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The International Spread Of Cabo's Drilling Operations Sustain It In These Difficult Times.

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An interesting company is Cabo Drilling as it has come from nothing to being the third biggest drilling company in Canada in just over 4 years. The foresight of founder and chief executive John Versfelt is now apparent in the way the shares are now advancing steadily after hitting a low point towards the end of last year when everyone thought the world was coming to an end. During these years he expanded outside Canada and now has branches in Mexico, Spain and Panama and has set his sights on West Africa and the Balkans. This geographic spread fits in with drilling services provided to a wide range of industries so it is no wonder that investors are starting to appreciate that Cabo will not be as hard hit as many more sedentary industries in current conditions.

This expansion was reflected in the full years' results to the end of June 2008 when turnover rose to a record C\$58.65 million as against C\$38.45 million. In the first half of the current year turnover was still marginally ahead of the same period in 2007 at C\$28.4 million, but it has to be admitted that a slowdown was apparent in the last quarter of 2008 when revenue slipped from C\$13.6 million to C\$11.8 million. At the level of net earnings before tax this trend became more obvious with a slide from C\$1.2 million to C\$506,000, but the company was still making money and if one listened solely to the gripes of Canada's junior mining sector, this should have been an impossibility.

As John Versfelt points out, Cabo has added a further seven drills to its international fleet over the past year and the international divisions are now operating 24 drills out of a total of 111 drills in the company. This has to be of huge benefit as Cabo has no need now to add further to its fleet nor make any significant capital expenditure as its drills are all either already new or have been refurbished recently. In the year to end June 2007 revenue from the international divisions accounted for only five per cent of revenue, but this rose to 19 per cent last year and the advance has continued as the December quarter showed its contribution had risen to 39 per cent. Cabo also has the expertise to carry out all types of drilling operations so its fortunes are certainly not tied to the mining or oil and gas industries. Just to give an idea of the range it takes in the construction industry, hydro power, geothermal heating, road building and anything where people require to exploit rocks at depth or just want know what is going on under their feet.

With field operations and offices in seven countries Cabo has positioned itself to 'migrate' efficiently to wherever its services are in demand. It has the ability and expertise to shift its equipment and personnel to best suit market conditions at this time and in the future which puts it head and shoulders above those of its peers who have confined their activities to North America. In fact John Versfelt points out that there has been a drop in gross revenue from the Canadian divisions due to decreased demand for drilling and resulting lower prices. He expects gross revenue from these divisions to remain low until late

2009 and is also experiencing lower demand for drilling services in his Mexican division. Swine 'flu, he assured me, played no part in this.

At the moment the management is focused on increasing cash flow and cutting expenditure. All purchasing now takes place from the central office rather than from field operations and inventories are being watched very carefully. A cost cutting plan involved the firing of around a quarter of all support staff, instituting a wage and hiring freeze and reducing management salaries. The March quarter, which is Cabo's third in its fiscal year, was slow, as expected, but there are some bright spots among companies involved in gold, copper and iron ore. John Versfelt is particularly encouraged by gold and copper as he reckons that his company has particular expertise in both. Silver and coal may follow, but there is not sign yet.

Improved activity in gold and copper has resulted in more requests for bids for both surface and underground drilling and exploration programmes as new financings are making an appearance again. John Versfelt reckons that the gold mining areas of Canada, as well as Mexico, Latin America and West Africa will start to show more interest in drilling in the later part of the year, but he is not very optimistic for most base metals until 2010. No one can claim things are easy for Cabo at the moment, but the right decisions are being taken to ensure a brighter future.