

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") was prepared as of August 8, 2012 and is provided to assist readers in understanding Black Diamond Group Limited's ("Black Diamond" or the "Company" and formerly Black Diamond Income Fund) financial performance for the three and six months ended June 30, 2012 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 interim financial statements of the Company for the three and six months ended June 30, 2012 and the audited consolidated financial statements of the Company for the year ended December 31, 2011. The accompanying unaudited condensed consolidated interim financial statements of Black Diamond are prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain figures in the prior year's financial statements have reclassified to conform to the current year's presentation. Black Diamond's common shares trade on the Toronto Stock Exchange under the symbol "BDI".*

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

*All current and comparative share capital and earnings per share amounts have been adjusted for the two for one share split that occurred August 25, 2011.*

*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. 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, industry competition, availability of qualified personnel and management, stock market volatility and timely and cost effective access to sufficient capital from internal and external sources. 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 for the year ended December 31, 2011 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.*

*EBITDA is not a recognized measure under GAAP. Management believes that in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the Company's ability to generate cash flow in order to fund working capital, service debt and fund capital programs. The Company's method of calculating EBITDA may differ from other entities and accordingly, may not be comparable to measures used by other entities. See "Non-GAAP Measures".*

## OVERVIEW OF THE COMPANY

Black Diamond was incorporated on October 7, 2009 under the laws of the Province of Alberta. Black Diamond was incorporated 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 and the unit holders of the Fund. Effective December 31, 2009, pursuant to the plan of arrangement, the Fund restructured (the "Conversion") from an unincorporated open-ended income fund trust to Black Diamond, a publicly listed corporation.

Black Diamond, whose principal undertakings, through its wholly-owned subsidiaries, Black Diamond Limited Partnership, BOXX Modular Holdings Inc., Nortex Modular Leasing and Construction Company ("Nortex") and through its 50% participation in Black Diamond Dene Limited Partnership, Black Diamond West Moberly Limited Partnership, and Black Diamond Nehiyawak Limited Partnership, are 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 to provide complementary services including the operation of remote lodging facilities, transportation, installation, dismantling, repair and maintenance of modular structures and oilfield equipment, as well as related services. Black Diamond operates through four operating divisions consisting of Black Diamond Camps, Black Diamond Logistics, BOXX Modular and Black Diamond Energy Services. In the unaudited condensed consolidated interim financial statements, Camps and Logistics are combined and disclosed as a single reportable segment.

Camps provide workforce accommodation designed for remote site accommodation. The structures, when assembled together, form large dormitories, kitchen/dining facilities and recreation complexes. The majority of the business activity within this segment occurs in Western Canada.

Logistics operates remote lodging facilities for third parties, and includes the Sunday Creek Lodge where the Company also owns the lodging facility. Logistics also provides the services of transportation, installation, dismantling, repair and maintenance of modular structures, as well as related services.

BOXX provides high quality, cost effective modular space solutions to a diverse customer base in Canada and the United States ("USA"). The structures provided include office units, storage units, office complexes, training facilities, lavatories and custom manufactured structures.

Energy Services provides a complement of surface rental assets that would typically support a drilling or completions operation such as tanks for storage of liquids, equipment for handling liquids and containing solids, rig matting, and support equipment. Energy Services also provides drill site accommodation units such as geologist/engineer quarters and staff quarters.

## SECOND QUARTER 2012 HIGHLIGHTS

Revenue levels for the three months ended June 30, 2012 (hereafter referred to as the 'Period') increased by 9% to \$62.0 million compared to the three month period ended June 30, 2011 (hereafter referred to as the 'Comparative Period'). Rental revenue was 28% higher at \$23.3 million compared to the Comparative Period, while non-rental revenue was 11% lower at \$23.5 million and lodging revenue was 23% higher at \$15.2 million compared to the Comparative Period.

Revenue levels for the six month period ended June 30, 2012 (hereafter referred to as the 'YTD Period') increased by 7% to \$120.9 million compared to the six month period ended June 30, 2011 (hereafter referred to as the 'Comparative YTD Period'). Rental revenue was 29% higher at \$48.5 million compared to the Comparative YTD Period, while non-rental revenue was 14% lower at \$44.3 million and lodging revenue was 18% higher at \$28.1 million compared to the YTD Comparative Period.

One of the primary drivers of Black Diamond's business continues to be the rental income from fleet units. The 28% or \$5.1 million increase in rental revenue generated in the Period compared to the Comparative Period is primarily due to the Company's portfolio of rental assets being 25% larger. During the Period, the fleet of Workforce Accommodation units grew by 4% or 90 units. The Space Rentals fleet grew by 5% or 145 units. The Energy Services accommodations fleet increased by 24% during the Period or 52 units, while the number of surface rental pieces of equipment increased minimally.

For the YTD Period there was 29% or \$11.0 million increase in rental revenue compared with the Comparative YTD Period, primarily as a result of an increase in the rental fleet. Since June 30, 2011 the Workforce Accommodation units grew by 20% or 365 units, the Space Rentals fleet grew by 11% or 292 units, Energy Services accommodation fleet increased by 26% or 55 units, and the surface rental pieces of equipment have increased by 67% or 949 units..

The utilization of these fleet assets was strong throughout the Period averaging 93% for Workforce Accommodation compared with 92% for the Comparative Period. Space Rental fleet utilization increased slightly to 75% for the Period as compared to 74% for the Comparative Period. Drilling accommodations and surface rental equipment utilization rates were 47% and 32%, respectively, compared to 36% and 36% in the Comparative Period.

The utilization of these fleet assets was strong throughout the YTD Period averaging 92% for Workforce Accommodation compared with 94% for the Comparative YTD Period. Space Rental fleet utilization increased slightly to 76% for the YTD Period as compared to 73% for the Comparative YTD Period. Drilling accommodations and surface rental equipment utilization rates were 68% and 43%, respectively, for the YTD Period compared to 58% and 42% in the Comparative YTD Period.

The Company's business continues to be driven by the resource sector with revenue generated from oil sands related projects amounting to 21% of consolidated revenue, 46% was sourced from conventional oil and gas activity in Western Canada, 9% coming from mining and metal extraction, with the balance of 23% generated from business not directly related to the resource sector activity.

The Administrative Expenses for the Period were 14% of revenue, which is an increase from the 13% incurred in the Comparative Period. For the YTD Period Administrative Expenses were

also 14% of revenue, which is an increase from the 12% incurred in the Comparative YTD Period.

EBITDA (see “Non-GAAP measures”) for the Period was \$26.5 million or 43% of revenue versus \$21.6 million or 38% of revenue for the Comparative Period.

EBITDA for the YTD Period was \$52.9 million or 44% of revenue versus \$43.4 million or 39% for the Comparative YTD Period.

Net income for the Period was \$11.0 million compared to \$9.4 million for the Comparative Period.

Net income for the YTD Period was \$24.0 compared to \$19.3 million for the Comparative YTD Period.

Black Diamond paid dividends of \$0.055 per share per month in April and \$0.06 per month in May and June (the equivalent of \$0.72 per share annually) resulting in a payout ratio (see “Non-GAAP measures”) for the Period of 25%, compared to 24% for the Comparative Period. The payout ratio for the YTD Period was 24% compared to 23% for the YTD Comparative Period.

## SELECTED FINANCIAL AND OPERATING 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 consolidated interim financial statements of Black Diamond for the three and six months ended June 30, 2012 and 2011. Notes:

- (1) EBITDA and Payout ratio are supplemental non-GAAP 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.
- (2) The 2010 comparatives have been restated from previous Canadian GAAP upon transition to IFRS, as explained later in this document.

(in thousands, except as noted)	Three months ended June 30			Six months ended June 30		
	2012	2011	2010 <sup>(2)</sup>	2012	2011	2010 <sup>(2)</sup>
<b>Financial Highlights</b>	\$	\$	\$	\$	\$	\$
Total revenue	61,974	56,801	31,161	120,931	112,532	62,132
Gross Profit	34,298	28,459	15,291	67,898	56,507	31,746
Gross Profit %	55%	50%	49%	56%	50%	51%
Administrative expenses	8,683	7,368	5,444	16,374	13,994	10,259
Administrative expense %	14%	13%	17%	14%	12%	17%
EBITDA <sup>(1)</sup>	26,462	21,548	10,352	52,938	43,410	22,791
EBITDA %	43%	38%	33%	44%	39%	37%
Net income before taxes & NCI	16,169	13,084	4,296	33,130	27,054	10,685
Net income	10,976	9,385	2,868	24,019	19,280	7,624
Per share - Basic	0.29	0.27	0.19	0.64	0.57	0.49
- Diluted	0.28	0.26	0.18	0.62	0.55	0.48
Capital expenditures	47,928	20,723	14,450	67,605	48,533	43,831
Property & equipment (NBV)	350,125	278,599	205,935	350,125	278,599	205,935
Total assets	463,643	393,116	278,769	463,643	393,116	278,769
Long-term debt and capital lease obligations	86,249	62,973	43,728	86,249	62,973	43,728
Dividends declared	6,685	5,105	4,427	12,872	9,810	8,529
Per share	0.175	0.1425	0.135	0.34	0.285	0.27
Payout ratio	25%	24%	43%	24%	23%	38%
<b>Operational Highlights</b>						
<b>Camps Division</b>						
Workforce accommodation units in fleet at end of period	1,764	1,540	920	1,764	1,540	920
Average utilization during the period	93%	92%	83%	92%	94%	84%
Workforce accommodation bedcount	7,384	6,192	3,702	7,384	6,192	3,702
<b>Logisites Division</b>						
Workforce accommodation units in operated camps	467	326	240	467	326	240
Utilization rate	100%	100%	100%	100%	100%	100%
Workforce accommodation bedcount	1,944	1,577	1,164	1,944	1,577	1,164
<b>BOXX Division</b>						
Space rental units in fleet	2,913	2,621	2,405	2,913	2,621	2,405
Average utilization	75%	74%	68%	76%	73%	68%
<b>Energy Services Division</b>						
Drilling accommodation units	268	213	224	268	73	67
Average utilization during the period	47%	36%	30%	68%	58%	46%
Drilling accommodation bedcount	932	466	544	932	466	544
Surface rental equipment	2,359	1,410	1,245	2,359	1,410	1,245
Average utilization	32%	36%	18%	43%	42%	26%

## OUTLOOK

The second quarter of 2012 delivered strong revenue generation and strengthening EBITDA margins. The higher margins are due in part to the increase in the rental fleet, and to the percentage of rental to non-rental revenue on a consolidated basis. Management expects that both rental and non-rental revenue sources will increase in the third and fourth quarters due to the combination of recently announced project deployments and general fleet growth.

The resource industry continues to have very strong demand for workforce lodging and temporary workspace. This demand is being generated from oilsands development projects, unconventional oil and gas developments, resource related infrastructure projects and mining developments. Black Diamond is also experiencing strong demand for drilling and completions support equipment leading to strengthening returns and incremental demand for additional surface rental and wellsite accommodation assets. The aggregate of this demand from all four asset-oriented operating divisions has led to a further increase in the 2012 capital expenditure budget - from \$120 million to \$135 million. Management continues to have a high degree of visibility of capital returns given the longer term nature of guaranteed contracts being secured.

Management expects that the capital program will continue to follow the historical allocation between divisions and that the balance of the expanded capital budget will be expended more or less equally over the remainder of the year with some commitments potentially carrying over into early 2013. It is expected that this expanded capital program will translate into revenue and EBITDA growth as corresponding operations and rental revenues build.

It is anticipated that continued high utilization, fleet growth and strong pricing will characterize Black Diamond's Camps and Logistics divisions over the next several quarters. The second half of 2012 should experience a significant increase in operations revenue as the pace of new facility deployments quicken. The operated lodges revenue is expected to grow due to additional facilities coming on stream. The space rentals business is expected to continue to grow in terms of fleet size and revenue as the division strives to meet strong demand in Canada and Energy Services revenue will build with rising field level activity post breakup and continued fleet additions.

Black Diamond's balance sheet, bolstered by the recent equity financing, has significant capacity to meet current and anticipated market demand for fleet additions as well as to fund potential future strategic opportunities.

## RESULTS OF OPERATIONS

### Revenue

#### *Consolidated*

(\$ millions, except as noted)	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenue	61.97	56.80	120.93	112.53
Rental Revenue	23.33	18.19	48.54	37.54
% of consolidated revenue	38%	32%	40%	33%
Lodging Revenue	15.16	12.28	28.10	23.77
% of consolidated revenue	24%	22%	23%	21%
Non-Rental Revenue	23.48	26.33	44.29	51.22
% of consolidated revenue	38%	46%	37%	46%

There has been a significant increase in rental revenues in the Period and YTD Period, respectively, from the Comparative Period and Comparative YTD Period reflecting the increase in the rental fleet which resulted from organic build and acquisition of modular structures and oilfield service equipment in the past twelve months. The rental revenue stream generates gross margins generally in excess of 90%, whereas the lodging revenue stream generates gross margins of approximately 40 to 50% and the non-rental or ancillary revenue streams generate gross margins of 15 to 20%.

## *Camps Division*

(\$ millions, except as noted)	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenue	17.78	18.24	35.21	34.17
<i>% of Consolidated Revenue</i>	29%	32%	29%	30%
Rental Revenue	13.23	10.51	25.74	21.00
<i>% of Camps Revenue</i>	74%	58%	73%	61%
Non-Rental Revenue	4.55	7.73	9.47	13.17
<i>% of Camps Revenue</i>	26%	42%	27%	39%
EBITDA	13.77	12.52	27.42	22.78
<i>% of Camps Revenue</i>	77%	69%	78%	67%
Utilization	93%	92%	92%	94%

Revenue decreased in the Period relative to the three months ended June 30, 2011 due to a 41% decrease in non-rental revenue, offset by an increase in rental revenue.

The 26% increase in rental revenue in the Period is predominantly derived from the 15% increase in the fleet size, and a 1% increase in utilization from the Comparative Period in 2011.

There was a minimal increase in overall revenues for the YTD Period compared to the Comparative YTD Period. The 23% increase in rental revenue in the YTD Period is derived from the 15% increase in fleet size with a 2% decrease in utilization and a general increase in rental rates from Comparative YTD Period.

The continued high levels of utilization are a reflection of the type of equipment Black Diamond deploys as well as the longer term nature of the rental contracts Black Diamond has favoured. The workforce accommodation units typically do not experience significant seasonality due to the longer term nature of the contracts on projects requiring larger complements of labour in remote areas, which tend to start and operate without regard to the time of year.

The decrease in non-rental revenue for the Period compared with the Comparative Period is due to the Comparative Period having several projects in the implementation phase while the current Period had relatively fewer projects underway. Subsequent to Period end, several new projects have commenced.

The increase in EBITDA margin in the Period and YTD Period over prior year is a direct result of the relative increase of rental revenue versus other revenue streams compared to the Comparative Period and the Comparative YTD Period.

At June 30, 2012, the weighted average remaining rental term outstanding was approximately 18 months with total contracted revenue of approximately \$66.3 million. Anticipated revenue for the balance of 2012 from rental contracts in place at June 30, 2012 is \$29.0 million



**Logistic Division**

(\$ millions, except as noted)	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenue	22.57	16.90	38.55	35.74
<i>% of Consolidated Revenue</i>	36%	30%	32%	32%
Lodging Revenue	15.16	12.29	28.10	23.77
<i>% of Logistics Revenue</i>	67%	73%	73%	67%
Non-Rental Revenue	7.41	4.61	10.45	11.97
<i>% of Logistics Revenue</i>	33%	27%	27%	33%
EBITDA	7.90	4.11	12.81	9.69
<i>% of Logistics Revenue</i>	35%	24%	33%	27%

Revenue increased in the Period as a result of increases in both Lodging and Non-Rental Revenues due to higher bedcounts at operated camps over the Comparative Period. For the YTD Period revenue increased as a result of higher Lodging Revenues with a small decrease in Non-Rental Revenue.

Lodging revenue is generated from several full service camps including the Sunday Creek Lodge. There may be variability in revenue with respect to services related to daily occupancy levels in a given period.

The increase in non-rental revenue reflects the increase in operational activity associated with the deployment of several substantial projects requiring transportation and installation. The Period saw several smaller installation projects as compared to the Comparative Period.

The increase in EBITDA margin in the Period over the Comparative Period is a direct result of an increase in revenue of 34% and due to rental revenues making up a larger portion of total revenue. The increase in EBITDA margin in the YTD Period over the Comparative YTD Period is also a result of a higher margin on rental revenues.

An 18 month accommodation services contract at Sunday Creek Lodge commenced on April 1, 2011 that has committed revenues of approximately \$68.4 million. During the Period, Black Diamond signed a 36 month contract for approximately 75% of the Sunday Creek Lodge commencing January, 2013.

**BOXX Division***Combined Canada and USA Operations*

(\$ millions, except as noted)

	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenue	14.03	15.73	27.51	27.99
<i>% of Consolidated Revenue</i>	23%	28%	23%	25%
Rental Revenue	5.86	4.90	11.41	9.60
<i>% of BOXX Revenue</i>	42%	31%	41%	34%
Non-Rental Revenue	8.17	10.83	16.10	18.39
<i>% of BOXX Revenue</i>	58%	69%	59%	66%
EBITDA	5.14	5.43	10.26	9.71
<i>% of BOXX Revenue</i>	37%	35%	37%	35%
Utilization	75%	74%	76%	73%

Revenue for the BOXX division for the Period was lower as a result of a 25% decrease in non-rental activity in the Period offset by increased utilization and an 11% growth in the rental fleet year over year. The increase in rental revenue had a direct effect on the EBITDA margin, as rental gross margins are significantly higher than non-rental gross margins.

Revenue for the BOXX division for the YTD Period decreased slightly compared with the Comparative YTD Period. Increased rental revenue for the YTD Period due to increased fleet size was offset by a decrease in Non-Rental revenue.

The decrease in non-rental revenue during both the Period and YTD Period resulted from fewer sales of manufactured units.

At June 30, 2012, the weighted average remaining contract term outstanding is approximately 6 months with total contracted revenue of approximately \$11.8 million. Anticipated rental revenue for the balance of 2012 from contracts in place at June 30, 2012 is \$5.1 million. This does not include several month-to-month projects that are expected to continue to contribute to rental revenue throughout the year.

## Energy Services Division

(\$ millions, except as noted)	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenue	7.59	5.93	19.66	14.63
<i>% of Consolidated Revenue</i>	12%	10%	16%	13%
Rental Revenue	4.24	2.72	11.39	6.93
<i>% of Energy Services Revenue</i>	56%	46%	58%	47%
Non-Rental Revenue	3.35	3.21	8.27	7.80
<i>% of Energy Services Revenue</i>	44%	54%	42%	53%
EBITDA	2.25	1.82	7.94	5.39
<i>% of Energy Services Revenue</i>	30%	31%	40%	37%
Drilling Accommodation				
Utilization	47%	36%	68%	58%
Surface Rental Utilization	32%	36%	43%	42%

Revenue increased in the Period, as the size of the rental fleet increased by 67%. Black Diamond has received several guaranteed revenue contracts during the previous 12 months. Additional supplementary work has arisen from these contacts.

Similarly, revenue increased in the YTD Period compared to the Comparative YTD Period due to fleet size increases and the receipt of several guaranteed revenue contracts.

The surface rental fleet amounted to 2,359 units compared to 1,410 units at June 30, 2011. During the prior year 475 units were acquired through an asset purchase, to strengthen the division's surface rental fleet in Saskatchewan. Lower surface rental utilization in the period compared to the previous year was due to differences in the on-set of spring break up in the areas in which the division operates. In the Comparative Period spring breakup began later resulting in a greater demand for rentals. The drilling accommodations fleet amounted to 268 units at the end of June, 2012 versus 213 units at June, 2011. This total includes drill camps as well as a complement of wellsite units, free standing sleepers and support units.

The 67% increase in the size of the rental fleet in concert with the increase in utilization and rental rates for this equipment explains the 56% increase of rental revenue from the Comparative Period. Rental revenue tends to have a higher degree of seasonality in this division. Drilling accommodations and the surface rental assets typically have higher utilization rates during the winter months when drilling activity is greater, and reduced utilization rates during the spring and summer months when drilling activity slows. In recent years the effect of the seasonality has somewhat mitigated due to the contracting of asset packages on year round paid monthly guaranteed contracts.

At June 30, 2012, the weighted average remaining rental term outstanding was approximately 7 months with total contracted revenue of approximately \$5.5 million. Anticipated revenue for the balance of 2012 from rental contracts in place at June 30, 2012 is \$2.7 million

## Direct Costs and Gross Profit

(\$ millions, except as noted)

	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Direct Costs	27.68	28.34	53.03	56.03
<i>% of Consolidated Revenue</i>	45%	50%	44%	50%
Gross Profit	34.30	28.46	67.90	56.51
<i>% of Consolidated Revenue</i>	55%	50%	56%	50%

Gross profit increased in both the Period and YTD Period from the Comparative Period and the Comparative YTD Period due to increased revenue and gross margin. The margin percentage increased as a larger portion of Black Diamond's revenue was derived from rental revenue in both the Period and the YTD Period as compared to the Comparative Period and Comparative YTD Period.

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 some 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)

	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
Administrative expenses	8.68	7.37	16.37	13.99
<i>% of Consolidated Revenue</i>	14%	13%	14%	12%
Personnel	4.59	4.18	8.80	7.69
<i>% of Administrative expenses</i>	53%	57%	54%	55%
Occupancy & Insurance	1.07	0.66	2.18	1.63
<i>% of Administrative expenses</i>	13%	9%	13%	12%
Other Administrative Expenses	3.02	2.53	5.39	4.67
<i>% of Administrative expenses</i>	35%	34%	33%	33%

Administrative expenses increased in the Period and YTD Period, both in dollar value and as a percentage of revenue. The increase as percentage of revenue is largely due to increased scale of the business.

For the Period, personnel costs are the largest item representing approximately 53% of the administrative expenses. Occupancy and insurance costs increased during the Period as further corporate space was leased and several locations expanded in size. Other administrative expenses consist of items such as audit, legal, travel, meals and entertainment, bank charges and promotional items.

Share based compensation charges are reported within other administrative expenses and were \$0.86 million for the Period compared with \$0.47 million in the Comparative Period. Share based compensation was determined using the Black-Scholes valuation method. The increase in share based compensation year over year is a result of the additional options granted during the Period. For the YTD Period share based compensation was \$1.46 million compared with \$0.90 million for the Comparative YTD Period.

## EBITDA

(\$ millions, except as noted)

	Q2		YTD	
	2012	2011	2012	2011
	\$	\$	\$	\$
EBITDA	26.46	21.55	52.94	43.41
<i>% of Consolidated Revenue</i>	43%	38%	44%	39%

The EBITDA percentage for the Period is higher than the Comparative Period, due to a higher percentage of revenue coming from rental activity. This percentage margin may fluctuate from period to period depending on the level and mixture of the revenue generated from the rental of the fleet assets as compared to the ancillary revenue streams such as lodging services, custom manufactured sales, logistics, installation, sublease and services provided.

Included in the Period EBITDA is \$2.60 million of administrative expenses and \$2.34 million for the Comparative Period in 2011, which relate to non-divisional corporate expenses. Included in EBITDA for the YTD Period is \$5.49 million of administrative expenses for the Period and \$4.16 million for the Comparative YTD Period in 2011, which relate to non-divisional corporate expenses.

## Depreciation and Amortization

For the Period, the charge for depreciation and amortization was \$8.12 million compared to \$7.01 million in 2011. This included charges of \$7.90 million with respect to depreciation taken on the property and equipment of Black Diamond, and \$0.22 million relating to the amortization of the intangible assets. Comparatively, depreciation and amortization for the Comparative Period of 2011 was \$6.64 million and \$0.37 million, respectively.

For the YTD Period, the charge to depreciation and amortization was \$15.65 million compared to \$13.42 million for Comparative YTD Period. This included charges of \$15.21 million with respect to depreciation taken on property and equipment of Black Diamond, and \$0.44 million relating to the amortization of the intangible assets. Comparatively, depreciation and amortization for the same period of 2011 was \$12.66 million and \$0.76 million, respectively.

## Finance Costs

Finance costs for the Period were \$1.33 million compared with \$0.99 million in 2011. For the YTD Period finance costs were \$2.75 million compared to \$2.04 million for the Comparative YTD Period. This increase represents interest that was charged on the utilization of the credit facilities and the interest charged on the Notes outstanding. Average interest rates in the Period were 5.77% and 6.00% year to date, compared with 4.7% and 4.6% in 2011. Average long-term debt in the Period was \$3.7 million higher than that in the second quarter of 2011.

## **Income Taxes**

For the Period, Black Diamond incurred a current income tax provision of \$1.62 million and incurred a future income tax provision of \$2.35 million, compared with current income tax provision of \$0.02 million and a future income tax provision of \$3.13 million for the Comparative Period. This future income tax provision arises due to the differences in the book value and the tax value of the net assets held by Black Diamond that is expected to reverse after more than 12 months. It has been calculated at the enacted tax rate of 25% in Canada and 40% in the US.

For the YTD Period, Black Diamond incurred a current income tax provision of \$4.74 million and a future income tax provision of \$3.39 million, compared with current income tax provision of \$0.04 million and a future income tax provision of \$6.79 million for the Comparative YTD Period.

## **Non-controlling Interest**

Earnings attributable to non-controlling interest were \$1.22 million during the Period and \$0.98 million for the YTD Period, compared to \$0.55 million and \$0.95 million for the same periods in 2011. The non-controlling interest represents earnings attributable to the Fort Nelson First Nation's 50% interest in the Black Diamond Dene Limited Partnership, the West Moberly First Nation's 50% interest in the Black Diamond West Moberly Limited Partnership, and the Beaver Creek Cree Nation's 50% interest in the Black Diamond Nehiyawak Limited Partnership.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the previous eight quarters:

(in \$000's, except for per share amounts)

	<b>Q2 2012</b>	<b>Q1 2012</b>	<b>Q4 2011</b>	<b>Q3 2011</b>
Revenue	61,974	58,957	66,207	63,070
EBITDA	26,462	26,478	25,495	25,165
Net Income attributable to Black Diamond Group Limited	10,976	13,043	10,688	11,011
Per Share - Basic <sup>(2)</sup>	0.29	0.35	0.31	0.30
Per Share - Diluted <sup>(2)</sup>	0.28	0.34	0.29	0.29
	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>Q4 2010 <sup>(1)</sup></b>	<b>Q3 2010 <sup>(1)</sup></b>
Revenue	56,801	55,732	43,410	34,221
EBITDA	21,548	21,862	15,127	12,446
Net Income attributable to Black Diamond Group Limited	9,385	9,897	6,048	3,844
Per Share - Basic <sup>(2)</sup>	0.27	0.29	0.22	0.12
Per Share - Diluted <sup>(2)</sup>	0.26	0.29	0.22	0.12

(1) The 2010 figures have been restated upon transition to IFRS as explained subsequently in this document

(2) All per share amounts have been adjusted for the two for one split that occurred on August 25, 2011



## **LIQUIDITY & CAPITAL RESOURCES**

As of June 30, 2012, Black Diamond's principal sources of liquidity include:

- working capital of \$36.8 million (see "Non-GAAP measures") excluding CAPEX in accounts payable of \$11.1 million, included in the above working capital amount are \$2.7 million of outstanding cheques in excess of bank deposits,
- a committed revolving operating facility in the amount of \$10.0 million of which all \$10.0 million is available and \$nil is drawn at June 30, 2012,
- a committed revolving capital expenditure facility of \$115.0 million, all of which is available, and \$25.0 million is drawn at June 30, 2012, and
- a committed operating facility in the U.S. in the amount of US\$3.0 million all of which is available and \$1.5 million is drawn at June 30, 2012.

Management believes that Black Diamond has the liquidity, barring any unforeseen circumstances, to continue to operate through 2012 and beyond, and pursue its planned business objectives. This is due to the longer term nature of the contracts and the credit worthiness of Black Diamond's customers.

Based on Black Diamond's current business plan, internal forecasts and the risks that are present in the current global economy, management believes that cash generated from operations will continue to exceed the funds required to pay dividends. 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, and interest costs. 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 elements 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 through the issuance of additional shares, if required.

The Company is committed to maintaining a strong balance sheet and a flexible capital structure.

### **Working Capital**

The working capital position of Black Diamond at June 30, 2012 was \$36.8 million after extracting \$11.1 million of capital expenditure in accounts payable and debt, a decrease from the working capital position of December 31, 2011 by \$20.2 million, after extracting \$3.2 million of capital expenditure in accounts payable and debt. This decrease in working capital was due to higher capital expenditures which exceeded funds from operating activities during the Period.

Current assets at June 30, 2012 were \$68.6 million, a decrease of \$11.3 million from December 31, 2011. The decrease is as a result of a decrease in cash and cash equivalents of \$23.0 million and an increase in other current assets by \$11.7 million.

Current liabilities at June 30, 2012 were \$31.8 million, excluding \$11.1 million of accounts payable in respect of capital expenditures (December 31, 2011 - \$3.2 million), an increase of \$8.9 million from December 31, 2011.

## Indebtedness

Black Diamond has established syndicated credit facilities with two Canadian chartered banks as follows: a committed revolving operating facility of \$10.0 million, a committed revolving capital expenditure facility of \$115.0 million as well as a hedging credit facility of \$5.0 million. Draws on the operating and capital expenditure facilities are charged interest based on the previous quarter's funded debt to EBITDA ratio as defined in Black Diamond's credit agreement. As at June 30, 2012, the interest rate applied to amounts drawn on the operating facility and capital expenditure facility was 4.00%.

All facilities are 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 shares or equity interests of such material subsidiaries. The revolving operating facility matures on December 31, 2013; it is interest only until maturity and drawdown's may not exceed the sum of 75% of Canadian accounts receivable and 60% of US accounts receivable, in each case aged, less than 90 days. The revolving capital expenditure facility is interest only payable monthly in arrears until on December 31, 2013 and drawdowns may not exceed 60% of the net book value of tangible capital property and equipment less the principal and any accrued and unpaid interest on the senior secured notes. If not extended by one year by December 31, 2012, the facility will be reduced in 2014 by equal quarterly reductions in an amount equal to 1/16<sup>th</sup> of the commitment the capital expenditure facility on December 31, 2012.

The Company has issued \$62.0 million of senior secured notes, which rank pari passu with the other senior credit facilities. They have a fixed interest rate of 5.44% per annum and mature in 2019. Amortized repayments of the notes begin in 2015 at the rate of 1/5<sup>th</sup> of the principal repaid annually for the proceeding five years until 2019. Financial covenants and security for these notes are similar to those in respect of the syndicated credit facilities described herein.

Black Diamond's financial debt covenants are as follows:

<b>Covenant</b>	<b>Required</b>	<b>Actual</b>
<b>Current Ratio</b>	>1.25:1	1.86
<b>Total Funded Debt to EBITDA</b>	<2.50:1	0.87
<b>Fixed Charge Coverage</b>	>1.00:1	3.37
<b>Tangible Net Worth</b>	>\$140.0M	243.78

Management includes reconciliations from the cash flow provided by operations to the EBITDA used in the covenant calculations (see "Non-GAAP Measures"). 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, 2012, 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.

Black Diamond, through its wholly owned subsidiary, Nortex Modular Leasing and Construction Company, also has a U.S. \$3 million committed revolving loan facility to fund working capital requirements in the U.S. The facility bears interest at a rate of U.S. prime plus 1% subject to a 5% minimum rate. At June 30, 2012, the effective rate was 5%. Interest on drawings is to be paid monthly with any principal outstanding to be repaid upon the maturity date. The facility is secured by a letter of credit issued by the Company's Canadian lenders. At June 30, 2012, there was U.S.\$1.5 million drawn on the facility.

Also, at June 30, 2012, there were outstanding cheques in excess of cash on deposit of \$2.7 million.

### **Commitments**

Black Diamond has entered into operating leases outlined within the table presented in the Capital Expenditures section below. These operating leases pertain to rental of office and yard space for branch locations as well as vehicle leases.

### **Share Capital**

At June 30, 2012, Black Diamond had 38.20 million common shares outstanding. In addition at June 30, 2012, Black Diamond had 3.58 million common shares reserved for issuance pursuant to the exercise of options which have been granted pursuant to Black Diamond's share option plan.

Subsequent to June 30, 2012, Black Diamond completed a 2.75 million common share issuance at \$22.15 per share for aggregate gross proceeds of \$60.9 million.

The following table summarizes Black Diamond's capitalization as at August 8, 2012:

Common shares	40.95 million
Stock options	3.58 million

### **Capital Expenditures**

For the Period, Black Diamond expended \$47.93 million (2011 – \$20.72 million) on additions to property and equipment. The additions consisted of:

- \$29.93 million (2011 – \$9.46 million) on workforce accommodation structures and ancillary equipment in the Camps division;
- \$9.53 million (2011 – \$2.20 million) on space rental structures and ancillary equipment in the BOXX division;
- \$8.29 million (2011 – \$4.28 million) on Energy Services accommodation structures and surface rental equipment; and
- \$0.18 million (2011 – \$4.78 million) on land, leasehold improvements, computers, furniture and service related equipment.

For the six months ended June 30, 2012, Black Diamond expended \$67.61 million (2011 – \$48.53 million) on additions to property and equipment. The additions consisted of:

- \$40.45 million (2011 – \$28.62 million) on workforce accommodation structures and ancillary equipment in the Camps division;

- \$13.51 million (2011 – \$6.07 million) on space rental structures and ancillary equipment in the BOXX division;
- \$11.78 million (2011 – \$7.94 million) on Energy Services accommodation structures and surface rental equipment; and
- \$1.86 million (2011 – \$5.90 million) on land, leasehold improvements, computers, furniture and service related equipment.

At June 30, 2012, Black Diamond had made capital expenditure commitments with key manufacturers of modular structures in the amount of \$64.6 million for delivery in 2012. It is management's intention to meet the funding requirements for these commitments through a combination of internally generated cash flow, the net funds received from the bought deal equity financing recently completed, and available funds from credit facilities.

The table below outlines the timing of payments for Black Diamond's contractual obligations.

(\$ millions)	Payments Due by Period			
	Total	Less than		After 5 years
		1 year	1-5 years	
Operating Leases	6.4	1.5	4.7	0.2
Asset Retirement Obligations	1.9	-	-	1.9
<b>Total Contractual Obligations</b>	<b>8.3</b>	<b>1.5</b>	<b>4.7</b>	<b>2.1</b>

## FINANCIAL INSTRUMENTS

All of Black Diamond's financial instruments as at June 30, 2012 relate to standard working capital accounts, credit facility items, an interest rate swap and an asset retirement obligation. 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 capital expenditure 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 GAAP. 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** refers to consolidated earnings before finance costs, tax expense, depreciation, amortization, accretion, foreign exchange, stock-based compensation, acquisition costs and non-controlling interest. 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 operation on a basis which excludes the impact of how it has been financed.

The following is a reconciliation of consolidated Net Income to EBITDA

For the three months ended June 30

(in thousands of dollars)

	2012	2011	\$ Change
Net income	10,976	9,385	1,591
Add:			
Depreciation and amortization	8,115	7,014	1,101
Finance costs	1,331	993	338
Deferred tax expense	2,352	3,129	(777)
Current income tax expense	1,617	19	1,598
Non-controlling interest	1,224	551	673
Foreign exchange gain - unrealized	(14)	(12)	(2)
Stock-based compensation	861	469	392
EBITDA	26,462	21,548	4,914

For the six months ended June 30  
(in thousands of dollars)

	2012	2011	\$ Change
Net income	24,019	19,280	4,739
Add:			
Depreciation and amortization	15,649	13,418	2,231
Finance costs	2,745	2,041	704
Deferred tax expense	3,392	6,793	(3,401)
Current income tax expense	4,737	36	4,701
Non-controlling interest	982	945	37
Foreign exchange gain - unrealized	(42)	(4)	(38)
Stock-based compensation	1,456	901	555
EBITDA	<u>52,938</u>	<u>43,410</u>	<u>9,528</u>

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

**Funds available for dividends** is calculated as the cash flow from operating activities excluding the changes in non-cash working capital adjusted for 1) maintenance capital expenditures made in the period, 2) funding of long term unfunded contractual obligations arising from operations and 3) restrictions on dividends arising from compliance with financial covenants at the date of the calculation. Growth capital expenditures are excluded from this calculation. 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 facility. 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  
(in thousands of dollars)

	2012	2011	\$ Change
Cash Flow from Operating Activities	23,443	14,613	8,830
Add:			
Book value of used fleet sales to operating activities	(1,400)	(1,667)	267
Changes in non-cash working capital	2,802	8,583	(5,781)
Funds available for dividends	<u>24,845</u>	<u>21,529</u>	<u>3,316</u>

For the six months ended June 30  
(in thousands of dollars)

	2012	2011	\$ change
Cash Flow from Operating Activities	43,240	8,908	34,332
Add:			
Book value of used fleet sales to operating activities	(3,458)	(3,398)	(60)
Changes in non-cash working capital	8,419	37,864	(29,445)
Funds available for dividends	<u>48,201</u>	<u>43,374</u>	<u>4,827</u>

**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 (excluding debt and amounts recorded in respect of capital expenditures).

**Funded Debt** is calculated as all interest bearing debt.

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, 2011 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.

## **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 GAAP.

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, 2012 and ended on June 30, 2012 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, 2011 is available on SEDAR at [www.sedar.com](http://www.sedar.com).