

Cabo Drilling Corp.
Form 51-102F1
Management Discussion and Analysis
For the Quarter Ended March 31, 2010

This Management Discussion and Analysis (“MD&A”) is a review of the results of operations, the liquidity and capital resources of Cabo Drilling Corp. for the quarter ended March 31, 2010, prepared May 28, 2010. It should be read in conjunction with the consolidated financial statements and notes thereto included for the quarter ended March 31, 2010, which are prepared in accordance with Canadian generally accepted accounting principles.

The MD&A contains forward-looking statements about the Company’s future plans, objectives, strategies, financial conditions, results of operations, cash flows, development activities and businesses. Actual events or results may differ materially from those reflected in the Company’s forward-looking statements, due to a number of known and unknown risks, uncertainties and other factors affecting the Company’s business and the mining industry generally. These factors, include, but are not limited to, fluctuations in metals prices and financings for the mineral exploration industry and other factors that affect demand for the Company’s services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company’s ability to implement its business strategy, domestic and global political and economic conditions, the Company’s ability to attract and retain key personnel, and other risks and uncertainties described under the heading “Risk Factors”.

The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written, or oral that may be made from time to time by the Company or on the Company’s behalf, except as may be required under applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this statement.

Non-GAAP Measures

In this quarterly report, we have included additional measures of earnings, such as “EBITDA” (earnings before interest, taxes, depreciation and amortization – which the Company defines as net income plus interest expense, income taxes, depreciation, stock-based compensation and other items), as we believe that this information will assist investors in understanding the level of our core earnings. Non-GAAP performance measures, such as EBITDA, do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Corporate Overview

Cabo Drilling Corp. (“Cabo” or the “Company”) is one of the larger Canadian drilling services companies serving the mining industry. Cabo provides various drilling services, including surface and underground coring, directional, reverse circulation and geotechnical drilling. Cabo supports its customers’ drilling requirements from field operations and offices in Springdale, Newfoundland (Atlantic Canada); Montreal (Southern Québec and Atlantic Canada); Kirkland Lake, Ontario (Central Canada, Northern Canada and Northern Quebec); Surrey, British Columbia (Western & Northern Canada and the United States); Hermosillo, Sonora; Mexico; Panama City, Panama (Central America); and Tirana, Albania (Europe).

Industry Overview

While the third quarter was challenging, as reflected by the results, the Company was busy bidding on significant projects that were scheduled for late Spring/early Summer. A number of these projects have been awarded and Cabo will be busy through the Summer 2010, with drill utilization exceeding 50%, a level last experienced in September, 2008.

Strong base and precious metals prices have been very beneficial for the mining companies, which have ramped up their production and created significant cash resources to fund expanded exploration programs. While the capital markets have pulled back somewhat, there is a large amount of capital for exploration programs in the more advanced exploration and mid-tier mining companies that will be expended on drilling over the next year. Cabo, as a result, is becoming busier with higher quality clients.

At this time drilling companies are experiencing the competitive squeeze that can be expected when demand is ramping up after a significant downturn. The customers are expecting lower prices, but the labour force is pushing for higher wages; however, the utilization of drills is increasing and drilling companies are less willing to offer lower drill rates, which in turn is relieving the pressure on margins going into the Summer and Fall, 2010.

Highlights and Overall Corporate Performance

Strategies and policies incorporated in fiscal 2009 resulted in a continued improved gross margin, reduced general and administration expenses and a modernized and more adaptable drill fleet going into fiscal 2010.

- Although the Company recorded no significant change in revenue during the quarter, all divisions had drills turning for the clients as compared to only Ontario, Panama, Quebec, and Pacific divisions during the third quarter of fiscal 2009. Management expects to experience increased activity during the balance of fiscal 2010 and into fiscal 2011.
- General and administration costs have decreased by 17% during the nine months ending March 31, 2010 compared to the comparable period in fiscal 2009. This is a result of the salary and wage reductions, restructuring, and improved cost controls. Management anticipates additional efficiencies through the use of technology and we should see total general and administration costs in the range of \$5.6 million to \$5.8 million for fiscal year 2010.
- Over the past two years, Cabo has either acquired or substantially rebuilt almost 30% of its drill fleet. With our current drill fleet, we offer specialized drilling solutions, underground, surface, man portable, helicopter support expertise and geotechnical services. Cabo is able to drill in almost all mineral exploration and development applications.

Although revenues have decreased in the third quarter of fiscal 2010, the Company has recently been awarded several large long term contracts in the Ontario, Pacific, and Panama divisions. The third quarter is normally one of the slowest quarters due to the reduced activity because of seasonal conditions throughout Canada. At this time, the Company has drills operating in all of its regions. Drill utilization has increased in all divisions, with new signed contracts in Atlantic, Pacific, and Europe divisions and a more substantial increase in the Ontario division. We expect increased revenue growth over the balance of the year.

The percentage of total revenues from the international divisions decreased in the first nine months of fiscal 2010 as compared to the previous nine month period. The resurgence of activity in the Ontario, Pacific and Atlantic markets offset decreased revenues from the international divisions. We are expecting growth in the Canadian market throughout fiscal 2010 and improved drill utilization internationally. From Panama, Cabo Drilling is serving the markets in Central and South America; and the Western European region is serviced by our Albania division.

Looking Forward

According to a March – April 2010 Metals Economics Group (MEG), the number of significant financings announced by junior and intermediate companies increased 14% in the last period to 129, while the amount of money raised almost doubled to \$3.4 billion, returning to the levels of the second half of 2009 after a sharp drop at the beginning of 2010. For the first time since May 2009, base metals financings in April accounted for just over half of the monthly total raised, and bimonthly total amount raised in base metals financings in March – April 2010 is at its highest amount since the MEG survey began May – June 2008. Both the proportion and amount raised through debt also increased significantly in March – April 2010. These financings will continue to put pressure on increased demand for exploration activities and, therefore, drilling activity. The long-expected spike in acquisitions activity may be under way, as the number of acquisitions (which are not included in the PAI calculation) for the latest bimonthly period increased more than 40% over the previous two months and more than 140% from the risk-averse year-ago period.

In order to improve on profitability in this environment of improving demand and more stable commodity prices, we will maintain our cost control diligence and keep a tight grip on expenditures, while at the same time maintaining our experienced workforce, enforcing our high safety standards, and remaining focused on high employee and customer relations.

Summary of Quarterly Results

\$ Expressed in (000's)	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08
Revenue	6,505	7,983	6,340	6,197	6,522	11,825	16,617	14,634
Gross Margin	1,626	2,274	1,845	1,759	1,759	3,084	4,326	2,918
Gross Margin %	24.7%	28.5%	29.1%	29.6%	27.0%	26.1%	26.0%	20.0%
General & Administrative	1,442	1,435	1,366	1,647	1,635	1,698	1,793	2,499
EBITDA	153	836	482	(62)	102	1,437	2,504	701
Stock-based Compensation	-	8	-	120	-	-	-	-
Amortization	845	829	852	787	791	742	678	709
Income (Loss) before Tax	(778)	(147)	(463)	(1,028)	(765)	515	1,695	(115)
Income (Loss) after Tax	(776)	(150)	(463)	(1,192)	(1,075)	339	1,090	581

EBITDA per share	0.00	0.02	0.01	0.00	0.00	0.03	0.05	0.02
Basic Earnings (loss) per Share	(0.02)	0.00	(0.01)	(0.02)	(0.02)	0.01	0.02	0.01

Total Assets	31,118	32,554	32,603	33,187	32,906	38,229	43,580	38,697
Total Liabilities	12,667	13,140	14,098	12,654	16,737	22,766	22,766	18,600
Working Capital	5,778	6,076	4,588	7,243	8,095	7,716	7,716	7,239

Consolidated Third Quarter Financial Results

Revenue for the quarter ending March 31, 2010 decreased marginally by \$16,404 to \$6.51 million, compared to \$6.52 million in the third quarter of fiscal 2009; and decreased by 19% from \$7.98 million recorded in the second quarter fiscal 2010. The primary reason for the decrease is normal seasonal slowdown during parts of Canada resulting in lower revenues. Revenues from the Canadian and United States divisions increased by 116% and the other divisions decreased by 63%. The Company had drills operating in all Canadian and international divisions during the quarter. Overall drill utilization decreased from the previous quarter and still remains lower than 40%.

Revenues decreased by 19% to \$6.51 million in the third quarter of fiscal 2010, as compared to the \$7.98 million recorded in the second quarter of fiscal 2010. There was no significant change in drilling activity in Ontario, Panama, and Europe divisions but there was a significant decrease in the Atlantic division and minimal activity in the Mexico division during the third quarter of fiscal 2010, as compared to the second quarter of fiscal 2010. The Atlantic division completed a significant geotechnical drilling project in the second quarter of fiscal 2010.

Revenues ('000s)	3rd Qtr Fiscal 2010		3rd Qtr Fiscal 2009	
Canada & United States	\$4,971	71%	\$2,330	36%
Other Foreign Countries	1,534	29	4,192	64

Surface drilling revenues increased 11% from \$4.65 million in the third quarter of fiscal 2009 as compared to \$5.08 million recorded during the third quarter of fiscal 2010. This compares to a decrease of 48% in underground activity from \$3.05 million in the second quarter of fiscal 2009 as compared to \$1.59 million in the comparable period in fiscal 2010.

Revenues ('000s)	3rd Qtr Fiscal 2010		3rd Qtr Fiscal 2009	
Surface	\$5,083	78 %	\$4,650	71%
Underground	1,182	18	1,681	26
Geotechnical	240	4	191	3

Direct Costs

Direct costs for the quarter ended March 31, 2010 were \$4.88 million compared to \$4.76 million in the third quarter of fiscal 2009. The increase is a result of the decreased gross margin during the quarter. Gross margins for the quarter ended March 31, 2010 were 25% compared to 27% during the third quarter of fiscal 2009 and 29% during the second quarter of fiscal 2010. The decrease in margin is a result of significant start up costs incurred to prepare for the spring and summer 2010 drilling season and increased drill crew wages. Management expects gross margins to improve to the 27-29% range during the balance of fiscal 2010.

General and Administration

General and administrative expenses decreased by approximately 11.8% or \$193,124, from \$1.63 million in the third quarter of fiscal 2009 to \$1.44 million in the third quarter of fiscal 2010. The primary reason for the decrease is a 10% reduction in salaries and wages to \$701,469 in the third quarter of fiscal 2010 as compared to \$895,321 recorded in the third quarter of fiscal 2009, due to the corporate restructuring and salary reduction that occurred in early fiscal 2009. There were other significant reductions in marketing and travel costs during the third quarter of fiscal 2010.

When compared to the third quarter of fiscal 2010, Cabo recorded a slight increase of \$7,085 in general and administration costs in the third quarter of fiscal 2010, from \$1.43 million to \$1.44 million. We anticipate general and administrative costs to maintain in the range of \$5.6 to \$5.8 million for fiscal 2010 as management maintains its strict cost control measures.

Amortization

Amortization of property, plant and equipment for the quarter ending December 31, 2009 increased by \$54,102 to \$845,145 during the third quarter of fiscal 2010 as compared to \$791,043 in the third quarter of fiscal 2009. The reason for the increase continues to be the amortization related to the acquisition of \$4.84 million of capital assets during fiscal 2009.

Interest Expense

The Company incurred an \$86,407 interest expense during the third quarter ending March 31, 2010, compared to \$76,115 incurred during the comparable quarter in the previous fiscal year. This increase is directly related to increased interest rates.

Net Income

Net loss for the third quarter of fiscal 2010 was \$776,683 compared to a net loss of \$1.07 million in the third quarter of fiscal 2009.

Consolidated Financial Position

Consolidated total assets decreased by \$2.07 million to \$31.12 million at March 31, 2010 from \$33.19 million at June 30, 2009.

Consolidated total liabilities decreased to \$12.67 million at March 31, 2010 from \$14.10 million at June 30, 2009. The decrease was due to the reduction of our demand loan facility with HSBC by \$613,768 and a reduction in income taxes payable by \$641,826 during the nine month period ending March 31, 2010.

The Company's cash (cash and cash equivalents) position at March 31, 2010 is \$377,116 compared to \$455,006 at June 30, 2009.

Short term investments and marketable securities increased \$48,457, from \$40,728 at June 30, 2009, to \$89,185 at March 31, 2010. The increase can be attributed to changes in market share prices at December, 2009. We have adjusted the value of our holdings at March 31, 2010, as recorded in the comprehensive income statement. At March 31, 2010, the balance of \$60,558 consists of shares in Canadian public corporations.

Accounts receivable decreased by \$1.21 million or 20% to \$4.96 million at March 31, 2010 from \$6.17 million at June 30, 2009.

Inventory levels increased by \$1.19 million to \$9.92 million at March 31, 2010 from \$8.73 million at June 30, 2009. The primary reason for the increase is the acquisition of inventory for new projects in Ontario, Pacific and Colombia. During fiscal 2009, the Company recorded an allowance of \$700,000 to reduce inventory to net realizable value due to reduction in prices as a result of the more competitive market during the economic slowdown. The Company is allowed to increase the value of inventory to net realizable value in the future.

Property plant & equipment decreased to \$13.41 million at March 31, 2010 from \$15.33 million at June 30, 2009, a decrease of \$1.92 million during the first nine months of fiscal 2010. The decrease is a direct result of the higher depreciation expense recorded during the quarter due to \$4.84 million in new property plant and equipment acquired in fiscal 2009.

The Company owns 4,511,904 shares of International Millennium Mining Corp. ("IMMC"). As of March 31, 2010, the 4,511,904 shares of IMMC had a market value of \$0.08 per share. The Company recorded an unrealized loss of \$86,445 on the consolidated statements of comprehensive income.

Unearned revenue decreased marginally to \$808,828 at March 31, 2010 from \$1.05 million at June 30, 2009. The balance represents advances for longer term projects in Panama and operations in Central Canada. In addition to these advances, the Company normally requests advances for new contracts, which advances are applied to the last invoices for a completed project.

As of March 31, 2010, the Company had drawn down \$2.10 million on the \$3.00 million operating line and the balance of the demand loan at March 31, 2010 was \$2.59 million. The operating line has been used to finance the increased inventories.

Total long term debt and capital leases decreased by \$131,708 to \$2.05 million at March 31, 2010.

During the first nine months of fiscal 2010, the Company acquired drill and auxiliary equipment to be financed over a five year period for \$469,360. This increase was offset by regular payments on the loans and leases.

Consolidated Financial Results for nine months ending March 31, 2010

Revenue for the nine months ending March 31, 2010 decreased approximately 40% to \$20.83 million, compared to \$34.96 million in the comparable period in fiscal 2009. All regions were affected by the economic slowdown with revenues from the international divisions decreasing by 61% to \$5.26 million and our Canadian divisions decreased by 28%. International divisions continue to represent a significant part of our operations with 26% of revenues from the international divisions, but this is down from the 38% in the comparable period last year.

Revenues ('000s)	Nine months ending March 31, 2010		Nine months ending March 31, 2009	
Canada & United States	\$15,514	74%	\$21,628	62%
Other Foreign Countries	5,315	26	13,336	38

Underground drilling decreased by 43% during the nine month period ending March 31, 2010 to \$4.76 million as compared to \$8.21 million during the comparable period in fiscal 2009. Surface drilling revenues decreased by 47% due entirely to the economic slowdown resulting in lower revenues. During the nine month period, the Company experienced an improvement in revenues from geotechnical drilling. This is attributed to a major improvement in the Quebec market plus a large project in the Atlantic division.

Revenues ('000s)	Nine months ending March 31, 2010		Nine months ending March 31, 2009	
Surface	\$13,768	66%	\$26,101	75%
Underground	4,757	23	8,215	23
Geotechnical	2,304	11	648	2

Direct Costs

Direct costs for the nine months ended March 31, 2010 were \$15.08 million compared to \$25.80 million in the comparable period in fiscal 2009. Gross margins for the nine months ended March 31, 2010 were 27.6% compared to 26.0% during the nine months ended March 31, 2009. Management expects margins to be in the range of 27-29 throughout the balance of fiscal 2010 due to increased competitions of Canadian drilling contractors with excess drill supply.

General and Administration

General and administrative expenses decreased by approximately 17.2% or \$883,795 from \$5.13 million in the first nine months of fiscal 2009 to \$4.24 million in the first nine months of fiscal 2010. Decreased costs can be attributed to a 23% decrease in wages in salaries and wages during the first nine months. This decrease is a result of the staff reductions and salary reductions implemented in the third quarter of fiscal 2009. There were other reductions in expenses due to the restructuring; travel expenses decreased by 26% to \$198,697 in fiscal 2010 as compared to \$270,718 in fiscal 2009. Insurance costs increased by 16% to \$391,983 due to higher foreign workers compensation

Amortization

Amortization of property, plant and equipment for the nine months ending March 31, 2010 increased to \$2.53 million compared to \$2.21 million during the first nine months of fiscal 2009. The increase is due to the acquisition of \$4.84 million of capital assets during fiscal 2009.

Interest Expense

The Company incurred a \$326,124 interest expense during the first nine months of fiscal 2010, compared to \$397,390 incurred during the comparable period in fiscal 2009. Decreased interest charges during the period are primarily due lower long term debt and capital leases in the comparable periods. Management expects the interest expenses to decrease in the balance of fiscal 2010 as the utilization of the operating line decreases.

Net Income

Net loss for the first nine months of fiscal 2010 was \$1.39 million compared to net earnings of \$345,237 earned in the comparable period of fiscal 2009.

Effect of Exchange Rate

The Company's reporting currency is the Canadian dollar; however a growing percent of the Company's revenue and operating contracts outside of Canada are denominated in U.S. dollars and Euros. In order to reduce its exposure to foreign exchange risks, the Company contracts in U.S. dollars and Euros. This may negatively impact a project's profitability due to currency exchange volatility, but a large portion of the costs are typically in same currency as revenues, reducing the overall effect of currency fluctuations. The Company holds US Dollar, Euros, Mexico Pesos, and Albania Leks denominated currencies and securities that may be subject to exchange volatility.

Liquidity and Capital Resources

Financing Activities

The Company has a \$5.8 million debt financing facility with HSBC Bank Canada comprised of a \$3.00 million operating loan secured by accounts receivable, a \$2.60 million demand loan and a \$200,000 capital loan/lease facility. The demand loan is secured by a general security agreement charge over Company assets and the capital loan/lease facility is secured by specific assets. The cost for the operating line, demand and capital loan, is Canadian bank prime plus 3.5% and the capital lease facility is at 3.5% over the three year GIC rate. The demand loan is to be repaid in monthly payments of \$45,000 over a period of 30 months with a payment of \$700,000 due on December 31, 2010 and \$620,000 due on December 31, 2011.

The Company has a \$1.75 million capital lease facility with a major equipment manufacturer. This facility is secured by specific security on specific assets. The cost for borrowing is normally set at 2% above prime. At March 31, 2010 Cabo Drilling utilized \$484,255 of this facility. These leases will be paid down over the next three years.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. During this period, the Company was, and continues to be, in compliance with all the covenants and other conditions imposed by its debt agreements.

The Company believes that it will be able to generate sufficient cash flow to meet current and future working capital, capital expenditure and debt obligations. As of March 31, 2010, the Company had drawn down \$2.10 million on the \$3.00 million operating line and a balance of \$2.60 million on the demand loan.

Contractual Obligations

The following table represents the Company's future payment obligations at December 31, 2009:

	Total	Less than 1 year	2-3 years	4-5 years
Long term debt	2,194,758	\$816,453	\$1,022,698	\$355,607
Demand loans	669,976	300,000	369,976	
Client deposits	948,318	948,318		
Total	\$ 3,813,052	\$ 2,064,771	\$ 1,392,674	\$ 355,607

Outstanding Share Data

At March 31, 2010 the total issued and outstanding shares are 55,240,679.

On October 16, 2009, the Company issued 200,333 shares (\$24,040) to employees as payment for performance bonuses earned on the fiscal results for the year ending June 30, 2008.

On November 2, 2009 (and then revised on November 12, 2009) the Company announced a private placement of 7,273,333 units for gross cash proceeds of \$872,800. The units are priced at \$0.12 per unit, with each unit comprised of one (1) common share and one half (1/2) non-transferable share purchase warrant. Each full warrant will entitle the holder to purchase an additional share at \$0.15 per share for a period of two (2) years from the date of issuance. The Company also issued a total of 438,033 broker warrants. Each broker unit warrant is exercisable on or before November 30, 2011 and entitles the holder to acquire one broker unit for \$0.12 per broker unit, each broker unit is comprised of one share and one ordinary share purchase warrant entitling the holder to acquire one additional share at \$0.15, on or before November 30, 2011.

At December 31, 2009, there were 4,074,700 warrants outstanding. All warrants are exercisable at \$0.15 and expire on November 30, 2011.

On November 16, 2009, the Company granted 200,000 employee incentive options under terms of its Stock Option Plan, providing the right to purchase up to 100,000 common shares of the Company at \$0.225 per share and 100,000 common shares at \$0.25 per share. On December 31, 2009 the Company had 2,900,000 options outstanding to directors, officers, employees and consultants.

Number	Exercise price	Expiry date
1,450,000	\$0.225	June 30, 2012
1,450,000	\$0.25	June 30, 2012
2,900,000		

Subsequent events

On May 20, 2010, the Company closed a private placement of 5,100,000 units at \$0.18 per unit, for total cash proceeds of \$918,000 subject to TSX Venture Exchange acceptance (received). The units comprise one (1) common share and one half (1/2) non-transferable share purchase warrant, each full warrant will entitle the holder to purchase an additional share for \$0.23 for a period of two (2) years from the date of issuance. The Company will use the proceeds of the financing to support for working capital.

Commitments

Redistribution of the International Millennium Mining Corp (“IMMC”) Units

On December 29, 2006 Cabo closed the sale of its resource properties to IMMC. Pursuant to the transaction, the Company transferred all of the resource properties to IMMC in exchange for 10,000,000 units of IMMC. Each unit consisted of one IMMC common share and one-third (1/3) of a warrant. Each full warrant entitled the holder to purchase one share in the capital stock of IMMC for thirty-five cents (\$0.35) within a period of two years.

The Company was to redistribute 10,051,336 Units to its shareholders on a ratio of one IMMC unit for each four (4) shares of the Company as of the record date January 11, 2007. To March 31, 2010 the Company has distributed or sold on behalf of its shareholders 8,233,583 IMMC shares and distributed 2,497,844 warrants to the Company’s shareholders.

As of March 31, 2010, the Company’s trust account for its U.S. shareholders commitment is holding 1,753,131 undistributed shares.

Transactions with Related Parties

Expressed in thousands \$ (000’s)

John A. Versfelt, Chairman, President and CEO, provides executive management and an accounting person to the Company through American Resources Management Consultants Inc., a company owned and controlled by Mr. Versfelt

Q3-10	Q2-10	Q1-10	Q4-09
45	45	45	45

Business Outlook and Strategy

The mineral drilling industry is dependent on demand for and supply of precious, base and strategic metals, as well as precious stones. Demand and supply factors for these commodities can change dramatically up and down, as we have witnessed in the past two years, causing dynamic shifts in the supply of drills and drilling personnel from under supply to over supply. The recent financial stress in financial credit and equity markets, as well as significant global currency and economy changes have caused substantial negative changes to the global metals supply and demand factors, resulting in much uncertainty in the global mining and related services markets. Management has initiated comprehensive cost and spending controls, as well as risk management procedures throughout the Company. Largely due to prudent debt management over the past two years, the Company’s banking facilities are in order and debt ratios are low. Senior management is very focused on careful cash management, reduction of debt, high customer relations and high employee relations.

Historical corporate strategies of building the long term customer base revenues and attracting new clients, while achieving operating efficiencies will continue. However with the slowdown in growth, management has greater opportunity to be even more focused on basic business principles, including:

1. Improving utilization of existing rigs over seven divisions;
2. Sharing of drills & people between divisions;
3. Actively working to enhance the Company's human capital;
4. Expanding effective capacity per drill;
5. Building and maintaining a highly cost effective organization; and
6. Aggressively promoting and marketing Cabo's services.

During the past two years, the Company has improved its drilling fleet, which will allow it to better service its customers at a reduced cost.

General Risks and Uncertainties

Cabo is subject to a number of risks and uncertainties.

Competition

Contract drilling is a highly competitive industry, where numerous competitors tender bids for contracts. The Company's ongoing ability to continue to secure profitable contracts on an ongoing basis is not assured.

Cyclical Downturn

The most significant operating risk is a downturn in demand for minerals and metals which directly impacts the need for drilling services. To mitigate this risk, the Company has exploited its competitive advantage in specialized drilling such as geotechnical, geo-environmental, as well as drilling in difficult environmental conditions.

As the mining cycle lengthens and activity levels increase, the requirement for working capital, particularly accounts receivable and inventory, grows. Accounts receivable levels from junior mining companies typically increase. Junior mining companies are heavily dependent on the capital markets and any change in outlook of the mining sector, or lack of success of their exploration activities, can quickly affect their ability to carry on drilling programs as, we have witnessed over the past twelve (12) months. The Company manages this risk by closely monitoring accounts receivable aging and the activity of junior mining companies in the capital markets. Deposits and letters of credit are required for 95% of all drilling contracts.

Levels of inventory increase from increased revenue activity and an increase in activity in remote locations. In the event of a sudden downturn the Company may be exposed to inventory carrying costs and possible obsolescence. At this point, management has determined that there is little obsolescence within the Company. However, it is substantially reducing purchases and using existing inventory, as well as moving inventory between divisions as the demands ebb and flow in the seven areas of the world where the Company is located. Also, in order to minimize exposure to high inventory risk, the Company works closely with its customers to anticipate and plan for scheduled reductions in their drilling programs.

Country Risk

The Company has been expanding its operations outside of North America into Central & South America, West and East Europe, as well as West Africa. With this, comes the risk of dealing in a variety of business and political jurisdictions. Unanticipated economic, political, tax related, regulatory or legal changes could have a negative impact on operations and assets. The risks include, but are not limited to, extreme fluctuations in currency exchange rates and high rates of inflation, changes in mining or investment policies or shifts in political attitude that may adversely affect the business. The Company continues to monitor developments in all current jurisdictions.

Workforce Availability

The change in the metals and minerals industry has eliminated the shortage of qualified drillers. In the past two years, the Company implemented a number of initiatives to retain experienced existing and new employees for the field, as well as for international management. In addition, the Company has been successful at utilizing non-Canadian drillers in its international operations.

We believe that as we experience the existing difficult market conditions, the dedicated people that the Company hired will rise to the challenge and help the Company weather the storm that has continued into fiscal 2010.

Reliance on Key Accounts

The Company has a number of accounts that make up a significant portion of overall revenue and gross profits. When a contract expires or is terminated there is no guarantee that the Company has sufficient replacement contracts. Cabo continues to work with its existing client base and is actively pursuing new clients in order to minimize exposure in this area.

Long Term Contracts

The Company may enter into long term contracts with customers at fixed prices. The Company's expenses may vary significantly over a contract period due to fluctuations in the cost of labour, materials and equipment, consequently creating variations in the profitability of these contracts with fixed prices. The Company mitigates this risk by anticipating an escalation in costs when bidding on projects or providing for cost escalation in the contract. However, significant price fluctuations without warning could negatively impact the Company's margins.

Extreme Weather Conditions

The Company has operations across Canada and globally that are subject to extreme weather conditions which can have a significant impact on its operations. In addition, natural and other disasters could have an adverse impact.

Credit Risks

The Company provides credit to its customers in the normal course of its operations. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses.

Three major customers represent 23% of the trade accounts receivable as at March 31, 2010, respectively by customer, 10%, 8% and 5%.

Three major customers represent 34% of the contract revenue for the quarter ended March 31, 2010, respectively by customer, 14%, 13% and 7%.

Interest Rate Risk

The Company is subject to interest rate risk since a significant part of the long-term debt and demand loans bear interest at variable rates.

As at March 31, 2010 the Company has estimated that a one percentage point increase or decrease in interest rates would have caused a corresponding annual increase or decrease in net earnings of approximately \$75,000.

Acquisition Integration

The Company has worked towards its strategic objective of becoming a drilling services provider of sufficient size to benefit from economies of scale and to provide the foundation from which to pursue new opportunities. In the past, business acquisitions were an important tool in this pursuit, but over the last four years no acquisitions have taken place, precluding any integration problems.

Metal Prices and Marketability of Minerals

Metal prices fluctuate widely and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectation of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities, and worldwide production levels. These factors include market supply and demand fluctuations, the proximity of metal markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, the import and export of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Legal and Regulatory Risk

The mining and drilling industries are highly regulated by legal, environmental and health and safety regulations. Failure to comply with such regulations could lead to penalties, including fines or suspension of operations which could have a significant impact on the financial strength and future earnings potential of the Company. Furthermore, the Company's mineral exploration customers are also subject to similar legal, regulatory, health and safety regulations which could materially affect their decision to go ahead with mineral exploration or mine development and thereby indirectly negatively impact the Company.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. Significant areas requiring use of management estimates relate to the useful lives of capital assets for amortization purposes, inventory valuation, valuation of future income taxes, assumptions used in compilation of stock-based compensation, and amounts recorded as accrued liabilities. Actual results, therefore, could differ from these estimates. A summary of the Company's significant accounting policies is set out in Note 2 of the consolidated financial statements for the year ended June 30, 2009.

The accounting estimates believed to require the most difficult, subjective or complex judgments and which are the most critical to our reporting of results of operations and financial positions are as follows:

Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and grants credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are carefully and regularly monitored, and a provision for doubtful accounts is established based upon specific situations and overall industry conditions.

Excess and Obsolete Inventory Provisions

The Company regularly reviews the quantities of inventory on hand and provisions for obsolete inventory. Significant or unanticipated changes in business conditions could impact the amount and timing of any additional provision for excess or obsolete inventory that may be required.

Impairment of Long Lived Assets

The carrying value of long lived assets is regularly reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Amortization

The Company's capital assets are amortized based upon estimates of useful lives and salvage values. These estimates may change as more experience is gained, market conditions shift or new technological advancements are made.

Income Taxes

The Company uses the liability method which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are established to reduce future tax assets when there is potential that some or all of the asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions and clarifications of uncertain tax regimes may require changes to the valuation allowances associated with the Company's future tax assets.

The Company is subject to many different forms of taxation in various jurisdictions throughout the world, including but not limited to, income tax, withholding tax, commodity tax and social security and other payroll related taxes, which may lead to disagreements with tax authorities regarding the application of tax law. Tax law and administration is extremely complex and often requires us to make subjective determinations. The computation of income, payroll and other taxes involves many factors, including the interpretation of tax legislation in various jurisdictions in which we are subject to ongoing tax assessments. Our estimate of tax related assets, liabilities, recoveries and expenses incorporates significant assumptions. These assumptions include, but are not limited to, the tax rates in various jurisdictions and the effect of tax treaties.

Off Balance Sheet Financing

The Company does not have any off-balance sheet arrangements.

Proposed Transactions

The Company has not entered into any proposed transactions.

Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. As at March 31, 2010 the Company has not designated any hedging relationships.

Changes in Accounting Policies including Initial Adoption

Financial Instruments – Disclosure & Presentation

In March 2007, the CICA issued Section 3862, “Financial Instruments – Disclosures”, and Section 3863, “Financial instruments – Presentation”, which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. These sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. Effective June 30, 2008, the Company implemented these disclosures, although the adoption of these sections did not impact the Company.

Comprehensive Income

Effective July 1, 2006, the Company adopted CICA Handbook Section 1530, which establishes standards for reporting and presenting comprehensive income, defined as the change in equity from transactions and other events from non-owner sources. Accordingly, a new consolidated statement of operations and comprehensive income now forms part of the Company’s consolidated financial statements and displays current period net income and other comprehensive loss. Other comprehensive loss consists of unrealized losses on available-for-sale financial assets. The cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss, which is a new category within shareholders’ equity in the consolidated balance sheet.

Inventory

In June 2007, the CICA issued Section 3031, “Inventories”, which requires inventory to be measured at the lower of cost and net realizable value and which includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. Further, it requires the reversal of previous write-downs to net realizable value when the economic circumstances have changed to support an increased inventory value. This standard is effective for fiscal years beginning on or after January 1, 2008. The Company is in the process of evaluating the impact of this standard.

Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, “Accounting Policy Choice for Transaction Costs” (“EIC-166”). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same

accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective June 30, 2008, which requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The Company has evaluated the impact of EIC-166 and determined that no adjustments are currently required.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, requiring the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Capital Disclosures

The CICA issued a new accounting standard, Section 1535, "Capital Disclosures", which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new section will be effective for the Company beginning July 1, 2008. The Company is currently assessing the impact of the above new accounting standards on the Company's financial positions and results of operations.

Accounting Changes

Effective July 1, 2007, the Company adopted Section 1506, "Accounting Changes", which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company of any new primary source of GAAP that has been issued but is not yet effective. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

Business combinations

Section 1582, "Business Combinations", applies prospectively to the Company's business combinations on or after January 1, 2011. Early adoption of this recommendation is permitted. This section replaces Section 1581, "Business Combinations", and harmonizes the Canadian accounting standards with International Financial Reporting Standards ("IFRS"). Under the new guidance, the purchase price used in a business combination will be the new fair value of the shares exchanged at their market price on the date of the exchange.

Currently, when shares are issued, they are valued based on the market price for a reasonable period before and after the date the acquisition is agreed upon and announced. Under the new guidelines, all acquisition costs are expensed where currently they are capitalized as part of the acquisition costs. There are also a number of other differences between the new guidelines and current GAAP. The Company does not expect the adoption of this pronouncement to impact the financial statements.

Internal Controls over Financial Reporting

Management has designed internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Convergence with International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Additional Sources of Information

Additional information relating to Cabo Drilling Corp., including the Company's Annual Report for the most recent financial year, can be found on SEDAR at www.sedar.com.