been returned to the original shareholders on June 30, 2009 was charged to operations and included in contributed surplus.

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.

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
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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 Number	\$	Common Shares Number	\$
Balance, June 30, 2010 and September 30, 2010	9,592,059	-	16,187,941	7,374,344

Securities held in escrow

At September 30, 2010, 1,428,131 (June 30, 2010 - 1,428,131) of the common shares and 9,592,059 (June 30, 2010 - 9,592,059) of the preferred shares issued and outstanding were escrowed subject to release only with regulatory approval pursuant to the release provisions of the escrow agreement as described in Note 11.

Options

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

On July 9, 2010, 1,000,500 options were granted to directors and officers of the Company, 25% of the options will vest every six months from the date of grant. As of September 30, 2010 the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,140,500 common shares summarized as follows. The options have a weighted average remaining life of 4.69 years.

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance, June 30, 2010	140,000	\$2.55 (CAD\$2.63)	October 28, 2014
Granted	1,000,500	\$2.04 (CAD\$2.10)	July 8, 2015
Balance, September 30, 2010	1,140,500	\$2.10 (CAD\$2.17)	
Exercisable at September 30, 2010	46,688		

During the three months ended September 30, 2010, the Company recorded stock-based compensation of \$262,037 for the options described above and charged to operations. The Company uses the Black-Scholes option pricing model to value stock options which requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The weighted average assumptions are as follows:

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

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

Boyuan Construction Group, Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended September 30, 2010 and 2009
(Expressed in US Dollars)
(Unaudited)

12. SHARE CAPITAL (continued)

Warrants

	Underlying Shares
<u>Warrants outstanding, June 30, 2010 and September 30, 2010</u>	<u>3,133,700</u>

During the three months ended September 30, 2009, the Company recorded share issue costs of \$272,548 for the 323,700 finders' warrants issued (see Note 11(b)), using the Black-Scholes model with the following weighted average assumptions and resulting issue date fair value:

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

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

Warrants outstanding at September 30, 2010 are as follows:

Exercise Price	Underlying Shares	Expiry
\$1.94 (CAD\$2.00)	1,223,750	February 28, 2013
\$1.94 (CAD\$2.00)	1,909,950	July 7, 2013
	<u>3,133,700</u>	

13. CONTRIBUTED SURPLUS

Balance, June 30, 2010	\$ 7,332,471
<u>Stock-based compensation (Note 12)</u>	<u>262,037</u>
<u>Balance, September 30, 2010</u>	<u>7,594,508</u>

14. RESERVE

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

<u>Balance, June 30, 2010 and September 30, 2010</u>	<u>\$ 2,774,998</u>
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Boyuan Construction Group, Inc.

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15. INCOME TAX

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

Income tax expenses are as follows:

	Three Months Ended	
	September 30, 2010	September 30, 2009
	\$	\$
Current	856,990	1,247,640
Future	685,611	12,970
Total income tax expenses	1,542,601	1,260,610

16. SIGNIFICANT NON-CASH TRANSACTIONS

The Company has the following significant non-cash transactions:

	Three Months Ended	
	September 30, 2010	September 30, 2009
	\$	\$
Agent's warrants issued pursuant to a public offering	-	272,548
Make good provision	-	3,243,192
Stock-based compensation	262,037	-

17. FINANCIAL INSTRUMENTS

Fair values

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

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

	September 30, 2010
	\$
Held for trading (i)	14,489,137
Loans and receivables (ii)	12,437,652
Other financial liabilities (iii)	49,641,011

Fair values (continued)

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

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

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

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17. FINANCIAL INSTRUMENTS (continued)

Fair values (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 2010
Cash and cash equivalents and restricted cash	\$ 14,489,137	\$ -	\$ -	\$ 14,489,137

Interest Rate and Credit Risk

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

For the period ended September 30, 2010, revenue from the 5 largest customers accounted for 51% (September 30, 2009 – 5 largest customers accounted for 64%) of total revenue. At September 30, 2010, amounts outstanding from the 4 largest customers accounted for 45% (September 30, 2009 – 36%) of total accounts and other receivables. Management does not believe that there is significant credit risk arising from any of the Company's customers. Under PRC regulations, a general contractor is entitled to first claim of assets against its customers, which gives a general contractor a "mechanic lien" senior than all other secured debt including but limited to bank loans, notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with that real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired at September 30, 2010:

	Current	31 – 60 days	61 – 90 days	91 + days	Carrying Value
Accounts receivable	\$ 10,003	\$ 39,204	\$ -	\$ 51,880	\$ 101,087

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

At September 30, 2010, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of \$14,480,764, accounts and other receivables of \$4,719,464, bank loans and notes payable of \$29,839,058, accounts payable of \$11,994,304 and automobile loan of \$330,288 which were denominated in RMB.

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17. FINANCIAL INSTRUMENTS (continued)

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, 2010:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	\$	\$	\$	\$	\$
Bank loans	18,676,937	(18,676,937)	(18,676,937)	-	-
Notes payable	11,162,121	(11,162,121)	(11,162,121)	-	-
Accounts payable	12,134,009	(12,134,009)	(12,134,009)	-	-
Due to related parties	810,979	(810,979)	(810,979)	-	-
Automobile loans	330,288	(330,288)	(330,288)	-	-
Convertible debentures	6,526,677	(7,699,629)	(2,563,629)	(2,568,000)	(2,568,000)
Total	49,641,011	(50,813,963)	(45,677,963)	(2,568,000)	(2,568,000)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the period which a change in foreign exchange rate during the period ended September 30, 2010 would have had.

The sensitivity analysis includes the assumption of changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of sensitivity analysis shows an increase (decrease) of 10% in RMB exchange rate could have no impact on the Company's net income but could have increased or decreased the comprehensive income by approximately \$1,790,000.

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

18. GEOGRAPHIC DISCLOSURES

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

The Zhejiang's office building is located in Jiaxing, Zhejiang, PRC. All of the Company's revenue was generated in PRC and substantially all capital assets are located in PRC.

19. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

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

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

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

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20. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

	Net income \$	Weighted Average No. of Shares outstanding	Earnings per Share \$
For the period ended September 30, 2010			
Net income for the year ended September 30, 2010	2,805,186	-	-
Weighted average number of shares outstanding	-	16,187,941	-
Basic Earnings per Share	2,805,186	16,187,941	0.17
Effect of convertible securities:			
• Preferred shares	-	9,592,059	-
• Stock options	-	165,440	-
• Convertible debentures	304,412	3,963,000	-
Diluted Earnings per Share	3,109,598	29,908,440	0.10

	Net income \$	Weighted Average No. of Shares outstanding	Loss per Share \$
For the period ended September 30, 2009			
Net loss for the period ended September 30, 2009	(205,907)	-	-
Weighted average number of shares outstanding	-	5,232,741	-
Loss per Share – Basic and Diluted	(205,907)	5,232,741	(0.04)

21. SUBSEQUENT EVENT

On November 3, 2010, the Company completed a prospectus offering of CAD\$15 million unsecured subordinated convertible debentures. The debentures, which will bear an annual interest of 10% paid semi-annually, will be due on October 31, 2015 and are convertible by the holders into common shares of the Company at a conversion price of CAD\$2.60 per share. The 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.