

**CABO DRILLING CORP.**  
**Interim Condensed Consolidated Financial Statements**  
**Quarter ended September 30, 2016 and 2015**  
(Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW OF INTERIM  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

---

The accompanying unaudited interim condensed financial statements of Cabo Drilling Corp. for the three months ended September 30, 2016, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

# CABO DRILLING CORP.

Interim Condensed Consolidated Statements of Financial Position  
As at September 30, 2016 and June 30, 2016  
(Expressed in Canadian dollars)

	September 30, 2016	June 30, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 165,369	\$ 122,316
Marketable securities (Note 5)	627,912	627,912
Trade and other receivables	1,608,044	1,667,523
Inventories	10,146,121	10,165,258
Prepaid expenses	94,125	180,787
<b>Total current assets</b>	<b>12,641,571</b>	<b>12,763,796</b>
Property, plant and equipment, net	5,702,916	6,051,550
Distribution rights (Note 4)	198,457	198,457
Deferred income tax assets	1,750,000	1,750,000
<b>Total assets</b>	<b>\$ 20,292,944</b>	<b>\$ 20,763,803</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	\$ 6,140,373	\$ 6,120,825
Short-term loans and current portion of long-term debt (Note 6)	4,488,429	4,474,352
Unearned revenue	255,296	251,935
Income tax payable	534,336	567,186
<b>Total current liabilities</b>	<b>11,418,434</b>	<b>11,414,298</b>
Long-term debt (Note 7)	194,521	198,746
Deferred income tax liabilities	-	-
<b>Total liabilities</b>	<b>11,612,955</b>	<b>11,613,044</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	34,297,962	34,297,962
Share-based payments reserve	487,862	487,862
Accumulated other comprehensive income	163,323	26,093
Deficit	(26,269,158)	(25,661,158)
<b>Total shareholders' equity</b>	<b>8,679,989</b>	<b>9,150,759</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 20,292,944</b>	<b>\$ 20,763,803</b>

Going concern (Note 1)

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on November 29, 2016. They are signed on the Company's behalf by:

/s/ John A. Versfelt , Director

/s/ Thomas G. Oliver , Director

The accompanying notes are an integral part of these consolidated financial statements.

## CABO DRILLING CORP.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss  
For the quarter ended September 30, 2016 and 2015  
(Expressed in Canadian dollars)

	September 30, 2016	September 30 2015
<b>Revenues</b>	<b>\$ 2,667,592</b>	<b>\$ 3,639,633</b>
<b>Direct costs</b>	<b>(2,345,720)</b>	<b>(3,296,721)</b>
<b>Gross profit</b>	<b>321,872</b>	<b>342,912</b>
<b>Expenses</b>		
General and administrative	(755,439)	(807,297)
(Loss) gain on foreign exchange	(11,770)	(4,473)
	<b>(767,209)</b>	<b>(811,770)</b>
<b>Operating loss before other income (expenses) and income taxes</b>	<b>(445,137)</b>	<b>(468,858)</b>
<b>Other income (expenses)</b>		
Finance costs	(104,685)	(150,939)
Gain on disposal of assets	5,000	-
	<b>(99,685)</b>	<b>(150,939)</b>
<b>(Loss) before income taxes</b>	<b>(545,022)</b>	<b>(619,797)</b>
<b>Income tax (provision) recovery</b>		
Current income tax	(62,978)	(5,417)
Deferred income tax	-	-
	<b>(62,978)</b>	<b>(5,417)</b>
<b>Net (loss) for the quarter</b>	<b>(608,000)</b>	<b>(625,214)</b>
<b>Other comprehensive income (loss)</b>		
Foreign currency adjustment on translating financial statements of foreign operations	138,230	(49,058)
	<b>(138,230)</b>	<b>(49,058)</b>
<b>Comprehensive loss for the period</b>	<b>\$ (469,770)</b>	<b>\$ (674,272)</b>
<b>Loss per share</b>		
Basic and diluted (Note 11)	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted (Note 12)	<b>93,868,175</b>	<b>92,734,479</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CABO DRILLING CORP.

Consolidated Statements of Changes in Shareholders' Equity  
 For the quarters ended September 30, 2016 and 2015  
 (Expressed in Canadian dollars)

	Share Capital		Share- Based Payments Reserve	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount				
<b>Balance, June 30, 2015</b>	<b>78,968,175</b>	<b>\$ 34,148,962</b>	<b>\$ 487,862</b>	<b>\$ 148,383</b>	<b>\$ (22,790,337)</b>	<b>\$ 11,994,870</b>
Shares issued to acquire WWEC	14,900,000	149,000				149,000
Net loss for the period	–	–	–	–	(625,214)	(625,214)
Other comprehensive income	–	–	–	(49,058)	–	(49,058)
<b>Balance, September 30, 2015</b>	<b>93,868,175</b>	<b>\$ 34,297,962</b>	<b>\$ 487,862</b>	<b>\$ 99,325</b>	<b>\$ (23,415,551)</b>	<b>\$ 11,469,598</b>
<b>Balance, June 30, 2016</b>	<b>93,868,175</b>	<b>\$ 34,297,962</b>	<b>\$ 487,862</b>	<b>\$ 26,093</b>	<b>\$ (25,661,158)</b>	<b>\$ 9,150,759</b>
Net loss for the period					(608,000)	(608,000)
Other comprehensive loss	–	–	–	137,230	–	137,230
<b>Balance, September 30, 2016</b>	<b>93,868,175</b>	<b>\$ 34,297,962</b>	<b>\$ 487,862</b>	<b>\$ 163,323</b>	<b>\$ (26,269,158)</b>	<b>\$ 8,679,989</b>

The accompanying notes are an integral part of these consolidated financial statements.

# CABO DRILLING CORP.

Interim Condensed Consolidated Statements of Cash Flows  
For the quarter ended September 30, 2016 and 2015  
(Expressed in Canadian dollars)

	September 30, 2016	September 30, 2015
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (608,000)	\$ (625,214)
Items not involving cash:		
Depreciation	418,412	518,482
Gain on disposal of assets	(5,000)	-
Loss on sale of investments	-	-
	<b>(194,588)</b>	<b>(106,732)</b>
Changes in working capital items (Note 15)	<b>246,873</b>	485,628
<b>Cash (used in) provided by operating activities</b>	<b>52,095</b>	378,896
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	-	(45,111)
Proceeds on disposal of assets	-	-
Purchase of marketable securities	-	(25,000)
<b>Cash (used in) provided by investing activities</b>	<b>-</b>	<b>(70,111)</b>
<b>FINANCING ACTIVITIES</b>		
Net change in short-term loans	50,000	-
Increase in (repayment of) long-term debt	<b>(40,148)</b>	(41,047)
<b>Cash provided by (used in) financing activities</b>	<b>(9,852)</b>	(41,047)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>43,053</b>	267,738
<b>Cash and cash equivalents, beginning of period</b>	<b>122,316</b>	46,449
<b>Cash and cash equivalents, end of period</b>	<b>\$ 165,369</b>	<b>\$ 314,187</b>

Supplementary cash flow information (Note 15)

# **CABO DRILLING CORP.**

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Cabo Drilling Corp. ("Cabo", the "Company") provides contract drilling services including surface and underground coring, directional, reverse circulation and geotechnical drilling to companies involved in mining and mineral exploration. The Company currently has operations in Canada, Greece, Panama, Colombia, Albania, and the United States. The Company is located at 20 Sixth Street, New Westminster, British Columbia, Canada, V3L 2Y8.

Cabo is a Canadian public company incorporated under the Yukon Business Corporations Act and is listed on the TSX Venture Exchange ("TSX-V") and the Frankfurt Stock Exchange.

The Company has incurred a net loss in the quarter in the amount of \$608,000 (2015 - \$625,914) and has an accumulated deficit of \$26,269,158 (June 30, 2016 - \$25,661,158) as at September 30, 2016. Also, as at September 30, 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 continued operations of the Company are dependent on future profitable operations, 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. These consolidated financial statements have been 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. These 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.

## **2. BASIS OF PRESENTATION**

### **a) Statement of compliance**

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed.

### **b) Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis except for available-for-sale financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

# **CABO DRILLING CORP.**

Notes to Consolidated Financial Statements  
Periods ended September 30, 2016 and June 30, 2016  
(Expressed in Canadian dollars)

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the group until the date on which control ceases.

The accounts of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as listed below:

- Cabo Drilling (Ontario) Corp.
- Cabo Drilling (Atlantic) Corp.
- 425588 B.C. Ltd.
- Cabo Drilling (Pacific) Corp.
- Cabo Drilling (International) Inc.
- Forages Cabo Inc.
- Cabo Drilling de Mexico S.A. de C.V.
- Cabo Drilling Spain SL
- Cabo Drilling (Panama) Corp.
- Balkan States Drilling Ltd.
- Cabo Drilling (Colombia) Corp.
- Cabo Drilling (Ghana) Limited
- Cabo Drilling (Greece) Limited
- WorldWide EnviroChem Corporation

All inter-company transactions and balances are eliminated on consolidation.

### **b) 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 date 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 at the date of the transaction. 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.



# **CABO DRILLING CORP.**

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **b) Foreign currency translation (Continued)**

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.

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

### **c) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognized when recovery of the consideration is probable. Revenue is recognized when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, when collection is reasonably assured and when specific criteria have been met for each of the Company's activities as described below.

Revenue from drilling contracts is recognized on the basis of actual metres/footage drilled for each contract. Revenues from ancillary services are recorded when the services are rendered. Contract prepayments and amounts pre-billed for mobilization and de-mobilization equipment and personnel moves are deferred to unearned revenue until performance is accomplished.

## **4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS**

When preparing the financial statements in conformity with IFRS, management undertakes a number of judgments, estimates and assumptions about the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management.

Estimates and assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

### **Use of Estimates**

Significant areas requiring the use of management estimates relate to the valuation of marketable securities, the valuation and collectability of trade and other receivables, the useful lives of property, plant and equipment for amortization purposes, inventory valuation, determination of income and other taxes, assumptions used in compilation of share-based payments, and amounts recorded as accrued liabilities.

- a) Management determines the fair value of marketable securities based on quoted market prices in the stock exchange.
- b) Trade and other receivables are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is recorded.

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS (continued)

- c) Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.
- d) Management reviews the condition of inventories at the end of each reporting period and recognizes a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use. Management's estimate of the net realizable value of such inventories is based primarily on sales prices and current market conditions.
- e) Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to estimation uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings.
- f) The amounts disclosed related to fair values of stock options and warrants issued and the resultant effects on net income (loss) are based on estimates of future volatility of the Company's share price, expected forfeiture rates, expected lives of the options and expected dividends.
- g) The amount recognized as accrued liabilities, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

### Judgments

The Company applied judgment in determining the functional currency of the Company and its subsidiaries. Functional currency was determined based on the currency that mainly influences sales prices, labour, materials and other costs of providing services.

Property, plant and equipment are aggregated into cash generating units ("CGUs") based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment with respect to the lowest level at which independent cash inflows are generated.

The Company has applied judgment in determining the degree of componentization of property, plant and equipment. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and has a separate useful life has been identified as a separate component and is depreciated separately.

The Company has applied judgment in recognizing accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event; whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and whether a reliable estimate can be made of the amount of the obligation.

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 4. BUSINESS ACQUISITION AND DISTRIBUTION RIGHTS

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, to road contractors, precast concrete manufacturers, concrete contractors and ready-mix suppliers throughout North, Central and South America, excluding Chile, but including the Caribbean, plus Southern Africa, including South Africa, Namibia, Botswana, Zambia and Malawi.

The acquisition has been accounted for using the acquisition method and the results of the new infrastructure division have been included in the Consolidated Statements of Operations from the closing date. Goodwill arising from this acquisition represents the excess of the total consideration paid over the fair value of the net assets acquired and the benefit of expected synergies, revenue growth, and future market development. The Company assumed an existing debt owing by WWEC in the amount of \$59,902 and issued 14,900,000 common shares at \$0.01 per share to acquire WWEC. As a result of this transaction, the Company recorded distribution rights in the amount of \$208,902.

	<b>Distribution Rights</b>	
<b>Cost</b>		
Balance at June 30, 2015 and 2014	\$	-
Additions		208,902
Disposals		-
<b>Balance at June 30, 2016</b>	<b>\$</b>	<b>208,902</b>
<b>Accumulated depreciation</b>		
Balance at June 30, 2015 and 2014	\$	-
Depreciation for the year		10,445
Disposals		-
<b>Balance at June 30, 2016</b>	<b>\$</b>	<b>10,445</b>
<b>Carrying amounts</b>		
At June 30, 2015	\$	-
<b>At June 30, 2016</b>	<b>\$</b>	<b>198,457</b>

## CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

### 5. MARKETABLE SECURITIES

The following table reflects the changes in available-for-sale investments for the periods ended September 30, 2016:

Public Companies	Shares	Fair Value	Cost	Fair Value Decrease
International Millenium Mining Corp.	7,898,751	\$ 552,912	\$ 592,849	\$ (39,937)
Puddle Pond Resources Inc.	250,000	75,000	75,000	-
<b>Balance September 30, 2016</b>		<b>\$ 627,912</b>	<b>\$ 667,849</b>	<b>\$ (39,937)</b>

Unrealized gain on available-for-sale investments included in other comprehensive income for the year ended June 30, 2016 was \$201,121 (2015 – \$Nil). International Millennium Mining Corp. (“IMMC”), a publicly listed company trading on the TSX-V, has directors and officers in common with Cabo. During the year, 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, and purchased 250,000 shares of Puddle Pond Resources Inc. for \$75,000.

### 6. SHORT-TERM LOANS

	September 30, 2016	June 30, 2016
Demand loan <sup>1</sup>	\$ 50,000	\$ -
Current portion of long-term debt	4,438,929	4,474,352
	<b>\$ 4,488,929</b>	<b>\$ 4,474,352</b>

1) Short term loan at 5% interest per annum to be repaid by April 30, 2017.

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 7. LONG-TERM DEBT

	September 30, 2016	June 30, 2016
Term loan <sup>1</sup>	\$ 261,605	\$ 291,605
Term loan <sup>2</sup>	1,087,322	1,122,317
Debentures <sup>3</sup>	3,191,900	3,191,900
Finance leases <sup>4</sup>	92,623	67,276
	<b>4,633,450</b>	4,673,098
Less: Current portion	<b>(4,438,929)</b>	(4,474,352)
	<b>\$ 194,521</b>	\$ 198,746

- 1) Finance lease bearing interest at Nil% per annum, secured by a specific asset with monthly payments of \$10,000, maturing 2019.
- 2) Term loan, bearing interest at 6.46% per annum, secured by drilling equipment of the Company. The Company is in arrears on the payment but is currently negotiating a revised payment schedule.

The Company entered into a Forbearance Agreement with its \$1,400,000 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.

- 3) 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.
- 4) Finance leases bearing interest at a weighted average rate of 7.7% per annum, secured by drilling equipment and vehicles of the Company, maturing from 2016 to 2018.

The required annual principal and interest repayments on long-term debt are as follows:

1 – 12 months	\$ 4,454,576
13 – 24 months	151,338
25 – 36 months	30,656
	<b>4,636,570</b>
Less: Imputed interest	<b>(3,120)</b>
Long-term debt	<b>\$ 4,633,450</b>

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements  
Periods ended September 30, 2016 and June 30, 2016  
(Expressed in Canadian dollars)

## 8. SHARE CAPITAL

### a) Authorized

Unlimited common shares without par value.

### b) Issued

No shares issued during the first quarter of fiscal 2017

During the year ended June 30, 2016, the Company issued 14,900,000 common shares at \$0.01 per share to acquire WWEC (see Note 6).

### c) Stock options

The Company has a stock option plan which follows the policy of the TSX Venture Exchange. From time to time, management of the Company may grant stock option awards to directors, employees and consultants. Under the plan, the Company may grant incentive stock options up to a total of 10% of the Company's issued and outstanding common shares. Options granted must be exercised no later than five years from the date of grant or such lesser period as approved by the Board of Directors. The directors, subject to the policies of the TSX Venture Exchange, may determine the vesting terms of the awards.

A summary of the changes in stock options for the quarters ended September 30, 2016 is presented below:

	Number of Options	Weighted Average Exercise Price	
Balance, June 30, 2015	4,035,000	\$	0.10
Forfeited	(4,035,000)	\$	0.10
Balance, June 30, 2016	-	\$	0.10
Forfeited	-	\$	0.10
<b>Balance, September 30, 2016</b>	<b>-</b>	<b>\$</b>	<b>-</b>

As at June 30, 2016, the Company had no stock options outstanding (2015 - 4,035,000).

### Fair value of options

The fair value of options granted to employees on the grant dates were determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the expected life of the option.

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade and other receivables, demand loans, trade and other payables and long-term debt. The carrying values of cash and cash equivalents, trade and other receivables, demand loans and trade and other payables approximate their fair values due to the relatively short period to maturity or the demand nature of the financial instruments. Fair values of marketable securities and available-for-sale investments are determined based on Level 1 inputs.

The carrying value of long-term debt approximates fair value as a substantial portion of the debt is at a variable interest rate and the remaining term loans and finance leases are at interest rates that approximate the current market interest rate.

Financial instruments are exposed to credit, liquidity and market risks. From time to time, the Company may establish policies to manage or mitigate these risks. The Company currently does not have in place any hedging or derivative trading policies to manage these risks. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Market risk is that the fair value of the Company's financial instruments will fluctuate because of changes in market prices, principal currency and interest rates.

### a) Credit risk

The Company is exposed to credit risk from trade accounts receivable. The Company has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company carries out, on a continuing basis, credit checks on its customers, initiates collection activity immediately on past due accounts, negotiates settlements and maintains adequate provisions for contingent credit losses. The Company diversifies its credit risk by dealing with a large number of customers in various domestic and foreign locations. Three major customers represent 88% of the trade accounts receivable as at September 30, 2016 (June 30, 2016 – 92%), respectively by customer: 54%, 20%, 14%. Three customers represent 90% (June 30, 2016 – 90%) of the contract revenue for the quarter ended September 30, 2016, respectively by customer: 62%, 18% and 10%. The maximum exposure to credit risk is the net carrying value of receivables and unearned revenue. As at September 30, 2016, the Company has an allowance of \$737,000 (June 30, 2016 - \$737,000) in allowance for doubtful accounts..

# **CABO DRILLING CORP.**

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

### **b) Liquidity risk**

Liquidity risk arises from the Company's management of working capital, finance charges and principal repayments on long-term debt. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by maintaining accounts payable current and preserving a good credit rating, and by continuously monitoring forecast and actual cash flows.

### **c) Market risk**

The Company operates on an international basis and therefore, currency risk exposures arise from transactions denominated in foreign currencies. The majority of its international sales contracts are denominated in US dollars. The Company does not actively manage its currency risk at this time. As at June 30, 2016, the Company had cash in US dollars totalling US\$42,000 (2015 - US\$50,000); 0.23 million Colombian Pesos ("COP") (2015 - 14.95 million COP) and Nil Euro (2015 - 1,000 Euro). The Company has estimated that a ten percent increase or decrease of the exchange rates would have caused a corresponding annual increase or decrease in net earnings of approximately \$60,000 (2015 - \$15,000).

The Company's demand credit facilities and certain long-term debt bear a floating rate of interest based on the financial institution's deposit rate, which exposes the Company to interest rate fluctuations. The Company has estimated that a one percent increase or decrease in the interest rate would have caused a corresponding annual increase or decrease in net earnings of approximately \$5,000 (2015 - \$5,000).

## **10. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on credit facilities and to support any growth plans.

In the management of its capital, the Company includes its cash and cash equivalent balances. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the statement of financial position, less cash and cash equivalents. Debt-plus-equity is calculated as debt shown on the statement of financial position, plus total shareholders' equity which includes accumulated other comprehensive loss, share capital, share-based payments reserve and deficit.

The Company's policy is to keep its debt to debt-plus-equity ratio at a manageable level consistent with the current business cycle and the business opportunities outlook foreseen by the Company. As a general guideline, the Company's policy will be to keep its debt to debt-plus-equity ratio to a manageable level, except in unusual circumstances such as a major acquisition. The Company's Board of Directors approves material debt borrowing plans proposed by the Company's management.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient cash and cash equivalents to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.



# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 11. LOSS PER SHARE

The calculation of basic loss per share for the quarter ended September 30, 2016 was based on net loss of \$608,000 (September 30, 2015 - \$625,914), and weighted average number of common shares outstanding of 93,868,175 (September 30, 2015 - 93,868,175).

Diluted per share information is calculated by adjusting the weighted average number of common shares outstanding by the effects of dilutive potential common shares, consisting of share options and warrants. During the quarters ended September 30, 2016 and 2015, there were no common shares with dilutive potential.

## 12. RELATED PARTY TRANSACTIONS

### a) Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The President and Chief Executive Officer and the Chief Financial Officer are the Company's key management personnel.

Quarters ended September 30,	2016	2015
Short-term employee benefits	\$ 68,094	\$ 71,500

### b) Related party transactions and balances

The Company shares office services and personnel with International Millennium Mining Corp. ("IMMC"), a company with common directors and officers. At September 30, 2016, \$17,710 (June 30, 2016 - \$8,374) was due from IMMC for shared services. 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 (2015 - \$Nil).

The Company pays its independent directors an annual fee and a fee for attending director and committee meetings. During the quarter ended September 30, 2016, the Company paid \$1,500 (2015 - \$1,500) for these services.

## 13. SUBSEQUENT EVENTS

Subject to TSX-Venture Exchange approval, the Company has agreed to receive shares for debt from International Millennium Corp. in the amount of \$25,125 at \$0.05 per share.

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 14. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments: Canada and United States, Latin America, and Europe. The services provided in each of the reportable drilling segments are essentially the same. The accounting policies of the segments are the same as those described in Notes 3 and 4. Data relating to each of the Company's reportable segments is presented as follows:

	<b>September 30, 2016</b>	September 30, 2015
Revenue		
Canada and United States	\$ 238,017	\$ 2,005,786
Latin America	2,429,575	1,558,670
Europe	-	75,177
	<b>\$ 2,667,592</b>	<b>\$ 3,639,633</b>
	<b>September 30, 2016</b>	September 30, 2015
Net income (loss)		
Canada and United States	\$ (871,827)	\$ (769,889)
Latin America	293,827	173,469
Europe	(30,000)	(28,794)
	<b>\$ (608,000)</b>	<b>\$ (625,214)</b>
Depreciation		
Canada and United States	\$ 283,225	\$ 382,811
Latin America	105,187	106,270
Europe	30,000	29,401
	<b>\$ 418,412</b>	<b>\$ 518,482</b>
Total assets		
Canada and United States	\$ 12,410,260	\$ 15,837,282
Latin America	7,011,915	6,976,905
Europe	870,769	1,157,963
	<b>\$ 20,292,944</b>	<b>\$ 23,972,150</b>

# CABO DRILLING CORP.

Notes to Consolidated Financial Statements

Periods ended September 30, 2016 and June 30, 2016

(Expressed in Canadian dollars)

## 15. SUPPLEMENTARY INFORMATION

### a) Cash flow information

Changes in non-cash working capital items:

	<b>September 30, 2016</b>	September 30, 2015
Trade and other receivables	<b>\$ 59,479</b>	167,714
Inventories	<b>17,117</b>	(31,639)
Prepaid expenses	<b>86,262</b>	(12,844)
Trade and other payables	<b>113,554</b>	84,229
Unearned revenue	<b>3,361</b>	243,118
Income tax payable	<b>(32,900)</b>	34,850
	<b>\$ 246,873</b>	485,428

Interest and income taxes paid:

	<b>September 30, 2016</b>	September 30, 2015
Interest paid	<b>\$ 104,685</b>	<b>38,924</b>
Income taxes paid	<b>\$ 96,578</b>	-