

## Cabo Drilling Timed Its Acquisition Programme across Canada To Perfection

When the mining industry is going flat out, the companies that provide essential services to it are bound to benefit. Even the Financial Times recently picked up on this great truth and a Canadian newspaper called Business in Vancouver has given quite a lot of coverage to Cabo Drilling Corporation which has carried out an aggressive acquisition programme over the last two years. In this short space of time it has covered Canada coast-to-coast and is already knocking on the door of the big league. Anyone involved in the mining industry will have heard tales of drills being scarce as hen's teeth in a number of countries, but when this first started the cynics put it down to juniors who wanted an excuse for sitting on their money. Now it is accepted by all and sundry and Cabo's chief executive John Versfelt has put his company in a strong position by having subsidiaries in Quebec, Ontario and Newfoundland as well as British Columbia.

The advantage for investors is that drilling companies, and any others servicing the mining industry, generate cash flow and take no risk other than that of its customers going bust. From a standing start Cabo now has 10 per cent of the Canadian contract drilling market and its range of services is very wide. Not only does it carry out diamond drilling of all types at surface and underground, but it also carries out RC, soil sampling, dam site investigation drilling and geotechnical and geothermal and geoenvironmental services. Not surprisingly it reported earnings before interest, taxes and depreciation of C\$932,000 on revenue of C\$15.2 million in the first half of 2005/6 and it is confident that the revenue and earnings will be positive in the second half of the year.

Just to give an idea of the economics of the operation, a new drill will cost around C\$250,000 and the additional bits and pieces will nearly double this investment. Obviously there are much bigger drills that cost around C\$1 million, but for the purposes of this exercise we will work on the average type of drill for which the charge is around C\$75/ metre. Without taking account of labour, fuel, transport etc it only has to drill just over 3,000 metres to pay for itself.

Contracts come in all shapes and sizes and drilling companies have the advantage of not being tied to a single commodity or project. Earlier this month a contract was signed with Houston Lake Mining which specified a minimum of 1,000 metres of diamond drilling at Houston Lake's West Cedartree gold project in Ontario. This drill programme started in the last week of April and drills will operate seven days a week until the job is finished. The crew was mobilised from Kirkland Lake where Cabo's subsidiary Heath & Sherwood Drilling is based. Drilling tends to be beset by problems, but the basic job should be completed with a month. No price has been given for the contract, but if one drill works at this pace for three months it will pay for itself.

Before everyone rushes down the road to buy themselves a drill it is worth pointing out that there is always downtime between jobs as well as breakdowns of drills and rigs to be paid for. Crews have to be trained and drilling takes place in some pretty wild country. Thus Cabo is delighted with the contract announced last month with Aur Resources at its Duck Pond base metal mine. Here Cabo's Petro Drilling subsidiary from Springdale, Newfoundland, will be carrying out 27,000 metres of underground definition drilling. The mine is currently under construction and is expected to start production before the end of 2006 which will ramp up to an annual rate of 41 million lbs copper and 76 million lbs zinc.

Again, Cabo's team will work flat out with three rigs 24 hours a day and seven days a week. The whole job will take the rest of the year and a lot of responsibility rests on the company to do a good job as definition drilling is key to the actual mining operation. Clearly Cabo has built up quite a reputation in the two years since John Versfelt set off on the acquisition trail so he must have picked carefully when he made these acquisitions. He is not finished yet and is intent on expanding market share by leveraging the combined technology, knowledge and resources of his group to service its customers.

Companies featured in this Story  
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