Cabo Drilling Corp.
Form 51-102F1
Management Discussion and Analysis
For the Quarter Ended December 31, 2016

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 December 31, 2016, prepared February 27, 2017. It should be read in conjunction with the interim condensed consolidated financial statements and notes thereto included for the quarter ended December 31, 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

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-IAS Measures

In this report, we have included additional measures of earnings, such as "EBITDA" (earnings before interest, taxes and depreciation – 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-International Accounting Standards (IAS) performance measures, such as EBITDA, do not have any standardized meaning prescribed by IAS 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 IAS.

Corporate Overview

Cabo Drilling Corp. ("Cabo" or the "Company") is a Canadian drilling services company serving the mining industry in North, Central and South America, as well as Europe. Cabo provides various drilling services including surface and underground coring, directional, reverse circulation and geotechnical drilling, as well as tree falling & clearing services in Central America; Cabo is widening its services to the infrastructure sector. At this time, Cabo supports its customers' drilling requirements from divisions in Kirkland Lake, Ontario, Canada, Springdale, Newfoundland (Atlantic Canada) and Surrey, British Columbia (Western & Northern Canada and the Western United States). Cabo services Central America and South America from its division in Panama City and from its operating office in Tirane, Albania it provides services throughout West and East Europe.

The Company incurred a net loss in the first six months of fiscal 2017 in the amount of $1.25 million (First six months fiscal 2016 - $993,409) and has an accumulated deficit of $26,907,258 as at December 31, 2016 (Fiscal 2016 - $25,661,158). As at December 31, 2016, the Company was unable to repay the principal and interest due on the term loans and debentures and was in default under the terms of the agreements. The operating and cash flow results raise uncertainty about the ability of the Company to continue as a going concern.

The Company's continuing operations are dependent on future profitability, management's ability to manage costs and the future availability of equity or debt financing. The above facts indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The interim condensed consolidated financial statements for the first six months ended December 31, 2016, were prepared on the basis that the Company will operate as a going concern, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Industry Overview

The global economic environment is experiencing uncertainties in Africa, Asia, Europe and Russia; however, the mining industry is beginning to turn to the positive, particularly in precious metals and certain base metals, resulting in a modest upturn in exploration activities. This is positive news for the drilling service industry. Competition for contract tenders is still high, and margins per contract are not improving; however, we expect better conditions in the second half of 2017.

Contract pricing will remain low as the order pipe begins to fill, but the total meters to be drilled is increasing. The mineral exploration and mining sectors experienced significant downward revaluations, write downs, major asset sales, and mining company mergers resulting in substantial reduction of capital expenditure programs in the larger and intermediate mining sector from 2012 through 2016. With precious metals mining companies being refinanced and leading the way, an exploration revival is beginning to happen in the better managed junior, intermediate and major mining companies, which is positive news for the drilling companies that survived the 2012-2016 storm.

The private and public sector mine financing markets have returned. The mid-tier and major mining companies are refocusing capital expenditures on good projects in their inventory or on good projects previously developed by undercapitalized juniors. Therefore, some improvement is happening in the demand for drills in Canada, Mexico, Europe and certain Latin America countries. Concurrently, the USA economy and some emerging market economies are becoming stronger and will increase the demand for metals from a decreasing metals supply.

Drill crew wages per hour, in most areas, remain steady at lower levels. The availability of experienced drilling personnel at lower cost levels is good and drilling supply prices and drilling equipment prices remain steady. It appears that the downward pressure on wages and costs of supplies and equipment has been factored into the drilling market and will continue at the current levels throughout 2017.

The extraordinary downward slide in exploration, development and geotechnical demand for drilling services for the last five years, plus the severe challenges that we experienced with substantially reduced meter and hourly price rates, resulted in reduced gross drilling revenue in through all of 2016. However, during 2016 expenses decreased and we received increased tree falling and clearing revenue, plus we continued with the two new drilling contracts in Colombia that were executed in 2016. We do expect that continued constraints in the mining companies will inhibit significant growth in the drilling sector until mid-2017. Cabo managed to further reduce operating and general and administration expenses. We anticipate quarterly gross revenue, cash flow and losses in our financial year to June 30, 2017 that will be similar to the 2016 financial year. We believe that the Company's quarterly revenues should remain steady in the $3.0 - $4.0 million per quarter range.

Our safety record continues to be one of the best in the industry and our relationships with existing clients are excellent. Looking forward, a focus on providing high safety standards and strong environmental stewardship, with improved productivity, plus the availability of good to excellent drilling personnel, should result in comparable margins to 2016, yet lower costs for high quality clients in Canada, Europe and Latin America. We are continuing our search for infrastructure services to complement the needs of our clients and enhance Cabo's future operations, particularly in Latin America.

Business Outlook and Strategy

The drilling services business is always challenging, but the challenges that the industry experienced from 2012 into 2017 are the worst in over fifty years. There is no easy formula for managing a drilling company. However, paying attention to quality customer relations, practising high respect for employees, demanding superb safety procedures, maintaining careful attention to the protection of the environment, encouraging community relations, and continuously looking for ways to control internal costs and decrease costs for our customers, are critical for Cabo's on-going business. These practices, plus effective management of equipment and improved drilling practices to reduce the costs for our customers, plus invoicing at a fair price and in an honest manner, will enhance our ability to grow profitably. We believe that the worst global mining market that anyone in the mining sector has experienced is now turning to the positive. We are not expecting a dramatic turnaround in the industry, but we are budgeting for some improvement in the mining and metals sector similar to the turn-around that happened in 2002/2003, after the 1997 - 2002 bear mining market. The business conditions in 2012 - 2016 have caused severe cash flow challenges for drilling services companies, many of whom, including Cabo, have had to work with their lenders and suppliers to obtain payment extensions, and renegotiated terms and conditions, while seeking new financing facilities. Provided that the Company can obtain financing stability, we are trusting that our demonstrated business values and a continued focus on enhanced business services and low costs, will encourage growth with new clients, as the mining markets improve. In the meantime, the Company is evaluating opportunities to expand into the infrastructure services sector. This will, over time, include offering drill and blast, geotechnical services, tree cutting and clearing services, and other services in road building, for the general contracting sector, the pipeline sector, the hydropower sector and the oil & gas sector.

Cabo's goal for long term growth is to be one of the safest and most environmentally responsible infrastructure services company in the areas of the world where we work, with a focus on strong customer relations and working with our customers to develop local community training and recruiting programs.

Our management team is:

1. Actively working with our existing and new financiers to obtain financial stability;
2. Continually improving the Company's focus on loyalty, respect and safety for our employees, thereby encouraging a continuing favourable work environment;
3. Maintaining strong relationships with our current clients;
4. Expanding effective capacity per drill;
5. Building and maintaining a highly cost effective organization; and,
6. Expanding our marketing program and our bases of operations into new infrastructure services areas that are accessible to our existing divisions.

Highlights and Overall Corporate Performance

- Cabo generated revenues of $5.89 million during the first six months of fiscal 2017, compared to $8.90 million for the comparable period ended December 31, 2015. This represents a 34% decrease.

- Gross margin, adjusted to include depreciation, was 8.3% or $589,652 in the first six months of fiscal 2017, as compared to 14.5% or $1.11 million, in fiscal 2016. In accordance with IFRS, depreciation expenses of $747,011 are included in direct costs as compared to $896,097 in fiscal 2016. Adjusted gross margin, when depreciation expense is excluded from direct costs, is 19.3% in the first six months of fiscal 2017, as compared to 22.8% in the first six months of fiscal 2016.

- General and administration costs decreased by 14% to $1.45 million when compared to the $1.69 million in the comparable period of fiscal 2016.

- The Company is in arrears on its debenture and equipment loan interest payments. The Company entered into a Forbearance Agreement with its $1.4 million lender, pursuant to which, among other things, the Company's lender had agreed to forbear from taking steps to demand repayment of the amounts owing under the credit agreements between the Company and the lender, to enable the Company to obtain alternate financing. The Forbearance Agreement expired, but the Company has been making monthly interest payments and continues to be in good standing with the lender.

- The Company has $28,500,000 in tax losses, expiring primarily between 2025-2035.

- The Company reports a negative EBITDA of $81,056 during the first six months of fiscal 2017, compared to $397,269 during the first six months of fiscal 2016.

- Approximately 70% of first six months of fiscal 2017 revenues came from gold related projects, 28% from copper, and the remaining 2% from other base metals.

- Effective July 7, 2015, the Company entered into the infrastructure services industry, with its purchase of WorldWide EnviroChem Corporation ("WWEC"). As a result of this transaction, Cabo holds the exclusive rights to distribute the proprietary RoadMaster and BondMaster product lines used in road building and waterproofing of underground and water exposed concrete, for road contractors, precast concrete manufacturers, concrete contractors and ready-mix suppliers throughout North, Central and South America, excluding Chile, but including the Caribbean, plus South Africa, Namibia, Botswana, Zambia and Malawi.

Consolidated Quarterly Financial Results

Revenue for the quarter ending December 31, 2016, decreased $2.04 million, or 39%, to $3.22 million, compared to $5.26 million in the second quarter of fiscal 2016. The primary reason for the decrease is due to decreased drill utilization in our Ontario division which was offset by increased tree falling and clearing services provided in our Latin American division. Latin America division revenues increased by 37% due to these additional services provided to our primary client in Latin America. The Canadian and USA divisions recorded a significant decrease in revenues of 93% to $199,973 million in the second quarter of fiscal 2017, as compared to $2.88 million in the comparable period in fiscal 2016.

Revenues ('000s)	**For the quarter ended December 31, 2016**		**For the quarter ended December 31, 2015**	
Canada & United States	$200	6%	$2,883	55%
Latin America	3,022	94	2,211	42
Europe	-	-	168	3

Revenues from surface services decreased 20%, from $4.01 million in the second quarter of fiscal 2016 to $3.22 million in the second quarter of fiscal 2017, primarily due to the decreased drill utilization in the Ontario division. Underground drilling decreased by 100% in the second quarter of fiscal 2017 to nil as compared to $1.01 million in the comparable period in fiscal 2016, primarily as a result of a contract not renewed in 2016.

Revenues ('000s)	**For the quarter ended December 31, 2016**		**For the quarter ended December 31, 2015**	
Surface service	$ 3,222	100%	$ 4,011	76%
Underground	-	-	1,012	19
Geotechnical	-	-	239	5

Direct Costs

Direct costs for the quarter ended December 31, 2016, were $2.95 million compared to $4.50 million in the quarter ending December 31, 2015, as adjusted to include depreciation, in accordance with IFRS. The decrease is a direct result of the decreased activity in fiscal 2017. Gross margins, under IFRS reporting, for the quarter ended December 31, 2016, were 8.3% compared to 14.5% during the quarter ending December 31, 2015. Adjusted gross margin to exclude deprecation for the second quarter of fiscal 2017 is 19.3% as compared to 22.8% in the second quarter of fiscal 2016.

In accordance with IFRS, depreciation expense of property, plant and equipment of $355,579 is included in direct costs for the quarter ending December 31, 2016, as compared to $433,786 in the second quarter of fiscal 2016.

General and Administration

General and administrative expenses decreased by $183,012 from $882,454 for the second quarter of fiscal 2016 to $699,442 in the second quarter of fiscal 2017. The Company recorded an allowance for doubtful accounts of $24,000 during the second quarter of fiscal 2017 as compared to $40,000 in the second quarter of fiscal 2016. The Company made significant expense reductions in fiscal 2017, but continues to look for other cost savings. The decreases were a direct result of reduced administration staff, lower investor relations costs, lower insurance and professional fees and lower office administration costs in all divisions.

Management expects general and administration costs to range between $2.8 and $3.2 million for fiscal 2017.

Finance and Accretion Costs

The Company incurred a $145,045 finance interest expense during the second quarter of fiscal 2017, compared to $158,188 incurred during the second quarter of fiscal 2016. Cabo accrued interest on the $2.70 million debentures to November 30, 2015 and commenced making interest payments to the debenture holders on December 1, 2015.

Income Taxes

The Company recorded a $55,800 current income tax provision for the quarter ending December 31, 2016 compared to a $116,103 income tax provision for the quarter ending December 31, 2015. At December 31, 2016, the Company had $28.5 million in tax losses to apply against current income taxes for an extended number of years.

Net Income

Net loss for the second quarter of fiscal 2017 is $638,100 compared to a net loss of $368,195 in the second quarter of fiscal 2016.

Summary of Quarterly Results

$ Expressed in (000's)	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15
Revenue	3,222	2,668	2,714	3,747	5,262	3,640	4,008	2,975
Gross Margin	268	322	(333)	613	764	343	(240)	259
Gross Margin %	8.3	12.1	(12.3)	16.4	14.5	9.4	(6.0)	8.7
Gross Margin-adjusted (1)	623	7.3	15	1,017	1,198	805	354	677
Gross Margin adjusted% (1)	19.3	26.8	1.0	27.2	22.8	22.1	8.8	22.7
General & Administrative(2)	699	755	829	776	882	807	1,288	808
EBITDA	(59)	(22)	(368)	208	359	38	(678)	(127)
Depreciation	378	319	414	405	442	518	771	442
Income (Loss) before Tax	(582)	(546)	(1,321)	(393)	(252)	(620)	(1,648)	(737)
Income (Loss) after Tax	(638)	(608)	(1,416)	(462)	(368)	(625)	(4,597)	(748)
EBITDA per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Basic Earnings (loss) per Share	0.00	0.00	0.02	0.00	0.00	(0.01)	(0.06)	(0.01)
Total Assets	19,595	20,293	20,763	21,717	23,392	23,972	24,176	28,409
Total Liabilities	11,680	11,613	11,613	11,669	12,264	12,503	12,181	11,734
Working Capital	757	1,224	1,349	2,017	2,425	2,240	2,418	3,826

(1) Gross margin adjusted to exclude depreciation expense

Consolidated Financial Position

Consolidated total assets decreased by $1.16 million to $19.59 million at December 31, 2016, from $20.76 million at June 30, 2016.

No significant changes of consolidated total liabilities during the six months of fiscal 2017.

The Company's cash (cash and cash equivalents) position at December 31, 2016 is $265,718 compared to $122,316 at June 30, 2016.

The Company invested $25,125 during the first six months of fiscal 2017, in addition to the $179,209 during fiscal 2016, by acquiring an additional 3.58 million shares of International Millennium Mining Corp, as a result of shares for debt agreements. At December 31, 2016 Cabo owns 8.4 million shares of International Millennium Mining Corp. We have adjusted the value of our holdings at December 31, 2016, as recorded in the comprehensive income statement.

Accounts receivable decreased by $122,460 to $1.55 million at December 31, 2016, from $1.67 million at June 30, 2016. The decrease is primarily due to reduced business activity.

Inventory value levels decreased by $97,003 from June 2016 to December 2016, to a value of $10.07 million at December 31, 2016. Overall inventory levels have decreased, but the decrease was offset by the effects of foreign exchange translation on inventory held outside of Canada. The Company continues to optimize inventory utilization to assist cash flow requirements.

Property, plant & equipment decreased to $5.30 million at December 31, 2016, from $6.05 million at June 30, 2016, a decrease of $755,877 during the first six months of fiscal 2017, resulting largely from equipment depreciation, equipment sales and foreign exchange adjustments.

Unearned revenue decreased to $143,625 at December 31, 2016 from $251,935 at June 30, 2016. The balance represents advances for longer term projects. The Company occasionally receives a deposit from clients at the start of the contract period and refunds the deposit to the client during the contract period.

Consolidated Financial Results for Six Months Ended December 31, 2016

Revenue for the six months ending December 31, 2016 decreased approximately 33.7% to $5.90 million, compared to $8.90 million in the comparable period in fiscal 2017. Decreased drill utilization in the Ontario division resulted in a 91% decrease for the six month period ended December 31, 2016. Revenues from our international divisions represent a significant part of Cabo Drilling's operations with 93% of revenues for the first six months of fiscal 2017, as compared to 42% during the comparable period in fiscal 2016.

Revenues $ ('000s)	**Six months ending December 31, 2016**		**Six months ending December 31, 2015**	
Canada & United States	$ 438	7%	$ 4,889	55%
Latin America	5,451	93	3,769	42
Europe		-	244	3

Surface revenues decreased by 5% during the six month period ending December 31, 2016 to $5.89 million, due to decreased demand for drilling in Canada and additional services provided to our clients in Latin America. The Company had no underground drilling during fiscal 2017 as compared $1,988 million. This decrease was a result of a contract not being renewed.

Revenues ('000s)	**Six months ending December 31, 2016**		**Six months ending December 31, 2015**	
Surface	$5,889	100%	$6,627	74%
Underground	-	-	1,998	23
Geotechnical	-	-	277	3

Direct Costs

Direct costs for the six months ended December 31, 2016 were $5.30 million compared to $7.79 million in the comparable period in fiscal 2016. Gross margins for the six months ended December 31, 2016 were 10.1% compared to 12.4% during the six months ended December 31, 2015, when direct costs include depreciation expenses (22.7% compared to 22.5% for the respective periods, when direct costs are adjusted to exclude depreciation expense).

General and Administration

General and administrative expenses decreased by approximately 14% or $234,780 from $1.70 million in the first six months of fiscal 2016 to $1.45 million in the first six months of fiscal 2017. The decrease is a direct result of reduced administration staff, lower investor relations costs, lower insurance and professional fees and lower office costs in all divisions.

Finance and Accretion Costs

The Company incurred a $249,730 finance expense during the first six months of fiscal 2017, compared to $309,127 incurred during the comparable period in fiscal 2016.

Net Income

Net loss for the first six months of fiscal 2017 was $1.25 million compared to the net loss of $993,409 in the comparable period of fiscal 2016.

Effect of Exchange Rate

The Company's reporting currency is the Canadian dollar; however, a growing percentage of the Company's revenue and operating contracts outside of Canada are denominated in U.S. dollar and Euro currencies. In order to reduce its exposure to foreign exchange risks, the Company contracts in U.S. dollars and in 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, Euro, Colombian Pesos and Albanian Lek denominated currencies and securities that may be subject to exchange volatility.

Liquidity and Capital Resources

Financing Activities

The Company has engaged financial advisors to assist in refinancing or replacing the $2.705 million debentures and the $1.4 million equipment loan, the repayments of which were due in May, 2015. These debts are categorized as current debt, thus negatively affecting working capital. Management believes that it will obtain new financing facilities or that these facilities will be renegotiated in 2017.

In May 2012, the Company completed a private placement debenture financing, raising $2,705,000 in gross proceeds with the issuance of 2,705 units of secured, subordinated redeemable debentures. Each unit comprised of one $1,000 debenture and 500 common shares of the Company for a total common share issuance of 1,352,500. The debentures bear interest at 12% per annum, payable semi-annually. The Company did not make interest payments from June 2014 to November 2015 and had accrued interest expense of $486,900 for this period. The Company started making monthly interest payments on December 2015 and continues to work with the debenture holders to negotiate a revised payment schedule.

The Company entered into a Forbearance Agreement with its $1.4 million lender, pursuant to which, among other things, the Company's lender has agreed to forbear from taking steps to demand repayment of the amounts owing under the credit agreements between the Company and the lender, to enable the Company to obtain alternate financing. The Forbearance Agreement has expired, but the Company has made monthly interest payments and continues to be in good standing with the lender. The balance owing at December 31, 2016 is $1,074,832.

When the Company's loans are restructured or replaced, the Company will be in a position to generate sufficient cash flow to meet current and future working capital, capital expenditure and debt obligations, subject to maintaining current revenues.

Cabo acquired 100% of WorldWide EnviroChem Corporation ("WWEC"), for total consideration of $870,000 in 2015. The Company assumed an existing debt owing in the amount of $125,000 and delivered 8,800,000 Cabo voting common shares from its treasury, at an issue price of $0.01 per voting common share, to Northstar Capital Corporation, on the Closing Date and issued 6,100,000 Cabo voting common shares from its treasury at an issue price of $0.01 per voting common share to Maaz Construction Ltd. at a deemed value of $0.01 per share. The transaction has been approved by the TSX Venture Exchange and 7,450,000 shares have been delivered to the parties and a further 7,450,000 shares will be delivered upon realization of certain financing and sale activity.

Contractual Obligations

The following table represents the Company's future payment obligations, at December 31, 2016:

	Total	Less than 1 year	2-3 years	4-5 years
Leases	$ 308,185	220,169	88,016	-
Loans	1,074,832	1,074,832	-	-
Debentures	3,191,900	3,191,900	-	-
	4,574,917	4,486,901	88,016	-
Imputed interest	(2,866)			
Principal payments	4,572,051			
Deferred financing fees	(-)			
Total debt	$ 4,572,051			

Outstanding Share Data

At December 31, 2016, the total issued and outstanding shares are 93,868,175.

During the year ended June 30, 2016, the Company issued 14,900,000 common shares at $0.01 per share to acquire WWEC.

At December 31, 2016, the Company has nil stock options outstanding.

Property Held In Trust

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 December 31, 2016, the Company has redistributed or sold, on behalf of its shareholders, 8,233,583 IMMC shares and redistributed 2,497,844 warrants to the Company's shareholders.

As of December 31, 2016, the Company's trust account for its U.S. shareholders commitment is holding 1,804,467 undistributed shares. All warrants not distributed to the Company's shareholders expired.

Transactions with Related Parties

	Six months ended December 31, 2016	Six months ended December 31, 2015
Management and accounting services charged by Calvin Lucyshyn, an officer of the Company	$ 21,000	$65,500
Amount payable at December 31, 2016	$ 28,300	-
Management and accounting services charged by American Resource Management Consultants Inc., a company managed by Mr. Versfelt, a director and officer of the Company	$ 38,750	$ 77,500
Amount payable at December 31, 2016	$ 46,905	-
	Balance at December 31, 2016	Balance at December 31, 2015
International Millennium Mining Corp, is a Company with common officers, but a separate Board of Directors, which shares services with IMMC. During quarter end December 31, 2016, Company received shares for debt to settle amounts owing from IMMC in the amount of $25,125 at $0.05 per share During fiscal 2016, the Company received 3,584,180 shares of IMMC at $0.05 per share to settle amounts owing from IMMC in the amount of $179,209	-	-
Amount due (to) from IMMC at December 31, 2016	$ (10,840)	$ 161,756

General Risks and Uncertainties

The Company 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, as the Company has experienced since 2012. To somewhat mitigate this risk, the Company has exploited its competitive advantage in specialized drilling, drilling in difficult environmental conditions, drilling in challenging countries and providing tree cutting and clearing services for its clients.

As the mining cycle lengthens and activity levels increase, the requirement for working capital, particularly accounts receivable and inventory, grow. Accounts receivable levels (if any) 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 three years. The Company manages this risk by closely monitoring accounts receivable aging and the activity of the few (if any) junior mining companies to whom it provides its services in the capital markets. Deposits and letters of credit are required for most drilling contracts.

Levels of inventory fluctuate due to a rationalization of inventory among the North American and Latin American 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, after the inventory write downs, there is little obsolescence within the Company's inventories. In order to minimize exposure to obsolescence, the Company works closely with its customers to anticipate and plan for scheduled reductions in their drilling programs, plus it safeguards its inventory from damage and loss due to weather conditions and theft.

Country Risk

The Company has been expanding its operations outside of North America into Central & South America and West and East Europe. With this, comes the risk of dealing in a variety of business and political jurisdictions. Unanticipated economic, political, tax related, regulatory or legal challenges 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 reduced 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. In addition, the Company has been successful at utilizing non-Canadian drillers in its international operations.

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 longer term contracts (maximum two years) 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 92% of the trade accounts receivable as at December 31, 2016 (June 30, 2016 - 92%), respectively by customer: 57%, 21% and 14%.

Three major customers represent 87% (June 30, 2016 - 90%) of the contract revenue for the quarter ended December 31, 2016, respectively by customer: 61%, 14% and 12%.

Interest Rate Risk

The Company is subject to minimal interest rate risk, since most of the long-term debt and capital leases bear interest at fixed rates.

As at December 31, 2016, 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 $5,000.

Acquisition Integration

The Company has worked towards its strategic objective of becoming a drilling service 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; however, over the last ten years no acquisitions have taken place, precluding any integration problems. The Company is evaluating new business opportunities in the infrastructure sector that will mitigate the risks of being solely focused on the mining sector.

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 or deflation, currency exchange fluctuations, other commodity 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, labour, country trade practices and health and safety regulations. Failure to comply the many 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.

Significant Accounting Policies

The consolidated financial statements reflect the first-time adoption of International Financial Reporting Standards ("IFRS"), which replaced Canadian Generally Accepted Accounting Principles ("GAAP") as of January 1, 2011. All disclosures and explanations related to the first-time adoption of IFRS are presented in note 20, which provides information that is considered material to the understanding of the Company's first IFRS financial statements.

The IFRS consolidated financial statements have been prepared based on the following accounting policies: The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and IFRS 1, First-time Adoption of IFRS.

The audited consolidated financial statements were approved for issue by the Board of Directors of Cabo Drilling Corp. on October 31, 2016.

The consolidated financial statements have been prepared on a historical cost basis, except for the contingent liability, which have been measured at fair value and are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company and its subsidiaries operate ("functional currency").

Foreign Currency Translation

The functional currency of Cabo Drilling Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements.

The functional currency of each subsidiary is the currency of the prime economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of operations. Monetary assets and liabilities denominated in a foreign currency at the reporting date are retranslated at the period end date exchange rates. Non-monetary items that are measured using historical cost in a foreign currency are translated at the rate of the date of the translation. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the exchange rate at the date fair value was determined.

For consolidation purposes, assets and liabilities of foreign operations with functional currencies of other than Canadian dollars are translated into Canadian dollars using exchange rates at the end of the reporting period. Income and expense items are translated at the average rates of exchange for the reporting period. The resulting exchange differences are recognized in other comprehensive income within the foreign currency translation reserve.

For intercompany loans considered permanent in nature, foreign exchange gains or losses on translation are included in other comprehensive income and foreign currency translation reserve.

Impairment of Long Lived Assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the Cash Generating Unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of asset that generates cash inflows independently of other assets or groups of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. The recoverable amount is the higher of an asset's or CGU fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's length basis between knowledgeable, willing parties, less costs of disposal.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of the statement of operations in those expense categories consistent with the function of the impaired asset. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss recognized in prior years for long-lived assets shall be reversed only if there has been a significant change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is recognized in the statement of operations and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. After such a reversal, any depreciation charge is adjusted prospectively.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share Based Payments

The Company has a stock option plan under which it grants stock options to directors, employees and consultants. Share based payments expense is recorded as an expense for all options granted to employees, or to those providing similar services, at the fair value of the equity instruments over the vesting period, with a corresponding increase in share based payment reserve. For options that vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. For awards with vesting conditions, a forfeiture rate is recognized at the grant date and is adjusted at each reporting date to reflect the number of awards expected to vest. As the options are exercised, the consideration paid, together with the amount previously recognized in share based payment reserve is recorded as an increase in share capital.

For equity-settled share-based payments to non-employees, the Company measures the value of the goods or services received, and the corresponding increase in share based payment reserve, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

The Company has no cash-settled share based payment transactions.

Critical Accounting Estimates

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.

Amortization and Useful Life of Depreciable Assets

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. The useful life, the method of depreciation and residual values are assessed at least annually.

Current Income Taxes

The Company is subject to income taxes in various jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due in the future. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Taxes

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Company operates are also carefully taken into consideration. If a forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by Management based on the specific facts and circumstances.

Off Balance Sheet Financing

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

Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. As at June 30, 2016, the Company has not designated any hedging relationships.

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.