

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six month periods ended June 30, 2014 and 2013



## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") was prepared as of August 12, 2014 and is provided to assist readers in understanding Black Diamond Group Limited's ("Black Diamond" or the "Company") financial performance for the three and six month periods ended June 30, 2014 and significant trends that may affect the future performance of Black Diamond. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements of the Company for the three and six month periods ended June 30, 2014 and 2013 and the audited consolidated financial statements of the Company for the years ended December 31, 2013 and 2012. The accompanying unaudited condensed consolidated interim financial statements of Black Diamond are prepared in accordance with International Financial Reporting Standards ("IFRS"). Black Diamond's common shares are listed on the Toronto Stock Exchange under the symbol "BDI".*

Additional information relating to Black Diamond may be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

Certain information set forth in this MD&A contains forward-looking statements including management's assessment of Black Diamond's future operations, performance, business prospects and opportunities, and statements relating to future operational and financial results and dividend levels and management's future expectations regarding the financial performance of the Company and its business units, including management's future expectations in respect of same set out under the heading "Outlook". With respect to the forward-looking statements in the MD&A, Black Diamond has made assumptions regarding, among other things: that Black Diamond will continue to conduct its operations in a manner consistent with past operations, that counterparties to contracts will perform the contracts as written and that there will be no unforeseen material delays in contracted projects. Although Black Diamond believes that the expectations reflected in the forward-looking statements contained in this MD&A, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurances that such expectations or assumptions will prove to be correct. Readers are cautioned that assumptions used in the preparation of such statements may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, as a result of numerous known and unknown risks, uncertainties and other factors, many of which are beyond the control of Black Diamond. These risks include, but are not limited to: the impact of general economic conditions, industry conditions, fluctuation of commodity prices, the Company's ability to attract new customers, failure of counterparties to perform on contracts, industry competition, availability of qualified personnel and management, timely and cost effective access to sufficient capital from internal and external sources, political conditions, dependence on suppliers and stock market volatility. The risks outlined above should not be construed as exhaustive. Additional information on these and other factors that could affect Black Diamond's operations and financial results are included in Black Diamond's annual information form and other reports on file with the Canadian Securities Regulatory Authorities which can be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com). Readers are cautioned not to place undue reliance on these forward-looking statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date of this MD&A and Black Diamond does not undertake any obligation to update or revise any of the forward-looking statements, except as may be required by applicable securities laws.

## OVERVIEW OF THE COMPANY

Black Diamond Group Limited was incorporated on October 7, 2009, under the laws of the Province of Alberta pursuant to the Business Corporations Act (Alberta) to participate in a plan of arrangement involving, among others, Black Diamond's predecessor Black Diamond Income Fund (the "Fund"), Black Diamond Group Limited and the unit holders of the Fund. Effective December 31, 2009, pursuant to the plan of arrangement, the Fund restructured from an unincorporated open-ended income fund trust to Black Diamond Group Limited, a publicly listed corporation.

Black Diamond Group Limited's ("Black Diamond" or the "Company") head office is located at Suite 2000, 715 – 5th Avenue S.W., Calgary, Alberta, Canada. The business of Black Diamond, through its subsidiaries and its approximate 50% equity participation in certain aboriginal partnerships is to rent modular structures for use as workforce accommodation and temporary workspace; rent various types of oilfield equipment used in the exploration and production of oil and gas; and provide lodging services and complementary services including transportation, installation, dismantling, repair and maintenance of modular structures and oilfield rental equipment. Black Diamond operates through four complementary business units in strategic locations across Canada, the United States and Australia, consisting of Black Diamond Structures, Black Diamond Logistics, Black Diamond Energy Services and Black Diamond International.

Black Diamond Structures provides workforce housing and associated services through its Black Diamond Camps operating division to a diversified client base which includes natural resource exploration and development companies, large catering and food services providers, engineering and construction companies, drillers, general contractors, pipeline constructors and municipal, provincial and federal governments. Black Diamond Camps' operates primarily in western Canada and its products include large dormitories, kitchen/diner complexes and recreation facilities. This division offers customers flexible and expedient solutions to accommodate their workforce in remote locations where local accommodation infrastructure is either insufficient or non-existent. In addition to workforce housing rental units, this division offers both new and used units for sale and provides delivery, installation, project management and ancillary products and services. Black Diamond Structures also provides modular workspace solutions throughout North America through its BOXX Modular operating division. This division provides high quality, cost effective modular space solutions to a diversified client base which includes general contractors, construction trades, real estate developers, manufacturers, commercial businesses, government agencies, and various companies involved in the resource industry. BOXX Modular's products include 'single wide' office units, lavatories, storage units, large multi-unit office complexes, training (classroom) facilities, custom manufactured modular facilities and blast resistant structures. These products offer customers flexible and expedient solutions to meet their temporary and permanent workspace and storage needs.

Black Diamond Logistics provides turnkey lodging services, remote facility management and supply chain solutions. This business unit manages a number of workforce housing facilities, utilizes both the Company's and third party owned assets, and provides associated services for customers. This business unit also provides sophisticated supply chain management services to large exploration and production customers to improve efficiency of their remote workforce services.

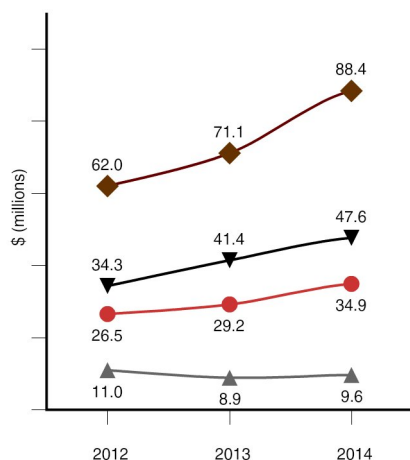
Black Diamond Energy Service's primary business is separated into the following two oilfield rental streams: surface rentals consisting of various types of equipment supporting drilling, completion and production activities, and accommodations which consist of single unit (well sites) and multi-unit complexes (drill camps) which are highly mobile and durable and which, when fully assembled, create a single building to house, feed and provide life support amenities to oilfield crews and support staff. The business unit also provides complete installation and maintenance services (operations) for its rental assets.





Black Diamond International rents and sells remote workforce housing and modular workspace solutions and provides associated services outside of North America. The primary operating geography for this business unit is Australia. The business unit's rental fleet assets are similar to assets which the Company operates in North America and are well-positioned in the resource-rich states of Queensland and Western Australia. Black Diamond International's diverse customer base includes natural resource companies, building and construction companies, commercial and general industrial companies, and government.

## 2014 SECOND QUARTER HIGHLIGHTS

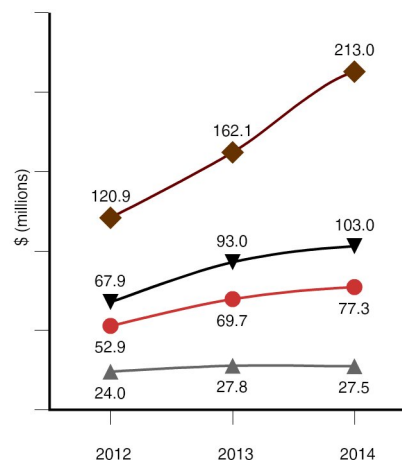
The key highlights for the three and six month periods ended June 30, 2014 are as follows:





**Three Months Ended June 30,  
Financial Highlights**



 Revenue      Gross Profit  
 EBITDA      Profit

**Six Months Ended June 30,  
Financial Highlights**



 Revenue      Gross Profit  
 EBITDA      Profit

- For the three month period ended June 30, 2014 (hereafter referred to as the "Quarter"), revenue increased by 24% to \$88.4 million compared to the three month period ended June 30, 2013 (hereafter referred to as the "Comparative Quarter"). Revenue for the six months ended June 30, 2014 (hereafter referred to as the "YTD") increased by 31% to \$213.0 million compared to the six months ended June 30, 2013 (hereafter referred to as the "Comparative YTD"). This was due to significant increases in non-rental revenue primarily due to fleet sales as well as continued growth in the Logistics business unit driving up the lodging revenue, and continued growth of the core rental platform.
- EBITDA (see "Non-GAAP Measures") for the Quarter was \$34.9 million compared with \$29.2 million for the Comparative Quarter, a 20% increase. EBITDA for the YTD was \$77.3 million compared with \$69.7 million for the Comparative YTD, an 11% increase driven by higher revenues which was partially offset by a change in mix of lower margin revenue streams and camp types.
- The Company has incurred \$19.4 million and \$38.6 million of capital expenditures in the Quarter and YTD, respectively. An additional \$70.6 million from the 2014 capital budget was committed as at June 30, 2014. Future capital will be expended in a generally non-speculative manner consistent with prior years.
- As previously announced, during the Quarter, the Company signed a contract to provide a 1,244 person camp in the Montney Shale region of northeastern British Columbia. The Company also secured the land title under an existing camp in the Horn River area and received contracts for minimum man day requirements from three anchor tenants.

## 2014 SECOND QUARTER HIGHLIGHTS (continued)

- The primary driver of Black Diamond's core business continues to be rental revenue from fleet units, which increased by \$2.8 million to \$38.3 million in the Quarter. Rental revenue increased as a result of continued investment in the Company's rental fleet. Consolidated unit count increased to 10,225 units in the Quarter compared to 9,856 in the Comparative Quarter. The value of the increase in fleet was mostly represented by workforce accommodations units, which have a higher value per unit than other fleet types. The revenue impact of the growth in fleet size and higher rental rates of higher valued workforce accommodation units was partially offset by lower utilization rates. Workforce accommodation fleet utilization decreased from 88% in the Comparative Quarter to 86% in the Quarter while space rentals fleet decreased from 85% in the Comparative Quarter to 81% in the Quarter. Fleet Utilization for International business unit decreased to 49% in the Quarter from 83% in the Comparative Quarter due to a camp project in Western Australia winding down during Q1, 2014.
- The Company's lodging revenue increased significantly during the Quarter, posting a 58% increase compared to the Comparative Quarter, primarily due to completion of an agreement (previously announced) to convert an operated camp (camp managed by the Company specifically for the benefit of the contracted customer) into an open camp (camp managed by the Company for the benefit of multiple customers at the same time), which closed on June 20th and was effective February 1, 2014. This was partially offset by the decrease of 32 beds under management relative to the Comparative Quarter in the Logistics business unit.
- In connection with the Company's indirect 20% interest in Britco APB's modular building manufacturing business ("Manufacturing Business"), the Company has taken a \$5.2 million provision for a guarantee of that investee's debt in the Quarter. This has resulted in a one-time loss in the Quarter of \$0.12 per basic and diluted shares outstanding. With this provision and the write-off of the Company's \$1.8 million investment in the Manufacturing Business in last quarter of 2013, the Company anticipates no further exposure to this entity.
- Effective June 20, 2014, Black Diamond restructured and consolidated its senior secured credit facility into one extendible revolving operating facility of \$150.0 million (December 31, 2013 - \$130.0 million revolving capital expenditure facility and \$15.0 million revolving operating facility) that matures April 30, 2018. The facility has an accordion feature that allows for the expansion of the facility up to an aggregate of \$250.0 million, upon lender commitment.
- The Company's new Executive Vice President and Chief Financial Officer, Mike Lambert, joined the executive team on August 8<sup>th</sup>. Mr Lambert brings in excess of 30 years of senior executive experience in successful public companies. Marshall McRae, previously the interim Chief Financial Officer, will stay on with the Company as an Executive Vice President until the end of the year to ensure a smooth transition.
- The Company continues to operate with a conservative amount of debt financing. At June 30, 2014, the net debt to EBITDA ratio was 0.75.
- The Company paid dividends of \$0.075 per share per month during the YTD period.
- The payout ratio (see "Non-GAAP Measures") for the Quarter was 26.3% (Comparative Quarter - 32.0%).
- Effective for the month of August, the Company's Board of Directors have approved a 6.7% increase in the monthly dividend from \$0.075 per share to \$0.08 per share (\$0.96 per share on an annual basis). This increased dividend will be payable on September 15, 2014 to shareholders of record on August 29, 2014.

## 2014 SECOND QUARTER HIGHLIGHTS (continued)

### Trends affecting the Company's business

In accordance with its strategic plan, the Company is continuously evaluating organic growth opportunities and potential acquisitions that may expand the Company's platform or add complementary service offerings. Some of the key industry trends that are affecting, or may affect, Black Diamond's business and prospects are as follows:

- Ongoing development activities in western Canada from oil sands and oil and gas resource plays and related infrastructure projects, have increased demand for the Company's fleet assets and non-rental and lodging services in western Canada.
- Several oil and gas industry participants have announced an intention to pursue liquefied natural gas ("LNG") developments in western Canada. If any of these projects proceed, they are expected to result in increased demand for assets and services such as those offered by the Company. As well, significant infrastructure and upstream gas development would be needed to support these LNG projects, again driving demand for the Company's assets and services.
- Labour demand in western Canada has resulted in a requirement by customers for larger, more modern workforce accommodations. This trend is expected to continue as shortages of labour result from the high levels of construction activity for proposed LNG and oil sands facilities.
- Increased levels of construction activity in the United States, particularly along the Gulf Coast, and increased oil and gas resource development is expected to result in an increased demand for work space assets and well site accommodations.
- In Australia, ongoing weakness in the Australian mining sector is impacting demand for workforce accommodation units. This may be somewhat offset by demand from the gas sector due to upstream development activities to support the LNG industry.
- The Company's strategy in respect of the Logistics business unit is to increase the scale and scope of the Logistics service offerings to its customers. The strategy helps to optimize customers' remote accommodation needs through a combination of one stop solutions and tailored services, and provide at a competitive cost a high quality product within a reasonable time at their choice of location. Revenue from lodging and ancillary services typically generates lower margins than the Company's core rental platform, but it is easily scalable with minimum capital outlay, thereby resulting in improved overall returns to the Company.

## OUTLOOK

Black Diamond's second quarter results demonstrated continued year-over-year growth with revenue and EBITDA increasing 24% and 20%, respectively, driven by the Company's diverse rental platform, continued discipline around capital allocation and ongoing growth in ancillary services.

As at June 30, 2014, the Company had spent \$39 million of its \$121 million capital budget for 2014. In addition, the Company had approximately \$71 million of capital committed at June 30, 2014, which it expects to deploy during the remainder of the year. The cadence of the Company's capital spend this fiscal year is consistent with its capital spend in fiscal 2013. It continues to see opportunities throughout the business to deploy capital.

Management remains encouraged by its North American operations, which are being driven by ongoing oil and gas development, SAGD and infrastructure projects, as well as general construction. The diversified asset rental platform remains healthy and positioned for growth. The Company anticipates that the third quarter results will see modest growth over its second quarter results, but will be somewhat offset by an expected decrease in bed counts as compared to the first half of the year, mostly due to seasonal effects on the western Canadian operations.

In Canada, during the Quarter, the Company entered into a contract to provide a 1,244 person camp in the Montney Shale region of northeastern British Columbia. It expects that the first phase of this contract (622 beds) will be installed during the remainder of the year, with first rent starting January 2015. The remaining beds under the contract are anticipated to be deployed by April 2015. During the Quarter, the Company also secured the land title under an existing camp in the Horn River area and received contracts for minimum man day requirements from three anchor tenants. Black Diamond will continue to market this camp for additional occupancy. LNG-related bid activity remains strong, as it continues to work closely with project proponents and infrastructure customers in providing innovative solutions to complex problems involved in housing large numbers of highly qualified professionals in remote areas.

In the United States, the ongoing economic recovery and stability in drilling is encouraging for the Company's U.S. operations.

In Australia, the Company's asset rental model remains cash flow positive notwithstanding that the Australian market has seen erosion in utilization levels. Black Diamond will continue to invest in and grow its operations as Australia remains a long-term strategic market for the Company.

The outlook for Black Diamond remains positive, underpinned by a solid project pipeline from its customers. The Company continues to have an attractive and well-positioned competitive standing with a strong market position which gives confidence for the remainder of 2014 and beyond.

Effective for the month of August, the Company's Board of Directors have approved a 6.7% increase in the monthly dividend from \$0.075 per share to \$0.08 per share (\$0.96 per share on an annual basis). This increased dividend will be payable on September 15, 2014 to shareholders of record on August 29, 2014.

## SELECTED FINANCIAL INFORMATION

The following is a summary of selected financial and operating information that has been derived from, and should be read in conjunction with, the unaudited condensed interim consolidated financial statements of Black Diamond for the three and six month periods ended June 30, 2014 and 2013.

(in thousands, except as noted)	Three months ended June 30			Six months ended June 30		
	2014	2013	2012	2014	2013	2012
<b>Financial Highlights</b>	\$	\$	\$	\$	\$	\$
Total revenue	88,393	71,071	61,974	212,969	162,051	120,931
Gross Profit	47,613	41,438	34,298	102,956	92,958	67,898
Gross Profit %	54%	58%	55%	48%	57%	56%
Administrative expenses	14,235	13,186	8,697	28,090	25,479	16,416
Administrative expense %	16%	19%	14%	13%	16%	14%
EBITDA <sup>(1)</sup>	34,900	29,209	26,462	77,283	69,735	52,938
EBITDA %	39%	41%	43%	36%	43%	44%
Profit before taxes	13,873	13,526	16,169	39,260	40,032	33,130
Profit for the period	9,561	8,946	10,976	27,464	27,754	24,019
Per share - Basic	0.23	0.21	0.29	0.65	0.67	0.64
- Diluted	0.22	0.21	0.28	0.63	0.66	0.62
Capital expenditures	19,404	19,524	47,928	38,578	41,450	67,605
Property & equipment	489,908	468,885	350,125	489,908	468,885	350,125
Total assets	664,225	614,523	463,643	664,225	614,523	463,643
Long-term debt	126,331	144,516	86,249	126,331	144,516	86,249
Dividends declared	9,616	8,786	6,685	19,147	16,662	12,872
Per share	0.23	0.21	0.18	0.45	0.40	0.34
Payout ratio (%) <sup>(1)</sup>	26%	32%	25%	26%	26%	24%

Notes:

- (1) EBITDA and payout ratio are supplemental non-Canadian Generally Accepted Accounting Principles measurements and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and payout ratio may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" for further details.

## SELECTED OPERATING INFORMATION

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	2012 <sup>(2) (3)</sup>	2014	2013 <sup>(2)</sup>	2012 <sup>(2) (3)</sup>
<b>Operational Highlights</b>						
<b>Structures Business Unit</b>						
Workforce accommodation units	3,114	2,915	1,764	3,114	2,915	1,764
Average utilization during the period	86%	88%	93%	89%	91%	94%
Workforce accommodation bedcount	11,579	11,953	7,384	11,579	11,953	7,384
Space rental units in fleet	3,405	3,194	2,913	3,405	3,194	2,913
Average utilization	81%	85%	75%	80%	84%	76%
<b>Logistics Business Unit</b>						
Beds under management	3,672	3,704	2,411	3,672	3,704	2,411
<b>Energy Services Business Unit</b>						
Drilling accommodation units	303	290	268	303	290	268
Average utilization during the period	58%	57%	52%	68%	68%	69%
Drilling accommodation bedcount	934	916	932	934	916	932
Surface rental equipment	2,212	2,331	2,359	2,212	2,331	2,359
Average utilization	29%	24%	32%	34%	32%	43%
<b>International Business Unit</b>						
Workforce accommodation and space rental units	1,191	1,126	n/a	1,191	1,126	n/a
Workforce accommodation bedcount	1,670	1,610	n/a	1,670	1,610	n/a
Average utilization	49%	83%	n/a	58%	82%	n/a
<b>Consolidated unit count</b>	10,225	9,856	7,304	10,225	9,856	7,304
<b>Consolidated bed count</b>	14,183	14,479	8,316	14,183	14,479	8,316

Notes:

- 1) As at June 30, 2014, of the total beds under management in the Logistics business unit, 3,288 are owned by Black Diamond and included in the Structures workforce accommodation bedcount, 240 are leased from third parties and the remaining 144 beds are managed by Black Diamond on behalf of third parties.
- 2) The method used to calculate the average utilization rates for the Quarter and YTD was changed to a weighted utilization instead of simple utilization used in prior periods. This change does not materially affect the prior period utilization rates and therefore they were not restated.
- 3) Certain figures from the prior period have been reclassified to conform to the current year's presentation.

## RESULTS OF OPERATIONS

The Company's senior management evaluates segment performance based on a variety of measures depending on the particular segment being evaluated, including profit, operating expenses, return on assets and EBITDA. Revenues presented by segment in the tables below are indicative of the level of each segment's activity. EBITDA by segment excludes depreciation, amortization, finance costs, deferred and current taxes, non-controlling interest, share based compensation and non-operating expenses. Senior management considers this earnings measure as an important indicator of segment performance.

### Segmented Results

The following is a summary of the Company's segmented results for the Quarter and the Comparative Quarter, detailing revenues by each of the Company's business units. The rental component of the Logistics service offerings is included in Structures through an inter-segment charge, while the service component remains in Logistics.

	Three months ended June 30		Six months ended June 30	
(Expressed in thousands)	2014	2013 <sup>(1)</sup>	2014	2013 <sup>(1)</sup>
	\$	\$	\$	\$
<b>Revenue</b>				
Structures	50,847	43,489	118,835	89,552
Energy Services	6,792	5,242	18,543	15,923
Logistics	28,034	17,737	68,456	45,965
International	2,720	4,603	7,135	10,611
<b>Total Revenue</b>	<b>88,393</b>	<b>71,071</b>	<b>212,969</b>	<b>162,051</b>

	Three months ended June 30,		Six months ended June 30,	
(Expressed in thousands)	2014	2013	2014	2013
	\$	\$	\$	\$
<b>EBITDA</b>				
Structures	32,392	27,030	66,074	56,725
Energy Services	1,783	1,600	5,784	6,100
Logistics	5,270	3,130	13,402	10,749
International	790	1,500	2,550	4,100
Corporate	(5,335)	(4,051)	(10,527)	(7,939)
<b>Total EBITDA</b>	<b>34,900</b>	<b>29,209</b>	<b>77,283</b>	<b>69,735</b>

Note:

- (1) Certain figures in the prior period's interim financial statements have been reclassified to conform to the current period's presentation. In order to better reflect the performance of individual business units and to conform to the current period's presentation, the Company has reclassified comparative revenues for the six month period ended June 30, 2013 from non-rental to lodging revenue in the amount of \$2,401. This revenue reclassification increased Logistics revenue and decreased Structures revenue, with no impact on the total revenue for the three and six month periods ended June 30, 2013.

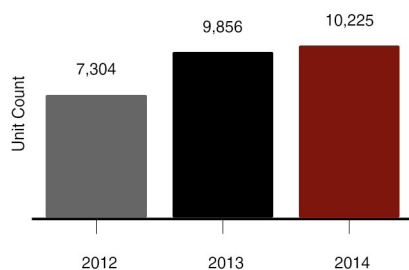
## RESULTS OF OPERATIONS (continued)

### Consolidated Revenue

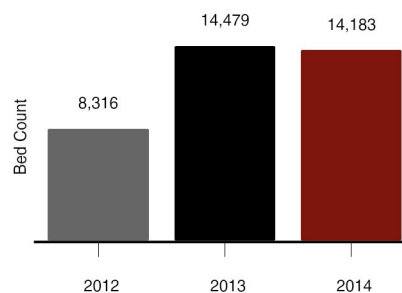
(\$ millions, except as noted)	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
Rental Revenue	38.3	(1) 43%	35.6	(1) 50%	81.4	(1) 38%	75.9	(1) 47%
Lodging Revenue	28.0	32%	17.7	25%	68.5	32%	46.0	28%
Non-Rental Revenue	22.1	25%	17.8	25%	63.1	30%	40.2	25%
<b>Total Revenue</b>	<b>88.4</b>	<b>100%</b>	<b>71.1</b>	<b>100%</b>	<b>213.0</b>	<b>100%</b>	<b>162.1</b>	<b>100%</b>

(1) Percentage of consolidated revenue

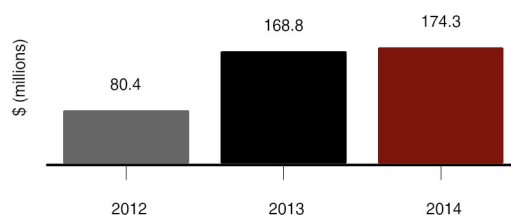
#### YTD Consolidated Unit Count



#### YTD Consolidated Bedcount



#### YTD Consolidated Contracted Future Revenue (Rental and Lodging)



The consolidated contracted future revenue above only includes the rental and lodging revenues of the Company. It does not include contracted services included in non-rental revenues.

#### Three months ended June 30, 2014 and 2013

The \$2.8 million or 8% increase in rental revenue in the Quarter from the Comparative Quarter was due to the 4%, or 369 unit increase in the number of fleet units in the Quarter. The value of the increase in fleet was mostly represented by workforce accommodations units, which have a higher value per unit than other fleet types. The fleet increase was partially offset by decreases in utilization rates in the Structures and International business units.

Lodging revenue increased by 58% in the Quarter from the Comparative Quarter primarily due to completion of an agreement to convert an operated camp into an open camp effective February 1, 2014. This was partially offset by the decrease of 1%, or 32, beds under management in the Logistics business unit.

## RESULTS OF OPERATIONS (continued)

### Consolidated Revenue (continued)

Non-rental revenue increased significantly in the Quarter, by \$4.2 million or 24%, largely due to increased used fleet sales in the Quarter, as well as completion of several installation projects in the Quarter.

#### ***Six months ended June 30, 2014 and 2013***

The \$5.5 million or 7% increase in rental revenue in the YTD from the Comparative YTD was due to the 4%, or 369 unit increase in the number of fleet units in the YTD as well as higher rental rates of newer workforce accommodation units, partially offset by decreases in utilization rates in the Structures and International business units.

Lodging revenue increased by 49% in the YTD from the Comparative YTD primarily due to completion of an agreement to convert an operated camp into an open camp effective February 1, 2014. Total revenue was higher due to the increase in average number of beds under management and higher occupancy rates in the YTD when compared with the Comparative YTD.

Non-rental revenue increased significantly in the YTD, by \$22.9 million or 57%, largely due to increased used fleet sales in the YTD, as well as completion of several installation projects in the YTD.

#### ***Contracted Revenue***

At June 30, 2014, the consolidated committed rental and lodging revenue from contracts in place at the end of the Quarter was \$174.3 million (Comparative Quarter - \$168.8 million).

## RESULTS OF OPERATIONS (continued)

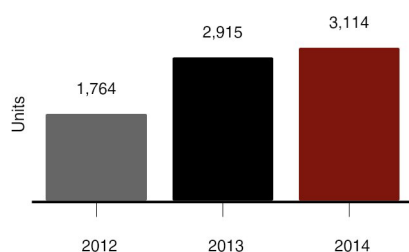
### Structures Business Unit

(\$ millions, except as noted)

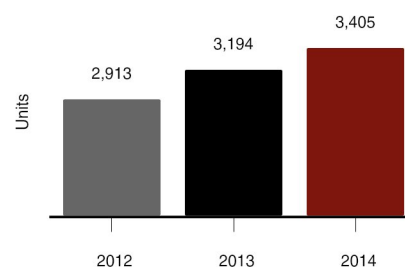
	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
	(1)		(1)		(1)		(1)	
<b>Revenue</b>	50.8		43.5		118.8		89.6	
<i>% of Consolidated Revenue</i>	58%		61%		56%		55%	
Rental Revenue	31.9	63%	28.7	66%	66.1	56%	59.4	66%
Non-Rental Revenue	18.9	37%	14.8	34%	52.7	44%	30.2	34%
EBITDA	32.4	64%	27.0	62%	66.1	56%	56.7	63%

(1) Percentage of Structures Revenue.

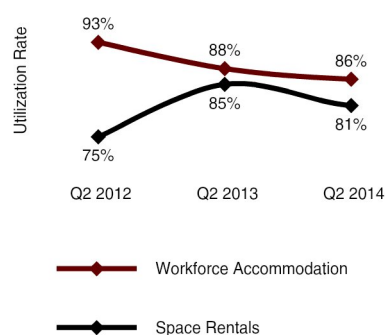
#### YTD Workforce Accommodation Units



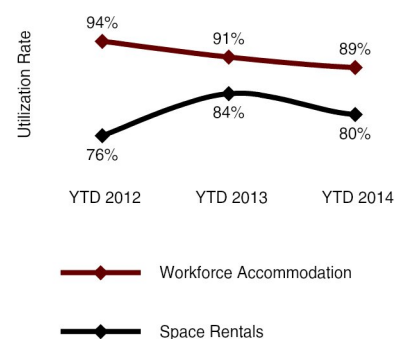
#### YTD Space Rental Units



#### Quarter Over Quarter Utilization



#### Year Over Year Utilization



Continued high levels of utilization are a reflection of the type of equipment Black Diamond deploys and the longer-term nature of the rental contracts Black Diamond has favoured.

The rental revenue for the Structures business unit is directly proportional to the:

1. Number and relative value of fleet units;
2. Utilization rate for the fleet; and
3. Rental rate.

## RESULTS OF OPERATIONS (continued)

### Structures Business Unit (continued)

The influence of the number of units and the utilization rates are discussed below because these are the most significant factors effecting rental revenue. Effective rental rates vary between periods due to the complexity of types of fleet units rented in varying configurations, number and duration of contracts, project locations and other factors.

#### ***Three months ended June 30, 2014 and 2013***

Revenue increased in the Quarter relative to the Comparative Quarter by \$7.3 million, or 17%, due to both strong rental revenue and non-rental revenue. Non-rental revenue increased by 28% in the Quarter relative to the Comparative Quarter due to an increase in sales of modular units, as well as revenue associated with the installation and dismantle of camps. The 11% increase in rental revenue in the Quarter is predominantly derived from the 7%, or 199 unit, increase in the workforce accommodation fleet since the Comparative Quarter. This fleet increase included a number of new wellsite units, which are a higher value per unit than the average workforce accommodations fleet units and therefore command higher rental rates. In addition, during the Quarter there was a 7% or 211 unit, increase in the space rental fleet over the Comparative Quarter. The average utilization rate of the space rental and workforce accommodation fleets decreased by 4% and 2%, respectively, over the Comparative Quarter.

EBITDA margin for the Quarter compared to the Comparative Quarter was slightly lower primarily as a result of an increase in the percentage of revenue made up by non-rental revenue in the Quarter, which typically earns lower margins than those revenues generated by the rental stream.

#### ***Six months ended June 30, 2014 and 2013***

Revenue increased in the YTD relative to the Comparative YTD by \$29.2 million, or 33%, due to both strong rental revenue and non-rental revenue. Non-rental revenue increased by 75% in the YTD relative to the Comparative YTD due to an increase in sales of modular units, as well as revenue associated with the installation and dismantle of camps.

#### ***Contracted Revenue***

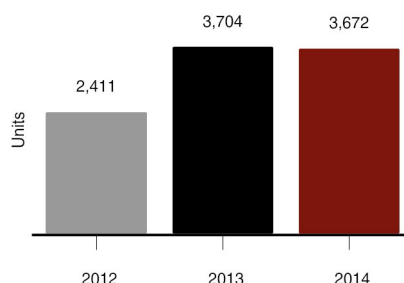
At June 30, 2014, the weighted average remaining contract rental term outstanding was approximately 13 months (Comparative Quarter - 11 months). Committed rental revenue from contracts in place at the end of the Quarter was \$122.5 million (Comparative Quarter - \$109.9 million).

## RESULTS OF OPERATIONS (continued)

### Logistics Business Unit

(\$ millions, except as noted)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Lodging Revenue	28.0	17.7	68.5	46.0
% of Consolidated Revenue	32%	25%	32%	28%
EBITDA	5.3	3.1	13.4	10.7
% of Logistics Revenue	19%	18%	20%	23%

### YTD Total Beds Under Management



The lodging revenue for the Logistics business unit is directly proportional to the:

1. Number of beds;
2. Occupancy levels at the camps;
3. Mix of camps; and
4. The initiation and completion of large projects.

For example, camp mix consists of the following types:

1. Day-rate camps - variable margin %; and
2. Cost-plus camps - fixed margin %.

Day-rate camps are those where the Company has greater variability of revenue and margins. These camps generally earn higher margins than cost plus camps where the Company manages the camps on behalf of its customers and earns a fixed margin with reduced risk.

#### **Three months ended June 30, 2014 and 2013**

Revenue increased by 58% in the Quarter compared to the Comparative Quarter as a result of increased activity associated with several cost-plus and day-rate camps. The increase was further due to revenue realized on completion of an agreement to convert an operated camp into an open camp effective February 1, 2014. This increase was partially offset by the decrease of 1% in managed beds, from 3,704 beds in the Comparative Quarter to 3,672 beds in the Quarter.

Despite the decrease in managed beds as at the end of the current Quarter from the Comparative Quarter, revenue increased by 58% as a result of higher activity early in the Quarter at several cost-plus camps which experienced seasonal closure by the end of June and therefore are not reflected in the June 30, 2014 managed bed count. Further, the increase in revenue also resulted from recognition of guaranteed minimum occupancy revenue at certain camps.

## **RESULTS OF OPERATIONS (continued)**

### **Logistics Business Unit (continued)**

EBITDA for the Quarter is higher than the Comparative Quarter as result of higher activity levels, realizations from minimum man day guarantees on the certain camps and revenue realized on completion of an agreement to convert an operated camp into an open camp effective February 1, 2014. This also improved the EBITDA as a percentage of revenue by 1% over the Comparative Quarter.

#### ***Six months ended June 30, 2014 and 2013***

Revenue increased by 49% in the YTD as a result of increased activity associated with several cost-plus and day-rate camps, offset somewhat by the impact of a change in the mix of camp types. The majority of camps had higher capacity with an associated increase in revenue due to higher bed counts at operated camps. There may be variability in revenue with respect to services related to daily occupancy levels in a given period.

EBITDA for the YTD is higher than the Comparative YTD as result of higher activity levels, realizations from minimum man day guarantees on the certain camps and those realized on completion of an agreement to convert an operated camp into an open camp effective February 1, 2014. EBITDA as a percentage of revenue decreased by 3% over the Comparative YTD due to change in the mix of camp types.

#### ***Contracted Revenue***

At June 30, 2014, Logistics had contracts in place to provide a minimum of \$44.8 million (Comparative Quarter - \$52.4 million) of lodging service revenue for the camps it operates. This excludes the rental of equipment, which is reported in the Structures business unit.

## RESULTS OF OPERATIONS (continued)

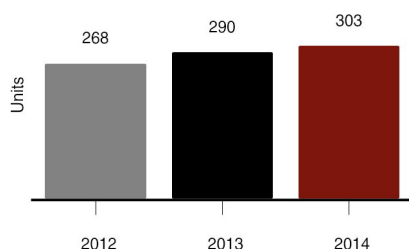
### Energy Services Business Unit

(\$ millions, except as noted)

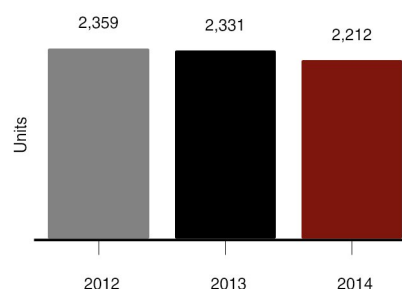
	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	(1)		(1)		(1)		(1)	
<b>Revenue</b>	6.8		5.2		18.6		15.9	
<i>% of Consolidated Revenue</i>	8%		7%		9%		10%	
Rental Revenue	4.2	62%	3.5	67%	10.4	56%	9.9	62%
Non-Rental Revenue	2.6	38%	1.7	33%	8.2	44%	6.0	38%
EBITDA	1.8	26%	1.6	31%	5.8	31%	6.1	38%

(1) Percentage of Energy Services Revenue.

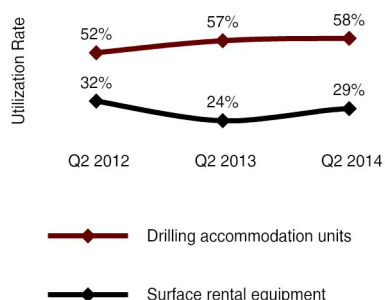
### YTD Drilling Accommodation Units



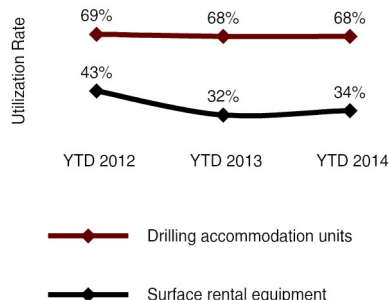
### YTD Surface Rental Equipment



### Quarter Over Quarter Utilization



### Year Over Year Utilization



Rental revenue for the Energy Services business unit is directly proportional to the:

1. Number and relative value of fleet units;
2. Utilization rate for the units; and
3. Rental rate.

### Three months ended June 30, 2014 and 2013

Revenue increased in the Quarter by 31% over the Comparative Quarter due to increases in rental as well as in non-rental revenue. Rental revenue increased mainly due to an increase in drilling and completions activity in western Canada in the Quarter over the Comparative Quarter. Non-rental revenue increased in the Quarter mainly on account of higher used fleet sales and an increase in transportation and installation revenue over the Comparative Quarter.

## **RESULTS OF OPERATIONS (continued)**

### **Energy Services Business Unit (continued)**

The drilling accommodations fleet increased by 4% in the Quarter over the Comparative Quarter. The increase includes drill camps as well as a complement of wellsite units and support units. A strategic review of specific surface rental assets resulted in a disposal of under-utilized assets in the fourth quarter of 2013, thereby reducing the surface rental fleet to 2,212 units in the Quarter from 2,331 units in the Comparative Quarter.

EBITDA increased slightly for the Quarter relative to the Comparative Quarter due to the increased revenue. EBITDA as a percentage of revenue decreased in the Quarter compared to the Comparative Quarter due to the revenue mix, with non-rental revenue accounting for 38% of total revenue in the Quarter compared to 33% in the Comparative Quarter. Non-rental revenue typically generates lower margins as the revenue stream is more service related than the rental revenue stream.

#### ***Six months ended June 30, 2014 and 2013***

Revenue increased in the YTD by 17% over the Comparative YTD due to increases in rental as well as in non-rental revenue. Rental revenue increased mainly due to an increase in drilling and completions activity in western Canada in the YTD over the Comparative YTD. Non-rental revenue increased in the YTD mainly on account of higher used fleet sales and an increase in transportation and installation revenue over the Comparative YTD.

EBITDA and EBITDA as a percentage of revenue decreased in the YTD compared to the Comparative YTD due to the revenue mix, with non-rental revenue accounting for 44% of total revenue in the YTD compared to 38% in the Comparative YTD.

#### ***Contracted Revenue***

At June 30, 2014, the weighted average remaining contract rental term outstanding was approximately two months (Comparative Quarter - three months). Committed rental revenue from contracts in place at the end of the Quarter was \$3.7 million (Comparative Quarter - \$1.1 million).

## RESULTS OF OPERATIONS (continued)

### International Business Unit

(\$ millions, except as noted)	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	(1)		(1)		(1)		(1)	
<b>Revenue</b>	2.7		4.6		7.1		10.6	
<i>% of Consolidated Revenue</i>	3%		6%		3%		7%	
Rental Revenue	2.2	81%	3.3	72%	4.9	69%	6.6	62%
Non-Rental Revenue	0.5	19%	1.3	28%	2.2	31%	4.0	38%
EBITDA	0.8	30%	1.5	33%	2.6	37%	4.1	39%

(1) Percentage of International Revenue.

The rental revenue for the International business unit is directly proportional to the:

1. Number and value of fleet units;
2. Utilization rate for the fleet; and
3. Rental rates.

Effective rental rates vary between periods due to the complexity of types of fleet units rented in varying configurations, number and duration of contracts, project locations and other factors.

The mining industry in Australia has historically been a major source of demand for the Company's assets. Reduced activity in this sector has led to reduced asset utilization. This trend is anticipated to continue throughout 2014. This may be mitigated by emerging opportunities in other sectors of the Australian economy such as oil and natural gas and infrastructure.

#### Three months ended June 30, 2014 and 2013

Rental revenue in the Quarter was lower than the Comparative Quarter due to lower average fleet utilization. Non-Rental revenue was also lower primarily due to a camp project in Western Australia winding down during the first quarter of 2014.

EBITDA decreased in the Quarter, reflecting lower fleet utilization and lower revenue from operations.

#### Six months ended June 30, 2014 and 2013

Rental revenue in the YTD was lower than the Comparative YTD due to lower average fleet utilization. Non-Rental revenue was also lower primarily due to a camp project in Western Australia winding down during first quarter of 2014.

Administrative expenses were lower compared to the Comparative YTD reflecting the non-recurrence of a number of costs associated with the establishment of the Australian operation.

#### Contracted Revenue

As at June 30, 2014, the weighted average remaining contract rental term outstanding was five months (Comparative Quarter - seven months) and the committed rental revenue from contracts in place was \$3.3 million (Comparative Quarter - \$5.4 million).

## RESULTS OF OPERATIONS (continued)

### Direct Costs and Gross Profit

(\$ millions, except as noted)	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
		(1)		(1)		(1)		(1)
Direct Costs	40.8	46%	29.6	42%	110.0	52%	69.1	43%
Gross Profit	47.6	54%	41.4	58%	103.0	48%	93.0	57%

(1) Percentage of Consolidated Revenue.

Direct costs as a percentage of revenue increased by 4%, with a corresponding decrease in gross profit percentage in the Quarter relative to the Comparative Quarter. This is primarily due to an increased relative weighting of lodging revenue in the Quarter. Lodging revenue has lower margins than rental revenue. This revenue stream is more service intensive than the Company's core rental platform. Lodging was 32% of total revenue in the Quarter, compared with 25% in the Comparative Quarter.

Direct costs attributable to revenue when arriving at the gross profit are the labour, fuel, materials, freight and maintenance required in maintaining, servicing and moving the units to the contracted sites. In addition, there are often opportunities for Black Diamond to sell units from its fleet, rent equipment from third parties and re-rent the equipment, provide logistics services or to provide installation and other services to customers. The net book value of sold units, costs of units sub-leased from others and the cost of transport from third parties are included in the direct costs. Revenue streams ancillary to the rental revenue are generally at lower gross margins than the fleet rental operations; therefore, depending on the proportion of revenue generated from these other activities in any given period, gross profit margins may fluctuate.

### Administrative Expenses

(\$ millions, except as noted)	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
		(1)		(1)		(1)		(1)
Administrative expenses	14.2		13.2		28.1		25.5	
% of Consolidated Revenue	16%		19%		13%		16%	
Personnel	7.7	54%	6.7	51%	15.6	55%	12.5	49%
Occupancy & Insurance	1.5	11%	1.5	11%	3.0	11%	3.0	12%
Other Administrative Expenses	5.0	35%	5.0	38%	9.5	34%	10.0	39%

(1) Percentage of Administrative expenses.

Administrative expenses increased 8% and 10% in the Quarter and YTD over the Comparative Quarter and Comparative YTD, respectively, primarily as a result of the increased scale of the business which led to increased personnel expenses.

Personnel costs increased 15% and 25% in the Quarter and YTD over the Comparative Quarter and Comparative YTD, respectively, as the Company continued to accommodate the growing scale of the business, with additional hires for new positions and increased employee compensation expense. Personnel head count increased by approximately 96 persons at June 30, 2014, representing a 28% increase over June 30, 2013.

Occupancy and insurance costs remained consistent in the Quarter and YTD compared to the Comparative Quarter and Comparative YTD even with increased size of the total fleet under management mainly on account of lower renewal fees for fleet insurance. This was partially offset by higher occupancy costs in the Quarter and the YTD due to the rise in staff complement.

## RESULTS OF OPERATIONS (continued)

Other administrative expenses remained consistent in the Quarter and YTD compared to the Comparative Quarter and Comparative YTD as non recurrence of professional fees incurred in 2013 relating to restructuring work on the Company's corporate structure and the Australian acquisition were offset by higher stock based compensation in 2014.

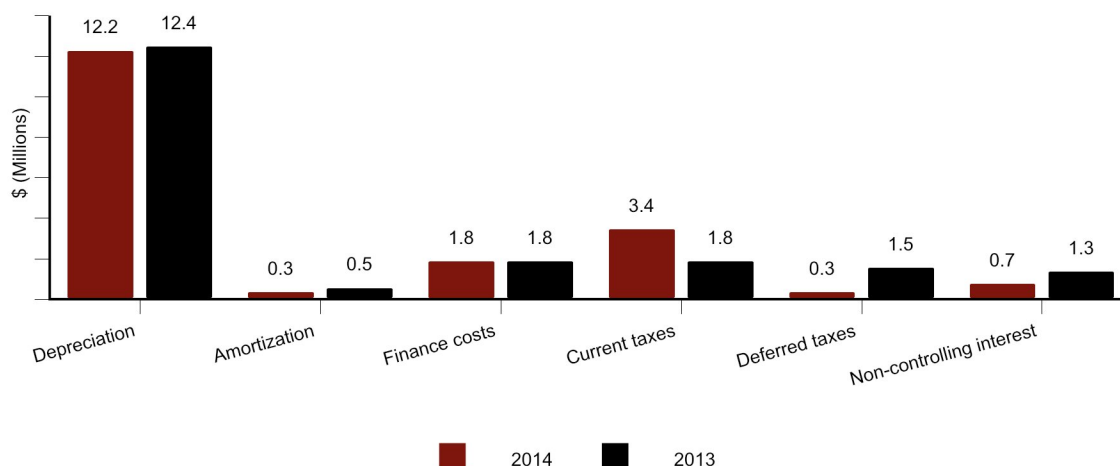
### EBITDA

(\$ millions, except as noted)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
EBITDA <sup>(1)</sup>	34.9	29.2	77.3	69.7
% of Consolidated Revenue	39%	41%	36%	43%

(1) EBITDA is a supplemental non-GAAP measurement and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" for further details.

The EBITDA percentage for the Quarter was lower than the Comparative Quarter as a result of lower gross margins generated due to the significantly higher percentage of the business generated from lodging services.

### Three months ended June 30,



Depreciation increased in the Quarter relative to the prior periods due to general fleet growth.

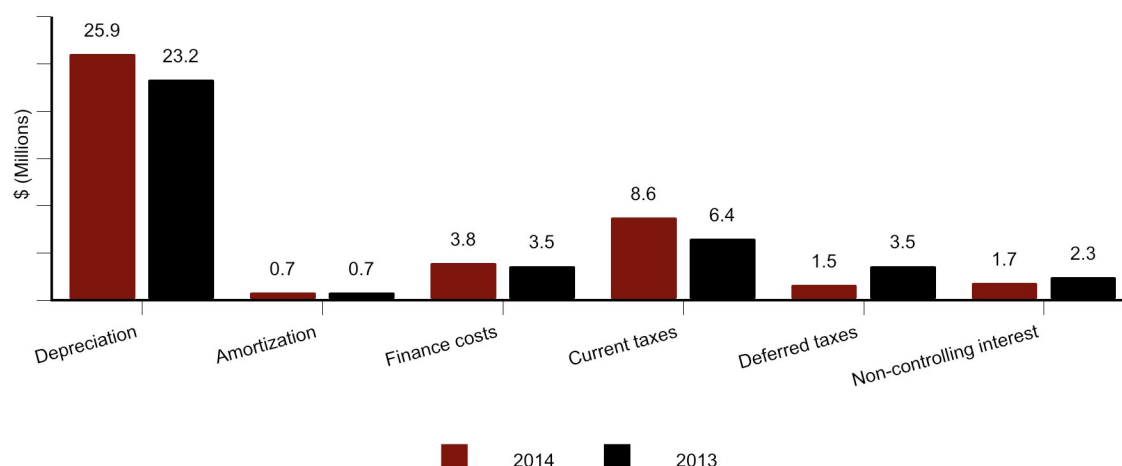
Finance costs represents interest that was charged on the utilization and availability of credit facilities, and interest charged on the senior secured notes outstanding. Average interest rate in the Quarter was 4.83% compared with 4.20% for the Comparative Quarter. However, the finance cost for the Quarter has not changed significantly compared to the Comparative Quarter despite an increase in the average interest rate due to a reducing debt balance in the Quarter on account of repayment.

For the Quarter, Black Diamond incurred a current income tax provision of \$3.4 million (Comparative Quarter - \$1.8 million) and a deferred income tax provision of \$0.3 million (Comparative Quarter - \$1.5 million). This deferred income tax provision arises due to the changes in the temporary differences between the book value and the tax value of the net assets held by Black Diamond that is expected to reverse after 2015. It has been calculated at the enacted tax rate of 25.11% in Canada, 40% in the United States and 30% in Australia.

## RESULTS OF OPERATIONS (continued)

### EBITDA (continued)

Six months ended June 30,



EBITDA as a percentage of the consolidated revenue for the YTD was lower than the Comparative YTD as a result of increase in low-gross margin business from lodging services and higher repair costs on fleet units.

Depreciation increased in the Quarter relative to the prior periods due to general fleet growth.

Average interest rate in the YTD was 4.59% compared with 4.27% for the Comparative YTD. Average long-term debt in the YTD was \$21.2 million higher than that in the Comparative YTD.

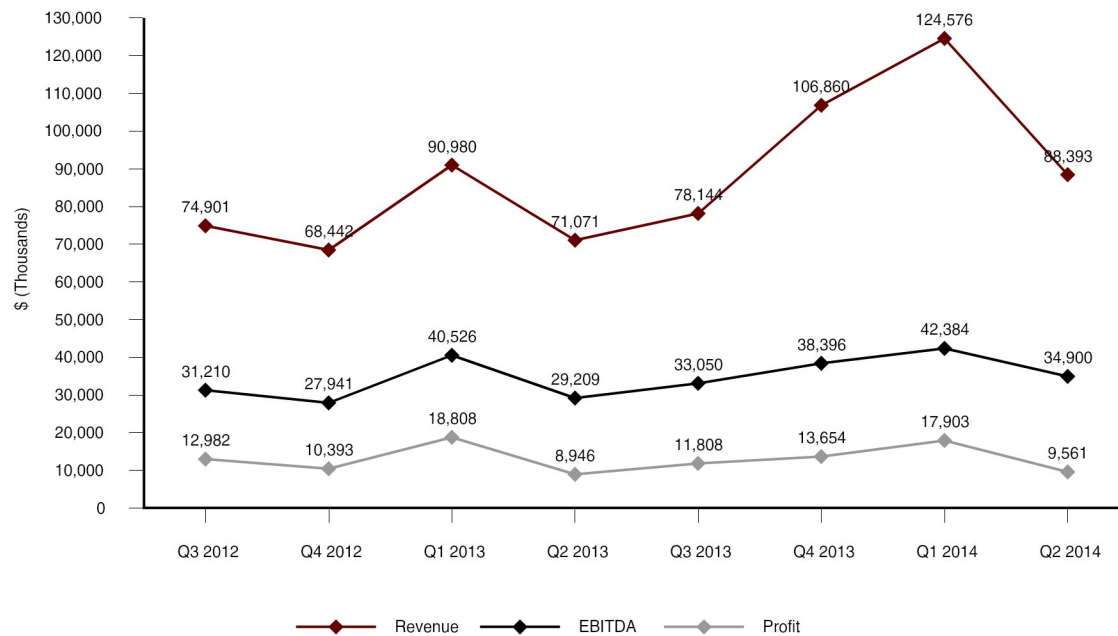
For the YTD, Black Diamond incurred a current income tax provision of \$8.6 million (Comparative YTD - \$6.4 million ) and a deferred income tax provision of \$1.5 million (Comparative YTD - \$3.5 million). This deferred income tax provision arises due to the changes in the temporary differences between the book value and the tax value of the net assets held by Black Diamond that is expected to reverse after 2015. It has been calculated at the enacted tax rate of 25.11% in Canada, 40% in the United States and 30% in Australia. At June 30, 2014, the future tax liability was \$56.6 million compared to \$54.3 million at June 30, 2013. The increase is due to the provision for future income taxes incurred during 2014.

The non-controlling interest represents earnings attributable to the Fort Nelson First Nations' approximate 50% interest in the Black Diamond Dene Limited Partnership, the West Moberly First Nation's approximate 50% interest in the Black Diamond West Moberly Limited Partnership, and the Beaver Lake Cree Nation's approximate 50% interest in the Black Diamond Nehiyawak Limited Partnership.

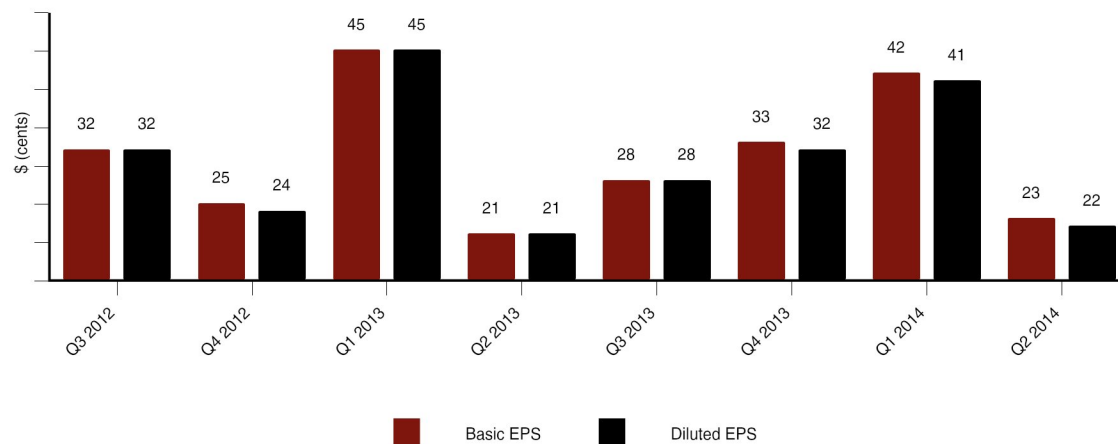
## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the most recent eight Quarters:

### Summary of Quarterly Results



### Earnings Per Share



## LIQUIDITY & CAPITAL RESOURCES

### Cash Requirements

#### *Contractual Obligations and Other Commitments*

At June 30, 2014, Black Diamond had made capital expenditure commitments with key manufacturers of modular structures in the amount of \$70.6 million for delivery of modular structures in the next six months. It is management's intention to meet the funding requirements for these commitments through internally generated cash flow and drawdowns on the existing credit facilities.

#### *Capital Expenditures*

Black Diamond's capital expenditures relate primarily to:

- Structures - workforce accommodation structures, space rental structures and ancillary equipment;
- Logistics - site improvements;
- Energy Services - accommodation structures and surface rental equipment;
- International - workforce accommodation and space rental structures in Australia (this excludes capital acquired through business combinations); and
- Corporate - land, leasehold improvements, computers, furniture and service related equipment.

For the Quarter and the YTD, Black Diamond expended \$19.4 million and \$38.6 million (Comparative Quarter and Comparative YTD – \$19.5 million and \$41.5 million), respectively, on additions to property and equipment. The additions consisted of:

(\$ millions, except as noted)		Three months ended June 30,		
		2014	2013	\$ Change
Structures		16.2	15.7	0.5
Energy Services		0.2	0.0	0.2
Logistics		1.4	0.7	0.7
International		0.8	0.2	0.6
Corporate		0.8	2.9	(2.1)
		19.4	19.5	(0.1)

(\$ millions, except as noted)		Six months ended June 30,		
		2014	2013	\$ Change
Structures		26.7	21.3	5.4
Energy Services		3.5	2.0	1.5
Logistics		2.5	4.2	(1.7)
International		4.4	11.0	(6.6)
Corporate		1.5	2.9	(1.4)
		38.6	41.4	(2.8)

### Sources and Uses of Cash

Liquidity needs can be met through a variety of sources, including: available cash, cash generated from operations, drawdowns under the Company's revolving credit facility, issuances of common shares and short-term borrowings under the Company's lines of credit. Black Diamond's primary use of funds are operational expenses, sustaining and growth capital spending, dividends and interest, and principal repayments.

Cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized in the following table:

## LIQUIDITY & CAPITAL RESOURCES (continued)

### Sources and Uses of Cash (continued)

(\$ millions, except as noted)

	Three months ended June 30,			
	2014	2013	\$ Change	% Change
Cash from operating activities	73.2	46.1	27.1	58.9 %
Cash used in investing activities	(26.5)	(14.6)	(11.9)	(82.0)%
Cash used in financing activities	(44.4)	(21.6)	(22.8)	105.1 %
Total cash increase / (decrease)	2.3	9.9	(7.6)	(76.5)%

(\$ millions, except as noted)

	Six months ended June 30,			
	2014	2013	\$ Change	% Change
Cash from operating activities	99.7	59.7	40.0	67.1 %
Cash used in investing activities	(38.6)	(80.1)	41.5	(51.9)%
Cash from (used in) financing activities	(73.4)	32.4	(105.8)	(326.7)%
Total cash increase / (decrease)	(12.3)	12.0	(24.3)	(202.5)%

Cash generated from operating activities was \$27.1 million higher in the Quarter than in the Comparative Quarter and \$40.0 million higher in the YTD than in the Comparative YTD due primarily to collections of receivables and higher operating income.

Cash used in investing activities was \$11.9 million higher in the Quarter than in the Comparative Quarter primarily due to lower outstanding balances with capital suppliers at the end of the Quarter. Cash used in investing activities was \$41.5 million lower in the YTD than in the Comparative YTD primarily due to the \$39.3 million Australian acquisition made in the Comparative YTD.

Cash used in financing activities was \$22.8 million higher in the Quarter than in the Comparative Quarter, primarily due to increased net repayments of long-term debt and operating facilities relative to the Comparative Quarter. Cash used in financing activities was \$105.8 million higher in the YTD than in the Comparative YTD, primarily due to \$73.0 million in net repayments of long-term debt, compared with \$15.0 million in net repayments in the Comparative YTD. In addition, there were higher payouts relating to the dividends and distributions payments than in the Comparative YTD.

### Working Capital

The following table presents summarized working capital information:

(\$ millions, except as noted)

	June 30, 2014	December 31, 2013	\$ Change
Current assets	117.4	134.0	(16.6)
Current liabilities	56.1	43.0	13.1
Working capital	61.3	91.0	(29.7)

The decrease in current assets of \$16.6 million from 2013 was largely due to a decrease in accounts receivable of \$10.1 million, and a decrease of \$12.2 million in cash and cash equivalents. The decreased accounts receivable balance is due to quicker billing and collection of receivables. The decrease in cash and cash equivalents is due to net repayments of long-term debt made in the Quarter.

## **LIQUIDITY & CAPITAL RESOURCES (continued)**

### **Sources and Uses of Cash (continued)**

The increase in current liabilities of \$13.1 million from June 30, 2013 was largely due to an increase in accounts payable of \$8.9 million due to timing of payments and increased operating activity.

### **Principal Debt Instruments**

As of June 30, 2014, Black Diamond's principal sources of debt included:

- a committed extendible revolving operating facility in the amount of \$150.0 million, all of which is available and \$25.0 million is drawn by way of banker's acceptance at June 30, 2014;
- a committed operating facility in the United States in the amount of US\$3.0 million, all of which is available at June 30, 2014;
- a demand operating facility in Australia in the amount of AUD\$5.0 million, all of which is available at June 30, 2014;
- \$62.0 million principal amount of senior secured notes due on July 8, 2019, which rank pari passu with the senior credit facilities of the Company; and
- \$40.0 million principal amount of senior secured notes due on July 3, 2022, which rank pari passu with the senior credit facilities of the Company.

The Company issued a guarantee for AU \$5,168 as part of the purchase consideration for the Company's indirect 20% interest in Britco APB's Manufacturing Business, which serves to guarantee a portion of its debt which is repayable on demand. The Company has taken a \$5.2 million provision for this guarantee in the Quarter. With this provision and the write-off of the Company's \$1.8 million investment in the Manufacturing Business in last quarter of 2013, the Company anticipates no further exposure to this entity.

Effective June 20, 2014, Black Diamond restructured and consolidated its senior secured credit facility into one extendible revolving operating facility of \$150.0 million (December 31, 2013 - \$130.0 million revolving capital expenditure facility and \$15.0 million revolving operating facility) that matures April 30, 2018 and is available by way of prime rate advances, U.S. base rate advances, LIBOR advances, bankers acceptances and letters of credit using interest rates that fluctuate based on the ratio of net total funded debt to EBITDA. The facility is interest only payable monthly in arrears until the April 30, 2018 maturity date and incurs standby fees for any unused portion of the facility at rates that fluctuate based on the ratio of net total funded debt to EBITDA. The facility is collateralized by a general security agreement from Black Diamond, a guarantee and general security agreement from each of its material subsidiaries and a pledge of the equity interests owned by Black Diamond in such material subsidiaries. The facility has an accordion feature that allows for the expansion of the facility up to an aggregate of \$250 million, upon lender commitment. If all or any portion of the \$100 million accordion is not provided by the lenders, the senior secured facility authorizes the Company to obtain the remaining amount from any third party subject to certain conditions in the senior secured credit facility.

On July 3, 2013, Black Diamond entered into a private shelf facility for senior secured notes which, subject to the sole discretion of the lender, may be drawn in an aggregate amount up to US \$21.3 million for a term of no more than 11 years after the date of original issuance, to have an average life of no more than 10 years after the date of original issuance, and to bear interest as shall be determined at the date of issuance. The senior secured notes may be issued until the earlier of (i) July 3, 2016 or (ii) the 30<sup>th</sup> day after notice has been given to terminate the private shelf facility.

For the three and six months ended June 30, 2014, the average interest rate applied to amounts drawn on both the operating facility was 4.16% and 3.72% (2013 - 3.26% and 3.31%), respectively.

The Company uses a combination of short-term and long-term debt to finance its operations. Management believes that Black Diamond has the liquidity, barring any unforeseen circumstances, to continue to operate through the foreseeable future, and pursue its planned business objectives. This is due to the longer term nature of Black Diamond's customer contracts and the credit worthiness of Black Diamond's customers.

Based on Black Diamond's current business plan and internal forecasts, management believes that cash generated from operations will continue to exceed the funds required to pay dividends.

## LIQUIDITY & CAPITAL RESOURCES (continued)

### Principal Debt Instruments (continued)

Management believes that the ongoing cash generated from operations will be sufficient to allow it to meet ongoing requirements for working capital, maintenance costs, administrative expenses, interest costs and fund capital expenditures. Black Diamond's cash generated from operations will be dependent upon future financial performance, which in turn will be subject to financial, business and other risk factors, including factors beyond Black Diamond's control. Management also believes that, dependent on capital market conditions, Black Diamond has the ability to raise additional debt or equity, if required.

The Company is committed to maintaining a strong balance sheet and flexible capital structure. Black Diamond's financial debt covenants are as follows:

Covenant as at June 30, 2014	Required	Actual
Net Total Funded Debt to EBITDA	≤ 3.00:1	0.75
EBITDA to Interest Plus Distributions	≥ 2.00:1	3.26

For the purposes of the covenant calculations, EBITDA is determined on a 12 month trailing basis. EBITDA is a non-GAAP measure that management uses to assist in the evaluation of Black Diamond's liquidity and is used by Black Diamond's lenders to calculate compliance with certain financial covenants.

As at June 30, 2014, Black Diamond was in compliance with all financial debt covenants. Management continues to monitor compliance with debt covenants and believes that the Company will continue to be in compliance with debt covenants.

### Share Capital

At June 30, 2014, Black Diamond had 42.8 million (December 31, 2013 - 42.1 million) common shares outstanding. In addition at June 30, 2014, Black Diamond had 3.4 million (December 31, 2013 - 3.1 million) common shares reserved for issuance pursuant to the exercise of options which have been granted pursuant to Black Diamond's share option plan.

The following table summarizes Black Diamond's equity capitalization as at August 12, 2014:

Common shares	42,794
Stock options	3,446

The Company does not have any off-balance sheet arrangements that have, or are likely to have, a material current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital expenses.

### Contingent Liabilities

The Company has entered into indemnity agreements with its directors and officers whereby the Company indemnifies the directors and officers from all personal liability and loss that may arise in certain circumstances in service to the Company.

### Seasonality of Operations

The Company believes that its western Canadian operations, which form part or all of its Structures, Energy Services and Logistics business units, are exposed to a variable degree of seasonality. Drilling accommodations and surface rental assets of the Energy Services business unit have higher utilization rates during the fall and winter months when drilling activity is higher than during the spring and summer months. Similarly, operations levels at camps operated by the Logistics business units are generally higher in the winter. Though the Structures business unit has some exposure to the seasonality experienced in the western Canadian oil and natural gas drilling industry, seasonality has been actively managed and reduced due to increased exposure to the oil sands and mining sectors, which operate year round. In addition, Black Diamond actively pursues long-term rental contracts in all of its business units to neutralize the effect of seasonality on revenue.

## FINANCIAL INSTRUMENTS

All of Black Diamond's financial instruments as at June 30, 2014 relate to standard working capital accounts, credit facility items and an interest rate swap. There are no significant differences between the carrying value of these financial instruments and their estimated fair values.

Black Diamond is subject to both cash flow and interest rate risk on its committed extendible revolving operating facility and interest rate fair value risk on the senior secured notes based on their fixed rate of interest. The required cash flow to service the credit facilities will fluctuate as a result of changes in market rates. On April 20, 2010, Black Diamond entered into a swap transaction to fix the rate of interest at 3.63% plus the credit spread on a notional \$25 million of debt for a five year period expiring on April 10, 2015.

## NON-GAAP MEASURES

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are consistent with IFRS. Certain supplementary information and measures not recognized under GAAP are provided where management believes they assist the reader in understanding Black Diamond's results. Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers for these non-GAAP measures. These measures include:

**EBITDA** is not a measure recognized under GAAP and does not have standardized meanings prescribed by GAAP. EBITDA refers to consolidated earnings before finance costs, tax expense, depreciation, amortization, accretion, foreign exchange, stock-based compensation, acquisition costs, non-controlling interest, and non-operational items. Black Diamond uses EBITDA primarily as a measure of operating performance. Management believes that operating performance, as determined by EBITDA, is meaningful because it presents the performance of the Company's operations on a basis which excludes the impact of how they have been financed. In addition, management presents EBITDA because it considers it to be an important supplemental measure of the Company's performance and believes this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures.

EBITDA has limitations as an analytical tool, and readers should not consider this item in isolation, or as a substitute for an analysis of the Company's results as reported under GAAP. Some of these limitations are that EBITDA:

- excludes certain income tax payments that may represent a reduction in cash available to the Company;
- does not reflect the Company's cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, the Company's working capital needs;
- does not reflect the significant interest expense, or the cash requirements necessary to service interest payments on the Company's debt;
- does not account for depreciation and amortization which are non-cash charges, thus the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements; and
- may be calculated differently by other companies in the industry as compared to the Company, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to invest in the growth of the Company's business. The Company compensates for these limitations by relying primarily on the Company's GAAP results and using EBITDA only as a supplementary measure.

## NON-GAAP MEASURES (continued)

The following is a reconciliation of consolidated Profit to EBITDA:

### For the three months ended June 30,

(\$ millions)	2014	2013	\$ Change
Profit	9.6	8.9	0.7
Add:			
Depreciation and amortization	12.5	12.9	(0.4)
Finance costs	1.8	1.8	—
Provision for guarantee of debt of an investee	5.2	—	5.2
Deferred income taxes	0.2	1.5	(1.3)
Current income taxes	3.4	1.8	1.6
Non-controlling interest	0.7	1.3	(0.6)
Share-based compensation	1.5	1.0	0.5
EBITDA	34.9	29.2	5.7

### For the six months ended June 30,

(\$ millions)	2014	2013	\$ Change
Profit	27.5	27.8	(0.3)
Add:			
Depreciation and amortization	26.6	23.9	2.7
Finance costs	3.8	3.5	0.3
Provision for guarantee of debt of an investee	5.2	—	5.2
Deferred income taxes	1.5	3.5	(2.0)
Current income taxes	8.6	6.4	2.2
Non-controlling interest	1.7	2.3	(0.6)
Acquisition costs	—	0.3	(0.3)
Share-based compensation	2.4	2.0	0.4
EBITDA	77.3	69.7	7.6

**EBITDA Margin** is calculated by dividing EBITDA by the revenue for the period.

**Gross Profit Margin** is calculated by dividing gross profit by the revenue for the period.

**Payout Ratio** is calculated as the dividends declared for the period divided by funds available for dividends.

**Working Capital** is calculated as current assets minus current liabilities.

## NON-GAAP MEASURES (continued)

**Funds available for dividends** is calculated as the cash flow from operating activities excluding the changes in non-cash working capital. Management believes that funds available for dividends is a useful measure as it provides an indication of the funds generated by the operations before working capital adjustments. Changes in non-cash working capital items have been excluded as such changes are financed using the operating line of Black Diamond's credit facilities. Funds not distributed are available for re-investing in the business and funding the growth of Black Diamond.

The following is a reconciliation of Cash Flow from Operating Activities to Funds available for dividends:

### For the three months ended June 30

(\$ millions)	2014	2013	\$ Change
Cash Flow from Operating Activities	73.2	46.1	27.1
Add/(Deduct):			
Book value of used fleet sales to operating activities	(3.6)	(1.2)	(2.4)
Change in long-term receivables	1.7	(1.0)	2.7
Changes in non-cash working capital	(34.8)	(16.4)	(18.4)
<b>Funds available for dividends</b>	<b>36.5</b>	<b>27.5</b>	<b>9.0</b>

### For the Six months ended June 30,

(\$ millions)	2014	2013	\$ Change
Cash Flow from Operating Activities	99.7	59.7	40.0
Add/(Deduct):			
Book value of used fleet sales to operating activities	(14.7)	(2.1)	(12.6)
Reclassification of trade receivables to long-term	1.1	(2.1)	3.2
Changes in non-cash working capital	(12.5)	7.6	(20.1)
<b>Funds available for dividends</b>	<b>73.6</b>	<b>63.1</b>	<b>10.5</b>

Readers are cautioned that the Non-GAAP measures are not alternatives to measures under GAAP and should not, on their own, be construed as an indicator of Black Diamond's performance or cash flows, a measure of liquidity or as a measure of actual return on the shares of Black Diamond. These Non-GAAP measures should only be used in conjunction with the consolidated financial statements of Black Diamond.

## **RISKS AND UNCERTAINTIES**

The operations of Black Diamond face a number of risks and uncertainties in the normal course of business that may be beyond its control, but which could have a material adverse effect on Black Diamond's financial condition, results of operations and cash flow, and therefore on cash available for dividends. Many of these risk factors and uncertainties are outlined in the annual information form of Black Diamond for the year ended December 31, 2013 available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional risks and uncertainties that management may be unaware of may become important factors which affect Black Diamond.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Black Diamond's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to Black Diamond is made known to Black Diamond's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by Black Diamond in its annual filings, interim filings, or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Black Diamond's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of Black Diamond's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Black Diamond is required to disclose herein any change in Black Diamond's internal controls over financial reporting that occurred during the period beginning on April 1, 2014 and ended on June 30, 2014 that has materially affected, or is reasonably likely to materially affect, Black Diamond's internal controls over financial reporting. No material changes in Black Diamond's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect Black Diamond's internal controls over financial reporting.

It should be noted that a control system, including Black Diamond's disclosure and internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Additional information relating to Black Diamond, including Black Diamond's annual information form for the year ended December 31, 2013 is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CRITICAL ACCOUNTING POLICIES, JUDGMENTS & ESTIMATES**

### **Judgments and Estimates**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Management has made the following judgments, which have a significant effect on the amounts recognized in the consolidated financial statements:

#### ***Operating lease commitments – Company as lessor***

The Company has entered into rental contracts for its fleet. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the modular structures, that it retains all the significant risks and rewards of ownership of these structures and accounts for the contracts as operating leases.

#### ***Definition of a business***

Management has had to apply judgments relating to its acquisitions during the year with respect to whether the acquisitions were a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the respective acquisitions in order to reach a conclusion.

#### ***Aggregation of interest in subsidiaries***

Management has used judgment in determining whether it is appropriate to aggregate the disclosures required by IFRS 12 for the Company's interests in subsidiaries. In reaching a determination, management considered such factors as its interests in the subsidiaries' nature of business, their industry classification and their geographical location.

#### ***Income Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Company's legal entities.

## **CRITICAL ACCOUNTING POLICIES, JUDGMENTS & ESTIMATES (continued)**

### ***Fair value measurement of financial instruments***

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the maintainable earnings and trading multiples. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

### ***Impairment of non-financial assets***

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell ("FVLCTS") and its value in use ("VIU"). The FVLCTS calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets at observable market prices less incremental costs for disposing of the asset. The VIU calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the Company's budget for the next two years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating units ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

### ***Provision for decommissioning***

The Company has recognized a provision for decommissioning obligations associated with two open camps operated by the Company. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the camps from the site and the expected timing of those costs.

### ***Additional estimates***

Other estimates that management is required to make to conform with IFRS and prepare timely consolidated financial statements includes accrual of unsettled transactions, collectability of accounts receivable, recognition of provisions and contingent obligations, the estimated useful lives of property and equipment, useful lives of intangible assets, and percentage complete for certain types of revenue recognition. Accordingly, actual results may differ from estimated amounts. Management has also used judgment in the estimates used in pricing its options and LTIP, assessing the effectiveness of hedging relationships and the determination of functional currency.

If the underlying estimates and assumptions, upon which the consolidated financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES, JUDGMENTS & ESTIMATES (continued)

### Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

#### *IFRS 9 Financial Instruments*

IFRS 9 sets out requirements for the classification and measurement of financial assets, first issued in November 2009, updated in October 2010 to incorporate financial liabilities and in November 2013 to include the new general hedge accounting model. IFRS 9 (2013) does not yet have a mandatory effective date, but early adoption is allowed. At its February 2014 meeting, IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual period beginning on or after January 1, 2018. The Company continues to review the standard as it is updated and monitor its impact of the Company.

#### *IFRS 15 Revenue from Contracts*

IFRS 15 specifies how and when to recognize revenue and requires entities to provide users of financial statements with more informative, relevant disclosures. This standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the amendments on the Company's financial statements.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.