

NEWS RELEASE

August 14, 2007

**BLACK DIAMOND INCOME FUND REPORTS RESULTS OF OPERATIONS FOR THE  
THREE MONTH PERIOD ENDED JUNE 30, 2007**

**Calgary, Alberta** — (TSX: BDI.UN) Black Diamond Income Fund (“Black Diamond” or the “Fund”) is pleased to announce the results of operations for the three month period ended June 30, 2007.

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

*This Management’s Discussion and Analysis (“MD&A”) was prepared as of August 14, 2007 and is provided to assist readers in understanding Black Diamond Income Fund’s financial performance for the three and six months ended June 30, 2007 and significant trends that may affect future performance of the Fund. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2007 and related notes. As well, this discussion and analysis of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements of the Fund as at and for the period from inception on September 26, 2006 to December 31, 2006 and related notes and the MD&A for that period contained in the 2006 annual report as well as the Fund’s Annual Information Form (“AIF”). The accompanying consolidated financial statements of Black Diamond Income Fund are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The Fund’s units trade on the Toronto Stock Exchange under the symbol “BDI.UN”.*

*Additional information relating to Black Diamond Income Fund, including the AIF, may be found on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).*

*This MD&A may contain certain "forward looking statements". These statements relate to future events or future performance and reflect our expectations and belief regarding our growth, results of operations, performance, business prospects, opportunities, industry performance and trends. These forward looking statements reflect our current internal projections, expectations or beliefs and are based on information currently available to us. In some cases, forward looking statements can be identified by words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these words or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. Actual results may differ materially from any forward looking statement. Although we believe that the forward looking statements contained in this MD&A are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A, and we do not assume any obligation to update or revise them to reflect new events or circumstances, except as required pursuant to applicable securities laws.*

## OVERVIEW OF THE FUND

Black Diamond Income Fund (the “Fund”) is an unincorporated, open-ended trust established under the laws of the Province of Alberta and was created by the Fund Trust Indenture dated August 16, 2006. The Fund was established to complete an initial public offering (the “Offering”) of Units and to indirectly acquire (the “Acquisition”) certain assets and liabilities and the business operations of Black Diamond Leasing Inc. (the “Business”). Following conversion of some exchangeable partnership units to trust units in April and June 2007, the Fund holds, indirectly, 77.9% of the limited partnership units of Black Diamond Limited Partnership (the “Black Diamond Partnership”), a limited partnership established under the laws of Alberta. Black Diamond Commercial Trust (the “Commercial Trust”) is an unincorporated, open-ended trust established under the laws of the Province of Alberta created under a Trust Indenture dated August 16, 2006. The Commercial Trust was established to acquire and hold units of the Black Diamond Partnership. Principals of Black Diamond Leasing Inc. own the remaining 22.1% interest in the Black Diamond Partnership through their ownership of Exchangeable Partnership Units. Black Diamond Group Inc. (the “Manager”) is a wholly owned subsidiary of the Fund incorporated under the laws of the Province of Alberta. The Manager was created to act as the general partner of Black Diamond Partnership and the administrator of the Fund and the Commercial Trust.

On September 26, 2006, the Fund, in conjunction with the acquisition of the Business, completed the Offering of trust units for \$10 per trust unit. The gross proceeds from the Offering were \$35 million. The net proceeds of \$32.1 million were used as follows: \$15 million to purchase shares held by shareholders of Black Diamond Leasing Inc., \$17 million in the repayment of debt facilities assumed upon the acquisition of the Business, and the remainder as an addition to working capital.

On April 18, 2007, the Fund completed a secondary Offering of 1,650,000 trust units for \$8.90 per trust unit. The gross proceeds from the Offering were \$14.68 million. Net proceeds of the financing were used to finance the Fund’s growth capital expansion including the Canadian Natural Resources Horizon Oilsands camp expansion, a workforce accommodation fleet acquisition, a Southern Ontario space rentals fleet acquisition and for general working capital purposes.

The Fund has structured its operations in three principal business segments – Workforce Accommodations, Space Rentals and Site Services.

Workforce Accommodations provides modular structures designed for remote site accommodation. The structures when assembled together form large dormitories, kitchen/diner facilities, recreation complexes, drill camps, completions camps, free standing sleepers, geologist/engineer quarters and staff quarters. The majority of the equipment in this segment operates in Alberta.

Space Rentals provides high quality, cost effective modular space solutions to a diverse customer base in Alberta and Southern Ontario. The structures provided include office units, guard kiosks, storage units, office complexes, training facilities and custom manufactured structures.

Site Services repairs, installs, dismantles and renovates modular buildings. These services are provided to modular building fleet operators in Alberta and Northeastern British Columbia. In addition, these services are provided to the Workforce Accommodation and Space Rental customers as part of turnkey solutions.

## **SECOND QUARTER 2007 HIGHLIGHTS**

Results of the Fund for the second quarter were positive and in line with management's expectations. The results reflect continued strong demand for the Fund's fleet of modular structures used for both Workforce accommodations and temporary space rentals in all the markets in which the Fund operates.

Notable activities for the period include the following:

- In April, the Fund completed a secondary Offering of 1,650,000 trust units for \$8.90 per trust unit. The gross proceeds from the Offering were \$14.68 million. Net proceeds of the financing were used to finance the Fund's growth capital expansion including the Canadian Natural Resources Horizon Oilsands camp expansion, a Workforce Accommodation fleet acquisition, a Southern Ontario Space rentals fleet acquisition and for general working capital purposes.
- An increase of the Fund's credit facilities. Aggregate facilities in the amount of \$45 million replace the previous aggregate \$32 million facility. The credit facilities consist of a \$5 million Committed Revolving Operating Facility (increased from \$2 million) and a \$40 million Committed Capital Expenditure facility (increased from \$30 million). There is an additional \$10 million accordion feature allowing the Fund to further increase the capital expenditure facility upon request and approval as required.
- An expanded capital expenditure program for 2007 was announced increasing the capex budget by \$12 million. The increase was necessary in order for the Fund to meet continued strong demand for its rental products. Approximately \$7 million of the additional capital will be allocated to the Workforce Accommodation division with the remainder going to the Fund's Space Rentals division. The majority of the new equipment being ordered will be delivered from manufacturers in the fourth quarter of 2007 with the balance expected in early 2008. The Fund will use existing debt facilities and cashflow to fund these additional expenditures.
- In June, the Fund announced that it has been awarded an additional camp expansion contract by Canadian Natural Resources Limited for their Horizon Oilsands development project near Fort McMurray, Alberta. The major camp expansion will utilize modular dormitory complexes. The Fund will provide facilities on a rental basis for single occupancy accommodation of 595 people. As part of the contract, the Fund will be responsible for the mobilization, assembly and interconnection of these facilities. Initial mobilization started in June 2007 with full occupancy is anticipated on or before the end of July 2007. The Fund will use a combination of existing fleet assets and new manufactured equipment to meet this requirement. This award is in addition to the previously announced 1,027 person Horizon Camp expansion contract awarded earlier in the year.

See table below for selected financial and operational information for the Fund.

## 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 interim consolidated financial statements for Black Diamond Income Fund for the three and six month periods ended June 30, 2007. Prior year comparative amounts are not presented as the Fund commenced operations on September 26, 2006.

	Three months ended June 30, 2007	Six months ended June 30, 2007
	\$	\$
<b>Financial Highlights</b>		
Total Revenue	9,344,357	16,350,408
Gross profit (1)	5,060,300	10,122,315
Gross profit %	54%	62%
Selling, general & administrative	1,156,408	2,226,853
Selling, general & administrative %	12%	14%
EBITDA (1)	3,860,173	7,833,413
EBITDA %	41%	48%
Net earnings before taxes	2,102,327	4,399,364
Capital expenditures	4,687,376	14,425,550
Property, Plant & Equipment (net)	57,333,445	57,333,445
Total assets (as at period end)	105,896,926	105,896,926
Long Term Debt	14,419,888	14,419,888
<b>Reconciliation of Net earnings to EBITDA (1)</b>		
Net earnings	(7,193,613)	(4,896,576)
Adjustments to net earnings:		
Depreciation & amortization	1,504,536	2,867,263
Interest expense	253,310	566,786
Future income taxes	9,295,940	9,295,940
EBITDA	3,860,173	7,833,413
<b>Operational Highlights (unaudited)</b>		
Workforce Accommodation units in operation at end of period	559	559
Average units in operation for the period	414	442
Average utilization	76%	83%
Space Rental units in operation at end of period	668	668
Average units in operation for the period	563	498
Average utilization	86%	86%

Note:

- (1) EBITDA and Gross Profit are not recognized measures of GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and Gross Profit may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" for further details.

## **RESULTS OF OPERATIONS**

Prior year comparative amounts are not presented as the Fund commenced operations on September 26, 2006

### **Revenue**

Consolidated revenues generated for the second quarter of 2007 (hereafter referred to as the "Period") were \$9.34 million. For the six months ended June 30, 2007 revenues were \$16.35 million.

Workforce accommodation revenues were \$6.98 million (74.7% of revenues) for the Period and \$12.42 million (75.9% of revenues) for the six months ended June 30, 2007. Utilization of the workforce accommodation fleet averaged 76% for the Period ranging from a low of 73% during May to a high of 80% during June 2007. The utilization is a reflection of the type of equipment the Fund deploys as well as the longer term nature of the rental contracts the Fund has favored. The accommodation units have some seasonality to their usage with the drill camp fleet having a higher degree of utilization during the winter months. However, the Fund has taken a large degree of the seasonality out of its revenue generation due to longer term, paid monthly contracts that a significant portion of its drill camp fleet is contracted under. During the Period, the workforce accommodations division generated \$2.81 million (40.3%) of its revenues from the rental of its modular accommodation units. The remaining revenue of \$4.17 million (59.7%) was generated from transportation, installation, sub-lease and fleet sale activities. These non-rental streams of revenue do not employ any of the Fund's capital and therefore generate substantially lower margins. For the six months to June 30, 2007, the rental revenues generated by the workforce accommodations division was \$6.63 million (53.4%) while the other revenues generated in aggregate \$5.79 million (46.6%).

Revenues for the space rentals segment for the Period were \$2.02 million (21.7% of revenues). Space rentals revenue for the six months ended June 30, 2007 were \$3.20 million (19.6% of revenues). Utilization of the space rental fleet for both the three and six month period ended June 30, 2007 averaged 86%. Rental revenue for the Period for the space rentals division was \$1.25 million (61.9%) while revenue from other activities such as transportation, installation and the sub-lease of additional fleet represented \$0.77 million (30.1%). For the six month period, this split between rental revenues and other revenue streams for the space rental division was \$2.06 million (64.4%) and \$1.14 million (35.6%) respectively. The split in the rental revenues versus other revenue streams in the space rentals division does not fluctuate from period to period as much as can be seen in the workforce accommodations division.

The Fund's service division generated \$1.48 million of revenue for the Period and \$2.40 million for the six months ended June 30, 2007. 69% of this revenue is generated by providing service to the other divisions of the Fund and is eliminated on consolidation. The remaining 31% of the revenue is generated from third parties representing customers from across the workforce accommodation and space rental sectors. The service division represents less than 4% of the Fund's externally generated revenue, so the impact of lower drilling activity in western Canada earlier in the year has had a marginal impact on overall results.

### **Direct Costs & Gross Profit**

Direct costs were \$4.28 million for the Period resulting in a gross profit (see "Non-GAAP measures") of \$5.06 million or a gross profit margin of 54%. For the six months ended June 30, 2007, direct costs were \$6.23 million, resulting in a gross profit of \$10.12 million or a gross profit margin of 62%. Direct costs attributable to the revenues in arriving at the gross profit are the labor, fuel, freight and maintenance required in maintaining, servicing and moving the units to the contracted sites. In addition, there are often

opportunities for the Fund to sell some units from its fleet, rent equipment from third parties and re-rent the equipment, provide transportation services or to provide installation and other services to customers. The net book value of sold units, sub-lease costs of leased units and costs of transport from third parties are included in the direct costs. These ancillary revenue streams are generally at lower gross margins than the fleet rental operations. Therefore, depending on the level of revenue generated from these other activities in any given period, the gross profit margins may be affected. For the Period, approximately 57% of the consolidated Fund revenues were derived from these ancillary revenue streams which had gross profit margins ranging from 10% to 30%. For the six months to June 30, 2007, the level of revenues generated from these other areas amounted to 53% of the consolidated Fund revenues.

### **Selling, General & Administrative Costs**

Selling, general & administrative costs (“SG&A”) excluding stock based compensation charges for the Period were \$1.16 million (12% of revenue). For the six months ended June 30, 2007, SG&A was \$2.23 million (14% of revenue). Within this figure, personnel costs are the largest item representing approximately 45% of the SG&A while other significant items include occupancy costs and insurance combining for an additional 20% of the SG&A. The remaining 35% of SG&A consists of charges for items such as audit, legal, travel, meals & entertainment, bank charges and promotional items. As at June 30, 2007, the Fund employed 19 people in sales and administrative positions.

Stock-based compensation charges are also reported separately from the SG&A and represented \$0.04 million for the Period and \$0.06 million for the six months ended June 30, 2007. Stock based compensation was determined using the Black-Scholes valuation method for options granted. The assumptions used in the valuation of options granted in the Period were as follows: Dividend yield of 11.11%, average volatility of 42%, risk-free rate of 4% and an expected life of 5 years. This resulted in a value per option granted in the Period of \$1.25.

### **EBITDA**

The Fund’s Earnings before Income Taxes, Depreciation and Amortization (“EBITDA” see “Non-GAAP measures”) was \$3.86 million for the Period. This represents an EBITDA margin of 41%. For the six months ended June 30, 2007 EBITDA was \$7.83 million representing an EBITDA margin of 48%. As noted above, this margin will fluctuate from period to period depending on the level and mixture of the revenues generated from the rental of the fleet assets as compared to the ancillary revenue streams such as transportation, installation, sublease and services provided.

### **Depreciation & Amortization**

For the Period, the charge for depreciation and amortization was \$1.50 million. This included charges of \$1.26 million with respect to depreciation taken on the property and equipment of the Fund and \$0.24 million relating to the amortization of the intangible assets. For the six months ended June 30, 2007 depreciation and amortization was \$2.87 million. The intangible assets were valued and booked in respect of the purchase of the business from Black Diamond Leasing Inc. at the time of the initial public offering and have estimated useful lives ranging from 4 to 20 years.

### **Interest Expense**

Interest expense for the Period was \$0.25 million and was \$0.57 million for the six months ended June 30, 2007. This represents interest that was charged on the credit facilities that were drawn down in the respective periods.

## Income Taxes

On June 22, 2007, Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007 ("Bill C-52 Amendments"), was enacted as legislation in Canada. Bill C-52 Amendments implement proposals originally announced on October 31, 2006 relating to the taxation of certain distributions from certain trusts and partnerships. Bill C-52 Amendments apply commencing January 1, 2007 to all "specified investment flow-through" ("SIFT") trusts that began to be publicly traded after October 2006 and after January 1, 2011 for all SIFT trusts that were previously publicly traded, subject to the possibility that a SIFT that was already publicly traded before November 2006 may become subject to the new rules before January 1, 2011 if the trust experiences growth, other than "normal growth", before then. Bill C-52 Amendments incorporate guidelines with respect to what is meant by "normal growth".

The Fund will likely be characterized as a SIFT trust under Bill C-52 Amendments. As a result, commencing in January 2011 (provided that the Fund experiences only "normal growth" and no "undue expansion" before then) the Fund will be liable for tax at the "net corporate income tax rate" combined with the "provincial SIFT tax factor" (effectively, the federal general corporate tax rate of 18.5% plus 13% on account of provincial corporate tax) on all income payable to Unitholders, which the Fund will not be able to deduct as a result of being characterized as a SIFT trust.

Pursuant to the October 31, 2006 Proposals, a SIFT trust will be prevented from deducting any part of the amounts payable to Unitholders in respect of: (i) income (other than dividends that the Fund could, if it were a corporation, deduct under the Tax Act) from its non-portfolio properties; and (ii) taxable capital gains from its dispositions of non-portfolio properties. As such, certain distributions from the Fund which would have otherwise been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at the Fund level. Returns of capital generally are (and will continue to be) tax-deferred for Unitholders who are resident in Canada for purposes of the Tax Act (and reduce such Unitholder's adjusted cost base in the Units for purposes of the Tax Act).

The Fund has made provision for the future tax liability associated with the above amendments in the SIFT taxation. For the Period and for the six months ended June 30, 2007, the Fund incurred an income tax provision of \$9.30 million. There is no current portion of this charge, and as such has been reflected as a future tax liability on the balance sheet. This liability arises due to the differences in the book value and the tax value of the assets held by the Fund that are expected to reverse after 2010. The rate this liability and expense has been calculated at is the enacted tax rate of 31.5%.

## SUMMARY OF QUARTERLY RESULTS

The Fund completed its IPO on September 26, 2006. Results for the comparable period in prior years are not available. The following is a summary of results for the quarterly periods since the Fund's initial public offering:

(Expressed in thousands of \$'s, except for per unit amounts)

	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>
	\$	\$	\$
Revenue	9,344	7,006	5,609
Net Earnings (Loss)	(7,194)	2,297	1,052
Per Unit - basic and diluted	(0.80)	0.30	0.14

The Fund's operations are mainly carried out in Western Canada. The oilfield service industry's ability to move heavy equipment in exploration and production areas is dependent on weather conditions. With the onset of spring, melting snow together with frost coming out of the ground renders many secondary roadways incapable of supporting heavy equipment until sufficient time has passed for them to dry out. In addition, certain exploration areas in Canada are typically only accessible during winter months, when the surface is frozen enough to support heavy equipment. As a result, activity levels of the Fund have been directly impacted by this seasonality, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters. However, the Fund has targeted the reduction of this seasonal impact by contracting with our customers for longer term, paid monthly contracts. The reliance on contracts utilizing day rates which would subject the Fund to a larger degree of seasonality has been significantly reduced.

## **DISTRIBUTABLE CASH FROM OPERATIONS**

The Fund declared distributions to unitholders of \$2.34 million during the Period and \$4.26 million for the six months ended June 30, 2007. This is \$0.25 per unit for the Period, or the equivalent of \$1.00 per unit on an annualized basis. A summary of the distributions declared is as follows:

January 2007	\$641,410
February 2007	641,410
March 2007	641,410
April 2007	778,855
May 2007	778,855
June 2007	778,855
Total	<u>\$4,260,795</u>

Distributable cash from operations (see "Non-GAAP measures") for the three and six month periods ended June 30, 2007 was \$3.65 million and \$6.52 million respectively after deducting the maintenance capital expenditures of \$0.03 million and \$0.10 million for those respective periods. Maintenance capital expenditures are capital expenditures incurred during the period to maintain existing levels of productive capacity and service or expenditures that were incurred to enhance the operational life of existing property and equipment. Growth capital expenditures are excluded from this calculation. On a go forward basis, management expects that future maintenance capital requirements of the Fund will trend toward five percent of the revenue received from the rental of the fleet units.

Distributions declared represent 64% of Distributable Cash from Operations (see "Non-GAAP measures"). The Fund has not developed a policy for distributions as a percentage of Distributable Cash from Operations as defined. Management is focused on the distributions as a percentage of Funds Flow from Operations (see "Non-GAAP measures"). Changes in non-cash working capital balances will be a source of cash in one period and a use of cash in another depending on changes in the level of activity in a particular period and other factors.

Management believes Funds Flow from Operation (see "Non-GAAP measures") is more indicative of the cash generated by the operations in a period which would be available for distribution to unitholders. Funds Flow from Operations for the three and six month periods ended June 30, 2007 was \$3.62 million and \$7.23 million after adjusting for maintenance capital as defined above. Distributions for the Period represent 65% of Funds Flow from Operations.



With regards to the Fund's strategy and maintaining the debt component of its capital structure, management intends to utilize its credit facilities to fund future capital growth. Operating within the covenants of the credit facility, management expects to be able to finance the addition of rental units into its fleet for operations growth and thus enhance the generation of Funds Flow from Operations. With increased cash retention in the business as a result of the decline in the payout ratio of the Fund, future capital expenditures shall be financed through a combination of excess Funds Flow from Operations and the use of the Fund's credit facilities.

See "Risks and Uncertainties" for a discussion on the changes in tax legislation in Canada and how they may impact the Fund's generation of Distributable Cash from Operations.

## **LIQUIDITY & CAPITAL RESOURCES**

As of June 30, 2007, the Fund had a working capital surplus balance of \$2.57 million. The Fund also has an operating credit facility of \$5.0 million and an acquisition credit facility of \$40.0 million. In addition, the credit facility of the Fund has a \$10 million accordion feature allowing the Fund to further increase the acquisition credit facility upon request and approval as required. As at June 30, 2007, the Fund had not drawn on the operating credit facility and had drawn down on the acquisition facility in the amount of \$14.4 million. Both facilities are charged interest based on the previous quarter's funded debt to EBITDA ratio. As at June 30, 2007 the interest rate applied to amounts drawn on the acquisition facility was 6.845%. Both facilities are interest-only with no principal obligations. At June 30, 2007, the Fund has issued a standby letter of credit in the amount of \$1.66 million. This is to provide security over production commitments made with one of the Fund's primary suppliers. The Fund does not anticipate any covenant violations or restrictions in the future financing of its operations and capital expenditure programs.

At June 30, 2007, the Fund had the equivalent of 9.35 million units outstanding. This was a combination of 7.28 million Fund units issued and 2.07 million exchangeable partnership units outstanding which are exchangeable into Fund units at a rate of 1 exchangeable partnership unit for 1 Fund unit. In addition, the Fund had issued 623,620 options pursuant to its Trust unit option plan established in September 2006 in conjunction with the IPO.

On April 18, 2007, the Fund closed a bought deal financing, including an over allotment option, for 1,650,000 trust units at a price of \$8.90 per trust unit for gross proceeds of \$14.68 million. Net proceeds of approximately \$13.7 million were received. The Fund utilized these net proceeds to repay certain indebtedness under the Fund's credit facilities.

Management believes that the ongoing cash generated from operations will be sufficient to allow it to meet ongoing requirements for maintenance costs, SG&A costs, interest costs incurred as well as distributions to unitholders. The Fund's actual cash generated from operations will be dependent upon future financial performance, which in turn will be subject to financial, business and other factors, including elements beyond Black Diamond's control. Management also believes that, dependent on capital market conditions, the Fund has the ability to raise additional capital through the public and or private issuance of additional units, if required.

## **Outstanding Unit Data**

The following table summarizes Black Diamond's capitalization as at August 14, 2007:

Trust units	7,281,589
Exchangeable partnership units	2,068,411
Trust unit options	623,620

The exchangeable partnership units are convertible into Fund units at the option of the holder at any time prior to September 26, 2011 on the basis of one exchangeable partnership unit for each Fund unit.

## **Capital Expenditures**

For the Period, the Fund expended \$4.69 million on additions to property and equipment. The additions to the property and equipment consisted of:

- \$2.21 million on workforce accommodation structures and ancillary equipment rented along with these units
- \$2.46 million on space rental structures with some ancillary equipment rented along with these units
- \$0.02 million on computers, furniture and service related equipment.

For the six months to June 30, 2007, the Fund expended \$14.43 million on additions to property and equipment. The additions to the property and equipment consisted of:

- \$6.66 million on workforce accommodation structures and ancillary equipment rented along with these units
- \$7.59 million on space rental structures with some ancillary equipment rented along with these units
- \$0.18 million on computers, furniture and service related equipment

At June 30, 2007, the Fund had made capital expenditure commitments with key manufacturers of modular structures in the amount of \$22 million for delivery throughout the remainder of 2007 and early part of 2008. It is Management's intention to meet the funding requirements for these commitments through a combination of internally generated cash flow and available funds from credit facilities.

## **FINANCIAL INSTRUMENTS**

All of the Fund's financial instruments as at June 30, 2007 relate to standard working capital and credit facility items. There are no significant differences between the carrying value of these financial instruments and their estimated fair values. There are no unusual off balance sheet arrangements and the Fund does not use any financial instruments such as derivatives. Of Black Diamond's financial instruments, only accounts receivable represents credit risk, and Management views the credit risk related to accounts receivable as minimal.

## **RELATED PARTY TRANSACTIONS**

During the period, the Fund did not conduct any operational business with any related parties. As a result of the payment for the business acquired from Black Diamond Leasing Inc. and the transition of the cash management at the time of the purchase transaction, as well as the accrued distribution owing at December 31, 2006 on the Exchangeable Partnership Units, the Fund owed Black Diamond Leasing Inc. \$0.88 million at December 31, 2006. The funds were repaid in full and an additional \$0.05 million advanced from the Fund during the first quarter of 2007. This additional advance was repaid in the current period with the result being no balance owing between the entities at June 30, 2007. Black Diamond Leasing Inc. is related to the Fund due to the common members of the Board of Directors of that entity and the Fund.

## **CRITICAL ACCOUNTING POLICIES & ESTIMATES**

The preparation of financial statements in accordance with GAAP requires management to make assumptions and estimates that can have a material impact on the results of operations as reported on a periodic basis. Management believes that the accounting estimates that are critical to the financial statements relate to property and equipment, intangible assets, goodwill, unit based compensation and the determination of depreciation and amortization expense.

The value of property and equipment, intangible assets and goodwill is subject to market conditions in the industry sectors in which the Fund operates. Unit based compensation expense, associated with unit options at the date of grant, is subject to changes in the variables used in the valuation of the options such as changes in the risk free rate, unit price volatility and distribution yields. This estimate may vary due to changes in the actual unit price. Depreciation and amortization is determined using the estimated useful lives of the assets. These estimates could change due to a number of factors including unusual wear and tear, technology, change in economic circumstances and obsolescence. Such changes could have a material effect on the amount of future depreciation expense. See the notes to the consolidated financial statements for a schedule outlining the depreciation policies of the Fund.

While management applies judgment based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

## **NON-GAAP MEASURES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ('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 interest expense, tax expense and depreciation and amortization. Black Diamond uses EBITDA primarily as a measure of operating performance.

Management feels that the 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:

	Three months ended June 30, 2007	Six months ended June 30, 2007
Net loss	\$(7,193,613)	\$(4,896,576)
Add:		
Depreciation and amortization	1,504,536	2,867,263
Interest	253,310	566,786
Future income taxes	9,295,940	9,295,940
EBITDA	<u>\$3,860,173</u>	<u>\$7,833,413</u>

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

**Distributable Cash from Operations** is calculated as the cash flow from operating activities and 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 distributions arising from compliance with financial covenants at the date of the calculation. Maintenance capital expenditures are capital expenditures incurred during the period to maintain existing levels of productive capacity and service or expenditures that were incurred to enhance the operational life of existing property and equipment. Growth capital expenditures are excluded from this calculation.

The following is a reconciliation of Cash Flow from Operating Activities to Distributable Cash from Operations:

	Three months ended June 30, 2007	Six months ended June 30, 2007
Cash Flow from Operating Activities	\$3,677,397	\$6,614,650
Deduct:		
Maintenance capital expenditures	(32,160)	(98,555)
Distributable Cash from Operations	<u>\$3,645,237</u>	<u>\$6,516,095</u>

**Funds Flow from Operations** is calculated as the cash flow from operating activities excluding the changes in non-cash working capital and 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 distributions arising from compliance with financial covenants at the date of the calculation. Maintenance capital expenditures are capital expenditures incurred during the period to maintain existing levels of productive capacity and service or expenditures that were incurred to enhance the operational life of existing property and equipment. Growth capital expenditures are excluded from this calculation. Management believes that Funds Flow from Operations 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

Fund's operating line of credit facility. Funds not distributed are then available for re-investing in the business and funding the growth of the Fund.

The following is a reconciliation of Cash Flow from Operating Activities to Funds Flow from Operations:

	Three months ended June 30, 2007	Six months ended June 30, 2007
Cash Flow from Operating Activities	\$3,677,397	\$6,614,650
Deduct:		
Changes in non-cash working capital	(26,815)	714,026
Maintenance capital expenditures	(32,160)	(98,555)
Funds Flow from Operations	<u>\$3,618,422</u>	<u>\$7,230,121</u>

**Gross Profit** refers to revenues less direct costs prior to the deduction of selling, general and administrative costs, interest expense, tax expense, depreciation and amortization and any gains or losses on disposal of assets. Management believes that, in addition to net earnings, Gross Profit is a useful supplemental measure as it provides information of the contribution to earnings from the Fund's principal business activities.

The following is a reconciliation of the consolidated Net Loss to Gross Profit:

	Three months ended June 30, 2007	Six months ended June 30, 2007
Net Loss	(\$7,193,613)	(\$4,896,576)
Add:		
Future income tax expense	9,295,940	9,295,940
Selling, general & administrative expenses	1,156,408	2,226,853
Amortization of property and equipment	1,256,986	2,372,312
Amortization of intangibles	247,550	494,951
Interest on long term debt	253,310	566,786
Unit-based compensation	43,719	62,049
Funds Flow from Operations	<u>\$5,060,300</u>	<u>\$10,122,315</u>

**Payout Ratio** is calculated as the distributions declared for the period divided by the Funds Flow from Operations.

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 the Company's performance or cash flows, a measure of liquidity or as a measure of actual return on the Units. These Non-GAAP measures should only be used in conjunction with the consolidated financial statements of Black Diamond Income Fund.

## **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 the business' financial condition, results of operations or cash flow, and therefore possibly on the cash available for distribution. Additional risks and uncertainties that management may be unaware of may become important factors which affect the Fund. Additional information regarding the business risks faced by Black Diamond is outlined in the Fund's 2006 Annual Report and Annual Information Form.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Fund's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Fund's disclosure controls and procedures to provide reasonable assurance that material information related to the Fund is made known to them. The Fund conducted a review and evaluation of the effectiveness of the Fund's disclosure controls and procedures. The Chief Executive Officer and Chief Financial Officer conclude that as at June 30, 2007 the Fund's disclosure controls and procedures are adequate to provide reasonable assurance that material information related to the Fund is made known by others within the Fund. All material information with respect to the operations and transactions of the Fund is effectively communicated to allow timely decisions regarding required disclosure.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

For the three months ended June 30, 2007, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **OUTLOOK**

Our outlook for the balance of the year remains positive. Management anticipates that the Fund will generate third quarter revenues at similar levels to the second quarter. Rental revenues are expected to be sequentially higher due to an increase in the size of the Fund's rental fleets and increased utilization in the Black Diamond Camps Division. Due to the absence of a large installation project such as the Fund had during the second quarter with the install of the accommodations for the Canadian Natural Resources Limited Horizon Oilsands development project, operations related revenue, as a percentage of total revenue, is expected to be lower than in the second quarter. Based on this anticipated revenue mix, Management believes that average gross margins and EBITDA margins will be higher in the third quarter than in the second quarter.

On a consolidated basis the Fund averaged 79.7% utilization for the second quarter. Management believes that this is indicative of the stability that the Fund can achieve on an ongoing basis. This stability comes from the long term paid monthly contracts which Management continues to favor for deployment of the Fund's workforce accommodations assets and from the very steady performance of the space rentals business. Based on the rental contracts currently in place, Management is confident that the Fund will continue to achieve high average utilization rates for its rental assets over the next several quarters.

The Fund has approximately \$22 million of committed capital expenditures outstanding at the end of the second quarter. Substantially all of this capital expenditure is for rental fleet equipment additions with deliveries scheduled throughout the remaining two quarters of 2007 and a small amount to be incurred in the first quarter of 2008. The majority of these expenditures are targeted to increasing the large workforce accommodation component of our Black Diamond Camps fleet and towards increasing the size of both the Alberta and Ontario space rentals fleets of BOXX Modular. Based on these commitments it is anticipated that the Fund's total rental units at the close of 2007 will be 1,516 consisting of 691 workforce housing units and 825 space rentals units. Management is confident that there is sufficient demand from current and prospective customers to ensure adequate market absorption of this additional equipment.

Management does not foresee any meaningful deterioration of the Fund's business occurring now or in the near future related to the prolonged slow down of natural gas drilling in Western Canada. The Fund has modest exposure to conventional drilling as compared to its other sources of revenue. It is anticipated that over 65% of the Fund's revenue in the third quarter will be derived from oil sands related projects. The remaining revenue will come from non-oil sands related construction, conventional oil and gas, and various commercial projects.

Management feels that the Fund can continue to grow through the balance of this year and into 2008 and that this growth can be achieved without encountering any reduction in utilization or average rental rates. Furthermore, Management is confident that the Fund will continue to generate distributable cash adequate to maintain current monthly distributions while meeting its objective of having an annualized payout ratio of less than 60%.

Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) or at the Fund's website at [www.blackdiamondincomefund.com](http://www.blackdiamondincomefund.com).

"Trevor Haynes"

Trevor Haynes  
President &  
Chief Executive Officer

"Michael Burnyeat"

Michael Burnyeat  
Vice President Finance &  
Chief Financial Officer

**Black Diamond Income Fund**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

As at

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	\$	\$
<b>ASSETS</b> <i>[notes 5 &amp; 6]</i>		
<b>Current</b>		
Cash	444,113	451,390
Accounts receivable <i>[note 11]</i>	5,924,764	4,699,171
Prepaid expenses	658,406	264,341
	<u>7,027,283</u>	<u>5,414,902</u>
Property and equipment <i>[note 3]</i>	57,333,445	45,280,207
Intangibles <i>[note 4]</i>	12,220,108	12,706,270
Goodwill	29,316,090	29,316,090
	<u>105,896,926</u>	<u>92,717,469</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	3,674,722	2,427,818
Distributions payable <i>[note 9]</i>	778,855	641,410
	<u>4,453,577</u>	<u>3,069,228</u>
Long-term debt <i>[note 6]</i>	14,419,888	15,669,888
Due to related party <i>[note 12]</i>	—	882,841
Future income taxes <i>[note 13]</i>	9,295,940	—
	<u>28,169,405</u>	<u>19,621,957</u>
Commitments <i>[note 15]</i>		
<b>Unitholders' equity</b>		
Trust units and exchangeable partnership units <i>[note 7]</i>	87,766,625	74,039,294
Contributed surplus <i>[note 8]</i>	75,923	13,874
Accumulated loss, after accumulated distributions	(10,115,027)	(957,656)
	<u>77,727,521</u>	<u>73,095,512</u>
	<u>105,896,926</u>	<u>92,717,469</u>

*See accompanying notes to the consolidated financial statements*



**Black Diamond Income Fund**  
**CONSOLIDATED STATEMENTS OF**  
**LOSS, COMPREHENSIVE LOSS AND ACCUMULATED LOSS**  
**(Unaudited)**

	<b>Three months ended June 30, 2007 \$</b>	<b>Six months ended June 30, 2007 \$</b>
<b>Revenue</b>	9,344,357	16,350,408
<b>Direct costs</b>	4,284,057	6,228,093
	<u>5,060,300</u>	<u>10,122,315</u>
<b>Expenses</b>		
Selling, general and administrative costs	1,156,408	2,226,853
Amortization of property and equipment	1,256,986	2,372,312
Amortization of intangibles	247,550	494,951
Interest on long-term debt	253,310	566,786
Unit-based compensation <i>[note 7]</i>	43,719	62,049
	<u>2,957,973</u>	<u>5,722,951</u>
<b>Net earnings before income taxes</b>	2,102,327	4,399,364
Future income tax expense <i>[note 13]</i>	9,295,940	9,295,940
<b>Net loss and comprehensive loss for the period</b>	(7,193,613)	(4,896,576)
Accumulated loss, beginning of period	(584,849)	(957,656)
Distributions declared <i>[note 9]</i>	(2,336,565)	(4,260,795)
<b>Accumulated loss, end of period</b>	<u>(10,115,027)</u>	<u>(10,115,027)</u>
<b>Loss per unit <i>[note 7]</i></b>		
Basic and diluted	(0.80)	(0.58)

*See accompanying notes to the consolidated financial statements*

**Black Diamond Income Fund**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Three months ended June 30, 2007 \$	Six months ended June 30, 2007 \$
<b>Operating activities</b>		
Net loss for the period	(7,193,613)	(4,896,576)
Add non-cash items:		
Amortization of property and equipment	1,256,986	2,372,312
Amortization of intangibles	247,550	494,951
Future income taxes	9,295,940	9,295,940
Unit-based compensation expense	43,719	62,049
	3,650,582	7,328,676
Change in non-cash working capital related to operating activities <i>[note 10]</i>	26,815	(714,025)
	3,677,397	6,614,651
<b>Investing activities</b>		
Purchase of property and equipment (net)	(4,687,376)	(14,425,550)
Additions to intangibles	—	(8,789)
Change in non-cash working capital related to investing activities <i>[note 10]</i>	(2,181,025)	(404,125)
	(6,868,401)	(14,838,464)
<b>Financing activities</b>		
Proceeds from long-term debt	2,000,000	8,750,000
Repayment of long-term debt	(10,000,000)	(10,000,000)
Net proceeds from issuance of units	13,727,331	13,727,331
Distribution payments	(2,199,120)	(4,123,350)
Change in non-cash working capital related to financing activities <i>[note 10]</i>	(137,445)	(137,445)
	3,390,766	8,216,536
<b>Increase (decrease) in cash</b>	199,762	(7,277)
Cash, beginning of period	244,351	451,390
<b>Cash, end of period</b>	444,113	444,113

*See accompanying notes to the consolidated financial statements*

## **1. ORGANIZATION AND NATURE OF BUSINESS**

Black Diamond Income Fund (the “Fund”) is an unincorporated, open-ended trust established under the laws of the Province of Alberta and was created by the Fund Trust Indenture dated August 16, 2006. The Fund was established to complete an initial public offering (the “Offering”) of Units and to indirectly acquire (the “Acquisition”) certain assets and liabilities and the business operations of Black Diamond Leasing Inc. (the “Business”). The Fund holds, indirectly, 77.9% of the limited partnership units of Black Diamond Limited Partnership (the “Limited Partnership”), a limited partnership established under the laws of Alberta. Principals of Black Diamond Leasing Inc. own the remaining 22.1% interest in the Limited Partnership through their ownership of Exchangeable Partnership Units. Black Diamond Group Inc. (the “Manager”) is a wholly owned subsidiary of the Fund incorporated under the laws of the Province of Alberta. The Manager was created to act as the general partner of Black Diamond Partnership and the administrator of the Fund.

The Fund rents and sells modular structures for use as workforce housing and provides temporary office space rentals and site services to various industries.

The Fund’s operations are mainly carried out in Western Canada. The oilfield service industry’s ability to move heavy equipment in exploration and production areas is dependent on weather conditions. With the onset of spring, melting snow together with frost coming out of the ground renders many secondary roadways incapable of supporting heavy equipment until sufficient time has passed for them to dry out. In addition, certain exploration areas in Canada are typically only accessible during winter months, when the surface is frozen enough to support heavy equipment. As a result, the activity levels of the Fund are directly impacted by the seasonality, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters.

As the Fund completed its initial public offering in September of 2006, results for the comparable period in the prior year is not available.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The unaudited interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the period ended December 31, 2006, except as noted below and for the fact that certain disclosures required in annual financial statements have been condensed or omitted. Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the Fund’s audited consolidated financial statements and notes thereto as at and for the period from inception to December 31, 2006. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations. Accordingly, actual results could differ significantly from those estimates.

## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

As of January 1, 2007 the Fund adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506, “Accounting Changes”; Section 1530, “Comprehensive Income”; Section 3251, “Equity”; Section 3855, “Financial Instruments – Recognition and Measurement”; Section 3861, “Financial Instruments – Disclosure and Presentation”.

CICA Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The application of this revised standard did not result in comprehensive earnings (loss) being different from net earnings for the period presented. Should the Fund recognize any other comprehensive income in the future, the cumulative changes in other comprehensive income would be recognized in accumulated other comprehensive income which would be presented as a new category within unitholders equity on the balance sheet.

CICA Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.

Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.

All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

The application of CICA Section 3855 did not have any impact on the Fund’s consolidated financial statements.

CICA Section 1506, “Accounting Changes,” provides expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The application of this revised standard did not have a material impact on the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, the Fund has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Fund:

As of January 1, 2008, the Fund will be required to adopt a new CICA standard Section 1535, "Capital Disclosures" which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Fund is assessing the impact on its consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Fund continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

## 3. PROPERTY AND EQUIPMENT

	<b>June 30, 2007</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computers, furniture and service equipment	375,244	60,513	314,731
Space rentals fleet equipment	16,406,484	528,169	15,878,315
Workforce housing fleet equipment	42,389,633	2,279,231	40,110,402
Leasehold improvements	83,965	2,502	81,463
Deposit on equipment	948,534	—	948,534
	<b>60,203,860</b>	<b>2,870,415</b>	<b>57,333,445</b>

  

	<b>December 31, 2006</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computers, furniture and service equipment	260,787	18,098	242,689
Space rentals fleet equipment	8,789,588	128,755	8,660,833
Workforce housing fleet equipment	36,587,868	668,652	35,919,217
Leasehold improvements	3,962	—	3,962
Deposit on equipment	453,506	—	453,506
	<b>46,095,711</b>	<b>815,504</b>	<b>45,280,207</b>

Deposits on equipment are not subject to amortization.

#### 4. INTANGIBLES

	<b>June 30, 2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net book</b>
	\$	\$	value
			\$
Customers contracts	10,951,200	441,630	10,509,570
Supply commitments	2,002,400	300,357	1,702,043
Trademarks	8,788	293	8,495
	<b>12,962,388</b>	<b>742,280</b>	<b>12,220,108</b>

  

	<b>December 31, 2006</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net book</b>
	\$	\$	value
			\$
Customers contracts	10,951,200	147,210	10,803,990
Supply commitments	2,002,400	100,120	1,902,280
	<b>12,953,600</b>	<b>247,330</b>	<b>12,706,270</b>

#### 5. OPERATING FACILITY

The Fund has a revolving loan facility authorized to a maximum of \$5,000,000 or 75% of recoverable Canadian accounts receivable under 90 days old, accessible in multiples of \$100,000. The facility bears interest at bank prime plus 0.50% per annum (June 30, 2007 - effective rate of 6.50%) and is payable on demand. The facility is collateralized by a general security agreement, general assignment of book debts, promissory notes, letters of guarantee from each of the Fund's two subsidiary entities and assignment of monies due from insurance. As at June 30, 2007, no amounts had been drawn on this facility.

#### 6. LONG-TERM DEBT

	<b>June 30,</b>	<b>December</b>
	<b>2007</b>	<b>31, 2006</b>
	\$	\$
Committed Revolving Capex facility bearing interest at an effective rate of 6.845%. The committed facility is \$40,000,000 to April 30, 2009 and may not exceed 60% of net book value of property and equipment. There is an additional \$10 million accordion feature allowing the Fund to further increase the capital expenditure facility upon request and approval as required. No set principal repayment has been established as the facility is interest only payable monthly in arrears until March 31, 2009. The facility is collateralized by a general security agreement, general assignment of book debts, promissory notes, letters of guarantee from each of the Fund's two subsidiary entities and assignment of monies due from insurance.	14,419,888	15,669,888
	14,419,888	15,669,888
Amounts payable within one year	—	—
	<b>14,419,888</b>	<b>15,669,888</b>

## 7. TRUST UNITS AND EXCHANGEABLE PARTNERSHIP UNITS

### a) Authorized:

An unlimited number of Trust Units. Each Trust Unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Fund, whether of net earnings, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or wind-up of the Fund. All Trust units have voting rights and privileges.

An unlimited amount of Exchangeable Partnership Units. The Exchangeable Partnership Units issued by the Limited Partnership have economic and voting rights equal, in all material respects, to the Trust Units. As a result, they have been treated for accounting purposes as Trust Unit equivalents. They are exchangeable on a one for one basis for Trust Units at the option of the holder. Exchangeable Partnership Units are not transferable to any third parties prior to their conversion to Trust units. Each Exchangeable Partnership Unit entitles the holder to receive distributions from Black Diamond Limited Partnership pro rata with the distributions made to holders of Trust Units.

### b) Issued:

Trust Units	Number	Amount \$
<b>Balance December 31, 2006</b>	<b>5,345,174</b>	<b>50,491,034</b>
Issued on public offering, net of costs	1,650,000	13,727,331
Issued on exchange of exchangeable units	286,415	2,864,150
<b>Balance June 30, 2007</b>	<b>7,281,589</b>	<b>67,082,515</b>
Exchangeable Partnership Units		
<b>Balance December 31, 2006</b>	<b>2,354,826</b>	<b>23,548,260</b>
Exchanged for trust units	(286,415)	(2,864,150)
<b>Balance June 30, 2007</b>	<b>2,068,411</b>	<b>20,684,110</b>
<b>Total Trust Units and Exchangeable Partnership Units</b>	<b>9,350,000</b>	<b>87,766,625</b>

On April 18, 2007, the Fund closed a bought deal trust unit financing in which a syndicate of underwriters purchased 1,650,000 trust units at a price of \$8.90 per trust unit for gross proceeds of \$14,685,000. After deducting the costs of the offering, the net proceeds were \$13,727,331.

### Trust Unit Option Plan

The Fund established a Trust Unit Option Plan in September 2006 providing for the issuance of units. At June 30, 2007, a total of 935,000 options to purchase trust units are reserved to be granted for issuance to employees, directors and key executives. Of the amount reserved, 623,620 options have been granted. Under the plan, the exercise price of each option equals the average of the closing price for the five days preceding the grant date. Options granted under the plan vest equally over three years and the option term is five years from the date of grant.

**7. TRUST UNITS AND EXCHANGEABLE PARTNERSHIP UNITS**  
**(continued)**

The following table summarizes information about outstanding and exercisable unit options:

	<b>Number of options outstanding</b>	<b>Weighted average exercise price \$</b>
Balance, January 1, 2007	296,120	9.42
Granted	327,500	9.52
<b>Balance, June 30, 2007</b>	<b>623,620</b>	<b>9.47</b>

<b>Exercise price</b>	<b>Options outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number exercisable</b>
\$8.00	86,120	3.94	28,707
\$9.19	90,000	4.65	-
\$9.64	237,500	4.84	-
\$10.00	210,000	4.31	-
	<b>623,620</b>		<b>28,707</b>

During the three and six months ended June 30, 2007, the Fund recorded unit-based compensation expense of \$43,719 and \$62,049, respectively, related to options granted and vested under the plan. The fair value of the options issued during the three month period ended June 30, 2007 have an estimated fair value of \$1.25 per option while the options issued prior to the three month period but within the six month period ended June 30, 2007 have an estimated fair value of \$1.27 per option. The Black-Scholes pricing model was used in determining the fair values of these grants using the following assumptions:

<b>Date of grant</b>	<b>Dividend yield %</b>	<b>Expected average volatility %</b>	<b>Average risk-free rate %</b>	<b>Expected life (years)</b>
February 23, 2007	11.11	42	4.00	5
May 2, 2007	10.99	42	4.00	5



**7. TRUST UNITS AND EXCHANGEABLE PARTNERSHIP UNITS  
(continued)**

d) Earnings per Unit

Diluted weighted average number of Trust Units outstanding for the period was 9,041,758 and was 8,374,586 for the six months ended June 30, 2007. All options have been excluded from the calculation of diluted per unit amounts as they are anti-dilutive.

**8. CONTRIBUTED SURPLUS**

	June 30, 2007
	\$
Balance, beginning of period	13,874
Stock-based compensation expense	62,049
Balance, end of period	<b>75,923</b>

**9. ACCUMULATED DISTRIBUTIONS**

Cash distributions are normally paid by the Fund on a monthly basis to Unitholders of record on the last business day of each month. Distributions are payable on or about the 15<sup>th</sup> day of the month following the record date. The following table summarizes the Fund's distributions on units of record during the period January 1 to June 30, 2007:

Record Date	Distribution per Unit	Distributions
	(\$)	(\$)
January 31, 2007	0.0833	641,410
February 28, 2007	0.0833	641,410
March 31, 2007	0.0833	641,410
April 30, 2007	0.0833	778,855
May 31, 2007	0.0833	778,855
June 30, 2007	0.0833	778,855
Total distributions declared year to date		<b>4,260,795</b>

## 10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital for the period ended June 30, 2007 was as follows:

	<b>Three months ended June 30, 2007 (\$)</b>	<b>Six months ended June 30, 2007 (\$)</b>
Accounts receivable	(1,175,354)	(1,225,593)
Prepaid expenses	(366,625)	(394,065)
Accounts payable and accrued liabilities	(799,412)	1,246,904
Due to related party	49,736	(882,841)
	(2,291,655)	(1,255,595)
Attributable to operating activities	26,815	(714,025)
Attributable to investing activities	(2,181,025)	(404,125)
Attributable to financing activities	(137,445)	(137,445)
Interest paid in the period	253,310	566,786

## 11. FINANCIAL INSTRUMENTS AND OTHER COMPREHENSIVE EARNINGS

### a) Credit Risk

Credit risk arises from the possibility that the entities to which the Fund provides rentals and/or service are unable to meet their obligations. The Fund manages this risk by assessing the credit worthiness of its customers on an ongoing basis and by monitoring the age of balances outstanding. To date, the Fund's bad debts have been within expectations and are limited to specific customer circumstances.

As at June 30, 2007, 43% of the Fund's consolidated accounts receivable are owed from one customer. For the three month and six month periods ended June 30, 2007, this customer represented 38% and 24% of consolidated revenue respectively. This customer is a significant customer of the Fund and is considered to have high credit worthiness.

### b) Interest Rate Risk

The Fund is subject to cash flow risk on its credit facilities because they are based on floating rates of interest. The required cash flow to service the credit facilities will fluctuate as a result of changes in market rates. The Fund has not entered into any derivative agreements to mitigate this risk.

## **11. FINANCIAL INSTRUMENTS AND OTHER COMPREHENSIVE EARNINGS (continued)**

### c) Fair Values of Financial Instruments

Upon adoption of section 3855 of the Handbook, the standard requires that an entity designate its financial instruments as one of the following categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities and 5) held-for-trading (assets and liabilities). Effective January 1, 2007, the Fund elected to designate its financial instruments as follows:

#### **Loans and receivables**

- Accounts receivable
- Related party amounts
- Long term debt

#### **Other financial liabilities**

- Accounts payable
- Distributions payable

#### **Held-for-trading (assets and liabilities)**

- Cash

There are no differences in the carrying amounts of these financial instruments and their fair value due to their terms.

## **12. RELATED PARTY TRANSACTIONS**

As at December 31, 2006, the Fund owed Black Diamond Leasing Inc. ("BDLI") \$0.88 million in respect of monies owing by BDLI for anticipated tax liabilities and for which the cash had been transferred to the Fund at the time of the IPO with no terms of repayment. The funds were repaid in full and an additional \$0.05 million was advanced from the Fund during the first quarter of 2007. This additional advance was repaid in the three month period ended June 30, 2007 such as there is no balance outstanding between the entities. Black Diamond Leasing Inc. is related to the Fund due to the common members of the Board of Directors of that entity and the Fund.

## **13. INCOME TAXES**

In June 2007, the Government of Canada enacted new legislation imposing additional income taxes upon Specified Investment Flow-Through trusts effective January 1, 2011 including the Fund. Prior to June 2007, the Fund estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil tax rate. Following the new legislation, the Fund now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. Temporary differences reversing prior to 2011 will continue to give rise to nil future income taxes. Based on its assets and liabilities as at June 30, 2007, the Fund has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse.

### 13. INCOME TAXES (continued)

While the Fund believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary differences reversing after 2011 may change. In addition, as the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of the reversals of temporary differences will also depend on the Fund's future operating results, acquisitions and disposals of assets and liabilities and its distribution policy. A significant change in any of the proceeding assumptions could materially affect the Fund's estimate of the future tax liability.

The provision for income taxes is computed by applying the combined federal and provincial statutory income tax rate expected to apply on timing differences expected to reverse after 2010:

	<b>Six months ended</b>
	<b>June 30, 2007</b>
	<b>(\$)</b>
Timing differences expected to reverse after 2010	9,295,940
Provision for income taxes	9,295,940

### 14. SEGMENTED INFORMATION

The Fund determines its reportable segments based on the structure of its operations, which are primarily focused in three principal business segments – Workforce Accommodations, Space Rentals and Site Services.

Workforce Accommodations provides modular structures designed for remote site accommodation. The structures when assembled together form large dormitories, kitchen/diner facilities, recreation complexes, drill camps, completion camps, free standing sleepers, geologist/engineer quarters and staff quarters. The majority of the equipment in this segment operates in Alberta.

Space Rentals provides high quality, cost effective modular space solutions to a diverse customer base in Alberta and Southern Ontario. The structures provided include office units, guard kiosks, storage units, office complexes, training facilities and custom manufactured structures.

Site Services repairs, installs, dismantles and renovates modular buildings. These services are provided to modular building fleet operators in Alberta and Northeastern British Columbia. In addition, these services are provided to the Workforce Accommodation and Space Rental customers as part of turnkey solutions.

For the period January 1 to June 30, 2007, the Fund did not earn any revenues outside of Canada.

## 14. SEGMENTED INFORMATION (continued)

	Three months ended June 30, 2007	Six months ended June 30, 2007
<b>Revenue</b>	(\$)	(\$)
Workforce Accommodations	6,984,133	12,416,343
Space Rentals	2,023,979	3,202,959
Site Services	1,482,908	2,395,558
Intersegment eliminations <sup>(1)</sup>	(1,146,663)	(1,664,452)
	<u>9,344,357</u>	<u>16,350,408</u>
<p>(1) All intersegment revenue eliminated is in respect of the Site Services segment providing services to the Workforce Accommodations and Space Rentals segments.</p>		
<b>Net Earnings</b>		
Workforce Accommodations	1,277,064	3,287,890
Space Rentals	676,907	987,219
Site Services	192,129	218,279
Corporate	(9,339,713)	(9,359,045)
Intersegment eliminations	-	(30,919)
	<u>(7,193,613)</u>	<u>(4,896,576)</u>
<b>Capital Expenditures</b>		
Workforce Accommodations	2,205,921	6,656,234
Space Rentals	2,460,422	7,592,392
Site Services	1,443	1,443
Corporate	19,590	175,481
	<u>4,687,376</u>	<u>14,425,550</u>

## 14. SEGMENTED INFORMATION (continued)

	As at	
	June 30, 2007	December 31, 2006
	(\$)	(\$)
<b>Property and Equipment</b>		
Workforce Accommodations	40,677,002	35,949,002
Space Rentals	16,327,288	9,143,961
Site Services	73,887	84,329
Corporate	255,268	102,915
	<u>57,333,445</u>	<u>45,280,207</u>
<b>Intangible Assets</b>		
Workforce Accommodations	11,921,513	12,375,970
Space Rentals	122,400	136,800
Site Services	167,700	193,500
Corporate	8,495	-
	<u>12,220,108</u>	<u>12,706,270</u>
<b>Goodwill</b>		
Workforce Accommodations	24,277,756	24,277,756
Space Rentals	4,845,037	4,845,037
Site Services	193,297	193,297
Corporate	-	-
	<u>29,316,090</u>	<u>29,316,090</u>
<b>Total Assets</b>		
Workforce Accommodations	76,876,271	72,602,728
Space Rentals	21,294,725	14,125,798
Site Services	434,884	471,126
Corporate	7,291,046	5,517,817
	<u>105,896,926</u>	<u>92,717,469</u>

## 15. COMMITMENTS

The Fund rents premises under multiple operating leases with varying expiration dates. The minimum lease payments under these leases over the next five fiscal years are as follows:

	\$
2007	367,385
2008	725,982
2009	679,320
2010	679,320
2011	704,424
	<hr/>
	3,156,431

The Fund has committed to purchase \$22.0 million of fleet equipment for delivery throughout the remainder of 2007 and into spring of 2008.

The Fund also has a standby letter of credit outstanding in the amount of \$1.66 million to provide security over production commitments made with one of the Fund's primary suppliers.

## 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period consolidated financial statement presentation.

The Fund is an unincorporated open ended investment trust governed by the laws of the Province of Alberta. The principal undertaking of the Fund, through its indirect wholly-owned subsidiary, Black Diamond Limited Partnership, is to rent modular structures for use as workforce accommodation and temporary workspace, and to provide complementary services including transportation, installation, dismantling, repair and maintenance of modular structures, as well as related services through three operating divisions consisting of Black Diamond Camps, BOXX Modular, and Black Diamond Site Services.

**For more information please contact:**

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### **Forward-Looking Statements**

*Certain information set forth in this press release, including a discussion of future plans and operations, contains forward looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond management's control, including but not limited to, the impact of general economic conditions, industry conditions, fluctuation of commodity prices, fluctuation of exchange rates, environmental risks, industry competition, availability of qualified personnel and management, stock market volatility, timely and cost effective access to sufficient capital from internal and external sources. Actual results, performance or achievement could differ materially from those expressed in or implied by these forward-looking statements. For more information please contact Black Diamond Income Fund, by its Manager, Black Diamond Group Inc.*

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