Management's Discussion and Analysis

February 11, 2015

This Management's Discussion and Analysis ("**MD&A**") relates to the results of operations and the financial condition of Boyuan Construction Group, Inc. (the "**Company**") for the six months ended December 31, 2014. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the six months ended December 31,2014 and notes thereto. The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. Boyuan reported its financial results in accordance with International Financial Reporting Standards (IFRS), as required for public companies in Canada. Additional information about Boyuan including the Company's Annual Information Form and other filings are available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Caution Regarding Forward-Looking Information:

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to future events or the Company's future performance and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, but is not limited to, management's belief in the level of credit risk arising from the Company's customers, management's view on the gradual stabilization of the current depressed property market in China, management's expectation on the effectiveness of the Company's disclosure controls and internal controls, management's plan to implement independent consultant's recommendations on internal controls and the plan to engage the consultant to perform an updated review on the internal control system, the Company's outlook on China's ongoing expansion of middle class and the growth of China's tier-2 cities and on the continued demand for the Company's services, the Company's plan to increase focus on specialty construction projects, the Company's expectation of higher profit margins for the specialty construction projects, and the Company's plan to upgrade its construction licenses 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 the current depressed property market in China, 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 FY2014 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

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 in 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 45 material projects in the past three fiscal years. Currently the Company has a significant project backlog including residential, commercial, industrial, and hotels. The duration of these projects ranges from one to three years. The majority of these projects are located in the Yangtze River Delta, Shandong Province, and Hainan Island.

The Company's common shares are publicly traded on the Toronto Stock Exchange (the "**Exchange**" or the "**TSX**") under the symbol "BOY". The Company's 10% unsecured convertible debentures due October 31, 2015 (the "**Unsecured Debentures**") are traded on the Exchange under the symbol "BOY.DB.A".

Significant Accounting Policies

Special Purpose Entity Agreements

The Company through its subsidiary entity effectively takes on all the rights and privileges of beneficial ownership of Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang") via four agreements entered into between the subsidiary entity and Zhejiang. The Company consolidates the accounts of Zhejiang in accordance with IFRS 10 *Consolidated Financial Statements*. The financial positions and the related results of operations, changes in equity and cash flow are therefore consolidated under the Company.

Recognition of revenue

Construction revenue includes the initial amount agreed in the contract plus any variations in construction work and changes, to the extent that it is probable that it will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss using the percentage of completion method. The percentage of completion is assessed by reference to the proportion of the actual costs incurred to date compared to the estimated total costs at the end of each reporting period for each contract. Revenue and contract cost estimates are revised on an ongoing basis based on changes in price and in the scope of each contract. Any changes made to the contract scope are reflected in the percentage of completion of applicable contracts in the same period as the change in estimate occurs.

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

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

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

Critical Accounting Estimates and Judgments

Estimates

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

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

Information about estimates in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements include estimation of the allowance for doubtful accounts, determination of the useful life of property and equipment, measurement of provisions and measurement of share-based payments.

Critical judgments

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

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

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

Under certain circumstances, the determination of the Company's level of control over its subsidiaries and special purpose entity requires application of judgment through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors, legal enforceability of agreements between China Privco, Zhejiang and the shareholders of Zhejiang and various other factors.

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from our unaudited condensed interim consolidated financial statements for the three and six months ended December 31, 2014 and December 31, 2013 and our financial positions as at December 31, 2014 and June 30, 2014.

US$'000 (except earnings per share amounts)	**For the three months ended December 31 2014**	**For the three months ended December 31 2013**	**For the six months ended December 31 2014**	**For the six months ended December 31 2013**
Operating Results				
Construction revenue	76,324	61,990	144,056	111,028
Cost of construction	65,816	52,940	124,086	94,761
Gross profit	10,508	9,050	19,970	16,267
Net income	4,710	3,617	8,606	5,955
Earnings per share				
Basic	0.19	0.14	0.34	0.23
Diluted	0.16	0.13	0.30	0.22
Financial Position	As at December 31, 2014	As at June 30, 2014		
Current assets	215,968	194,028		
Non-current assets	15,959	17,274		
Total assets	231,927	211,302		
Current liabilities	116,880	106,088		
Long term liabilities	3,040	4,027		
Shareholders' equity	112,007	101,187		
Cash dividend per share	Nil	Nil		
Common shares outstanding	25,420,065	25,420,065		

RESULTS OF OPERATIONS

Revenue for the second quarter ended December 31, 2014 was $76.3 million, an increase of $14.3 million or 23.1% from the corresponding period last year. Revenue for the first six months of FY 2015 was $144.1 million, an increase of $33.0 million or 29.7% for the same period of FY 2014. The measures introduced by the Chinese central government a few years ago to cool down the real estate market has had a negative impact on our business activities resulting in slower growth in revenue and a smaller gross margin in FY 2012 and FY2013. The Company was also more selective in taking up new construction projects under the uncertain economic environment. However, with the real estate market seemingly more stabilized and with the full repayment of the secured debentures last year, the Company has been more aggressive in taking on new projects in the past year. New projects taken up in FY 2014 and for the first six months of this fiscal year amounted to $367 million and $204 million respectively. In comparison, new projects taken up in FY2013 and FY2012 were $46 million and $68 million respectively. Most of the Company's projects have duration between 1 to 3 years.

Cost of construction for Q2 FY2015 was $65.8 million, up 24.4% from $52.9 million for Q2 FY2014. Cost of construction for the first six months of FY2015 was $124.1 million, an increase of 30.9% from $94.8 million for the corresponding period in FY2014. Cost of construction includes all direct material, labor, 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 $43.3 million and labour costs were $19.8 million in this quarter. In comparison, direct material costs and labour costs were $37.8 million and $13.2 million respectively in the same quarter last year.

Gross profit for Q2 FY2015 was $10.5 million, which represented a margin of 13.8% on revenue. Gross profit for the corresponding period of last year was $9.0 million, which represented a margin of 14.6% on revenue. We have experienced a slight downward pressure on our margins under the current real estate market situation in China. Developers are becoming more price sensitive and have longer development cycles thus eroding some of our normal margins. Historically, Boyuan's gross profit margins have been in the range of 15% to 17%. On a six month basis, gross profit for FY2015 was $20.0 million, which represented a margin of 13.9% on revenue. In the same period of FY2014, gross profit and gross margins were $16.3 million and 14.7%, respectively.

G&A expenses were $1.32 million this quarter compared to $1.39 million in the same quarter last year. G&A expenses for the six months period ended December 31, 2014 were $2.51 million, representing a decrease of $0.12 million in the same period last year. The G&A expenses has been fairly stable for this quarter and the current six months period compared to the same periods last year.

Interest expense for Q2 FY2015 was $1.84 million, similar to the interest expense of $1.80 for the same period last year. On a year-to-date basis, interest expense for FY2015 was $3.7 million, also similar to the $3.6 million of interest expense recorded in the same period last year.

After-tax net income for Q2 FY2015 was $4.7 million, or $0.16 per fully diluted share, compared to net income of $3.6 million, or $0.13 per fully diluted share, for Q2 FY2014. On a six-month basis, net income for FY2015 was $8.6 million or $0.30 per share fully diluted. This compares to a net income of $6.0 million, or $0.22 per share fully diluted, for the same period of FY2014. The increase in net income was a result of increase revenue in the period.

The Company had working capital of $99.1 million, including cash and cash equivalents of $2.6 million for the period ended December 31, 2014. This compares to $87.9 million and $4.5 million, respectively, at June 30, 2014. The increase in working capital is due to the contribution of net earnings and improved working capital management.

TRANSACTIONS WITH RELATED PARTIES

	December 31, 2014	June 30, 2014
	$	$
Due from related parties		
Due from company controlled by the Chairman and		
Chief Executive Officer ("CEO")	60,725	60,236

As at December 31, 2014, the Company advanced project funds totalling $Nil (June 30, 2014 - $2,475,634) to project managers who are related by family to the CEO. The amounts due from related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

Transactions with key management personnel:

The Company has identified its directors and senior officers as its key management personnel. The remuneration of directors and senior officers during the period was as follows:

	Six Months Ended	
	December 31, 2014 (unaudited)	December 31, 2013 (unaudited)
	$	$
Salaries and benefits	153,541	251,587
Share-based compensation	142,514	33,646
Total	296,055	285,233

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

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2014:

US$'000 (except EPS amounts)	Revenue	Net Income	Basic EPS	Diluted EPS
Q2, FY2015	76,324	4,710	0.19	0.16
Q1, FY2015	67,732	3,896	0.15	0.14
Q4, FY2014	104,720	5,361	0.21	0.18
Q3, FY2014	62,593	3,447	0.14	0.13
Q2, FY2014	61,990	3,617	0.14	0.13
Q1, FY2014	49,039	2,338	0.09	0.09
Q4, FY2013	61,483	2,311	0.09	0.09
Q3, FY2013	41,387	1,353	0.05	0.05

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q2, FY2015	Q2, FY2014	YTD2015	YTD2014
Operating activities	3,423	2,621	(2,050)	(1,361)
Investing activities	(30)	(203)	(104)	(263)
Financing activities	(5,336)	(365)	210	4,501
Effect of currency translation	2	91	37	52
Net Increase in cash and cash equivalents	(1,941)	2,144	(1,907)	2,929

Net cash provided by operating activities was $3.4 million for this quarter versus $2.6 million for the same quarter last year. The increase was mainly due to the decrease in advances to suppliers and prepaid expenses offset partially by the increase in accounts receivable. For YTD 2015 the net cash used was $2.1 million compared to $1.4 million for YTD 2014.

Net cash used in investing activities in this quarter was $0.03 million compared to $0.2 million for the same quarter last year. Net cash used by investing activities was $0.1 million for YTD 2015 compared to $0.27 million for YTD 2014. The decrease was due to less equipment was purchased in the period.

For Q2 FY2015 net cash used in financing activities was $5.3 million compared to net cash used of $0.37 million in Q2 FY2014. The increase was mainly due to the reduction in bank loans in the period. For YTD 2015 and YTD 2014, net cash provided by financing activities was $0.2 million and $4.5 million respectively.

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 equaling 50% of the enterprise's capital.

The Company's primary sources of funding have been short term loans from banks, Secured and Unsecured Debentures, equity offerings, and cash provided by operating activities. The Company's primary uses of funding have been to provide working capital to the Company's construction projects.

The Company had cash and cash equivalents balance of $2.6 million as at December 31, 2014 as compared to a cash and cash equivalents balance of $4.6 million as at June 30, 2014. The Company had $216.0 million in current assets and $116.9 million in current liabilities as at December 31, 2014.

On November 3, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of $987 (CDN$1,000) per debenture for gross proceeds of $14,799,000 (CDN$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of CDN$2.60 per share. The convertible debentures are redeemable by the Company at any time from and after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 25,420,065 common shares outstanding. The Company has Unsecured Debentures outstanding of $15 million that can be converted into 5,769,230 common shares. The Company has 1,755,000 share options outstanding as at December 31, 2014. The Company has no share purchase warrants outstanding as at December 31, 2014.

Off Balance Sheet Arrangements

As at December 31, 2014, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company**.**

FINANCIAL INSTRUMENTS

Interest Rate and Credit Risk

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

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

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

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

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

Currency Risk

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

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income which a change in foreign exchange rate during the six months ended December 31, 2014 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 $4,545,000. An increase (decrease) of 10% in CDN$ 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 $1,214,000.

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

Liquidity Risk

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

The Company intends to use cash generated from operations to fund working capital requirements. The Company also intends to aggressively pursuit customers for payments of unbilled revenue and overdue accounts receivable. The Company will obtain long and/or short term financing from local PRC banks or make other lending arrangements in order to subsidize any shortfall in working requirements. The Company may also look to the market to issue shares or debentures in order to fund any cash shortages.

The following are the contractual maturities of financial liabilities as at December 31, 2014:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	51,177,379	51,177,379	51,177,379	-	-
Notes payable	17,700,496	17,700,496	17,700,496	-	-
Loan payable	3,383,613	3,768,571	2,153,469	1,615,102	-
Accounts payable	11,935,216	11,935,216	11,935,216	-	-
Automobile loans	183,404	189,521	125,839	63,682	-
Convertible debentures	12,146,412	12,898,788	12,898,788	-	-
Total	96,526,520	97,669,971	95,991,187	1,678,784	

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.

The real estate industry in China is subject to government regulations. Until 2009, the real estate markets in a number of major cities in China had experienced rapid and significant growth. Before the global economic crisis hit all the major economies worldwide in 2009, the PRC government had adopted a series of measures to restrain what it perceived as unsustainable growth in the real estate market. From 2003 to 2013, the PRC government introduced a series of specific administrative and credit-control measures including, but not limited to, setting minimum down payment requirements for residential and commercial real estate transactions, limiting availability of mortgage loans, and tightening governmental approval process for certain real estate transactions. Such measures and policies by the government have negatively affected the real estate market and caused a reduction in transactions in the real estate market. While these measures and policies remain in effect, they may continue to depress the real estate market, dissuade would-be buyers from making purchases, reduce transaction volume, cause a decline in average selling prices, and prevent developers from raising the capital they need and increase developers' costs to start new projects. This naturally has a negative impact on the construction industry, particularly on gross margins and payment terms for new construction projects. These factors may materially and adversely affect our business, financial condition, results of operations and prospects. The real estate market appeared to have stabilized somewhat in recent months but it is difficult to predict when these restrictive policies will be lifted by the government. Despite the recent government measures aimed at maintaining the long-term stability of the real estate market, there is no assurance that the PRC government will not continue to adopt new measures in the future that may result in short-term downward adjustments and uncertainty in the real estate market.

RECENT ACCOUNTING PRONOUNCEMENTS

The mandatory adoption of the following new and revised accounting standards and interpretations on July 1, 2014 had no significant impact on the Company's condensed interim consolidated financial statements for the current year or prior year presented. The following standards were adopted during the period:

- IAS 32 *Financial Instruments: Presentation* - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement.

- IAS 36 *Impairment of Assets* - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a cash-generating until ("CGU") for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when and asset's or a CGU's recoverable amount is based on fair value less costs of disposal.

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

<u>New accounting standards effective January 1, 2016</u>

- IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* - On September 2014, the IASB published an amendment to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- IAS 1 *Presentation of Financial Statements* – In December 2014, the IAS issued an amendment to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements.

- IAS 27 *Separate Financial Statements* – In August 2014, the IASB issued an amendment to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- IFRS 11 *Joint Arrangements* – In May 2014, the IASB issued an amendment to clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - In May 2014, the IASB issued amendments to IAS 16 and IAS 38. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

<u>New accounting standards effective January 1, 2017</u>

- IFRS 15 *Revenue from Contracts with* Customers - IFRS 15 was issued in May 2014 and specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

<u>New accounting standards effective January 1, 2018</u>

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

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

IFRS 9 was subsequently amended in November 2013 to add new general hedge accounting requirements. The final version of IFRS 9 was issued in July 2014 and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim consolidated financial statements or whether to early adopt any of the new requirements.

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 December 31, 2014. Based on the evaluation, the Company concluded that the design and effectiveness of the Company’s DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

1. Concentration of authority, or lack of segregation of duties.
2. Inadequate written policies and procedures for recording transactions.
3. Inadequate inventory and fixed asset management systems.
4. Inadequate IT support system.

Management believes that these material weaknesses will create risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in the coming year to address these deficiencies, management will continue to monitor and work on mitigating these weaknesses. For example, the Company has already selected a new IT support system and has already implemented three components, the accounting and financial reporting module, the human resources management module, and the support management module into the new system in 2013. The Company has commenced implementation of the project management module and it is expected to be completed in early 2015.

In 2010, the Company engaged an international consulting company to review its internal control system for financial reporting and to make recommendations on improving the internal control system. The Company’s internal control system has been strengthened to a certain extent as the majority of the recommendations were implemented by the end of calendar 2010, although management acknowledged that many improvements were needed. On August 2013, as a result of information noted below, the Company again engaged the same consulting company to perform another comprehensive review of the financial reporting and internal control system.

On May 31, 2013, Boyuan announced that the OSC had issued a Notice of Hearing to consider a settlement agreement (the "**Settlement Agreement**") that had been reached by the Staff of the OSC (the “**Staff**”) with Boyuan. The Settlement Agreement related to allegations made by the Staff regarding certain inaccurate documents and information provided by Boyuan to the Staff and to Boyuan's auditors for a related party loan transaction entered into by the CEO on behalf of Boyuan and to Boyuan's lack of adequate internal control procedures on related party transactions and provision of information to its auditor and regulator.

On June 5, 2013, Boyuan announced that the OSC issued an Order approving the Settlement Agreement. Pursuant to the terms of the OSC Order, Boyuan is required to engage an internal control consultant to review the internal control and financial reporting procedures and policies of Boyuan, to make recommendations for improvement and to report to the Staff on its review and Boyuan's progress in implementing the consultant's recommendations. The consultant is required to report to the Staff on its recommendations within three months of its engagement by Boyuan, and Boyuan is required to implement the consultant's recommendations within nine months, subject to certain time extensions that may be approved by the Staff. The consultant’s report was issued on November 26, 2013. At December 31, 2014, the Company had completed the implementation of the recommendations contained in the report. The consultant will review the implementation in March 2015 and issue a final report accordingly.

There has been no change in the design of the Company’s internal controls over financial reporting during the quarter ended December 31, 2014 other than the above implementation of the consultant’s recommendations that would materially affect, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

SUBSEQUENT EVENT

On January 21, 2015, the Company announced that it will seek approval from holders (the “**Holders**”) of its 10% unsecured subordinated convertible debentures due on October 31, 2015 (the “**Debentures**”), to amend the terms of the Debentures at a meeting of the Holders to be held on February 24, 2015. The proposed amendments (the “**Amendments**”) to the Debentures consist of:

i. Extending the maturity date of the Debentures from October 31, 2015 to October 31, 2018;
ii. reducing the conversion price from CDN$2.60 to CDN$1.00 per share;
iii. increasing the coupon rate to 10.5% from 10%; and
iv. extending the restricted redemption period to any time on or after October 31, 2016.

Other than the foregoing Amendments, the terms of the Debentures will remain unchanged. The Amendments will be subject to the approval of the Toronto Stock Exchange (the "**TSX**").

In addition, the Company also announced on the same day that, subject to approval of the TSX, it intends to make a normal course issuer bid for the Debentures if the above amendments are approved by Holders.

OUTLOOK

The continued growth of China's middle class and the ongoing development of tier two cities as a result of urbanization suggest that higher demand for the Company's construction services will remain strong in the long term. In the near term, the restrictive measures imposed by the central government on the residential market and the tightening of financing facilities to property developers will continue to dampen the pace of growth for the Company. 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 strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.