

# **CABO DRILLING CORP**

**STOCK OPTION PLAN**

**2003**

**(ACCEPTED DECEMBER 19, 2003)**

**AMENDED FEBRUARY. 26, 2009**

**CABO DRILLING CORP.**  
**Formerly CABO MINING ENTERPRISES CORP.**  
**Formerly CABO MINING CORP.**  
(the “Company”)

**STOCK OPTION PLAN**  
**OCTOBER, 2003 (UPDATED NOVEMBER 2004) and**  
**AMENDED - FEBRUARY 26, 2009**

**ARTICLE 1**  
**PURPOSE, DEFINITIONS AND INTERPRETATION**

**Purpose**

1.1 The purpose of this Plan shall be to advance the interests of the Company by encouraging equity participation in the Company through the acquisition of Common Shares of the Company. It is the intention of the Company that this Stock Option Plan shall at all times be in compliance with the TSX Venture Policies and any inconsistencies between this Stock Option Plan and the TSX Venture Policies whether due to inadvertence or changes in TSX Venture Policies will be resolved in favour of the latter.

**Definitions**

1.2 In this Stock Option Plan:

“**Administrator**” means such director or other senior officer or employee of the Company as may be designated as Administrator of the Stock Option Plan by the Board from time to time;

“**Affiliate**” means a company that is a parent or subsidiary of the Company, or that is controlled by the same entity as the Company;

“**Associate**” has the meaning assigned by the *Securities Act*;

“**Board**” means the board of directors of the Company or any committee thereof duly empowered or authorized to grant options under this Stock Option Plan;

“**Common Shares**” means common shares without par value in the capital of the Company providing such class of common shares is listed on the TSX Venture;

“**Company**” means CABO DRILLING CORP. formerly, CABO MINING ENTERPRISES CORP. and includes, unless the context otherwise requires, all of its subsidiaries or Affiliates and successors according to law;

“**Consultant**” means a Person or Consultant Company, other than an Employee, Officer or Director that;

- (i) provides on an ongoing bona fide basis, consulting, technical, managerial or like services to the Company or an Affiliate of the Company, other than services provided in relation to a Distribution;
- (ii) provides the services under a written contract between the Company or an Affiliate and the Person or the Consultant Company; and
- (iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the business and affairs of the Company or an Affiliate that enables the Person or Consultant Company to be knowledgeable about the business and affairs of the Company;

“**Consultant Company**” means for a person, a company or partnership of which the Person is an employee, shareholder or partner;

“**Director**” means the directors of the Company as may be elected from time to time;

“**Discounted Market Price**” has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

**“Disinterested Shareholder Approval”** means approval by the majority of the votes cast by all the Company’s shareholders at a duly constituted shareholders’ meeting, excluding votes attached to shares beneficially owned by Service Providers or their Associates;

**“Distribution”** has the meaning assigned by the *Securities Act*, and generally refers to a distribution of securities by the Company from treasury;

**“Effective Date”** for an Option means the date of grant thereof by the Board;

**“Employee”** means:

- (a) A person who is considered an employee under the *Income Tax Act* (i.e. for whom income tax, employment insurance and CPP deductions must be made at source);
- (b) A person who works full-time for the Company or its Affiliate providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source; or
- (c) A person who works for the Company or its Affiliate on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions need not be made at source;

**“Exercise Notice”** means the notice, duly executed and delivered by the Optionee to the Company, to exercise an Option granted hereunder to the Optionee, in part or in full, and substantially in the form of Schedule “B” attached hereto;

**“Exercise Price”** means the amount payable per Common Share on the exercise of an Option, as determined in accordance with the terms hereof;

**“Expiry Date”** means the day on which the Option lapses as specified in the Option Commitment therefore or in accordance with the terms of this Stock Option Plan;

**“Insider”** means:

- (i) an insider as defined in the TSX Venture Policies or as defined in securities legislation applicable to the Company; or
- (ii) an Associate of any person who is an insider by virtue of paragraph (i) above;

**“Investor Relation Activities”** has the meaning assigned by Policy 1.1 of the TSX Venture Policies, and means generally any activities or communications that can reasonably be seen to be intended or be primarily intended to promote the merits or awareness of or the purchase or sale of securities of the Company;

**“Listed Shares”** means the number of issued and outstanding Common Shares of the Company that have been accepted for listing on the TSX Venture, but excluding dilutive securities not yet converted into Listed Shares;

**“Management Company Employee”** means a person employed by a Person providing, on an ongoing bona fide basis, management services to the Company which are required for the ongoing successful operations of the business enterprise of the Company, but excluding a Person engaged in Investor Relations Activities;

**“Officer”** means a duly appointed senior officer of the Company;

**“Option”** means the right to purchase Common Shares granted hereunder to a Service Provider;

**“Option Certificate”** means the certificate delivered by the Company hereunder to a Participant and substantially in the form of Schedule “A” attached hereto;

“**Optioned Shares**” means Common Shares that may be issued in the future to a Participant upon the exercise of an Option;

“**Optionee**” means the recipient of an Option hereunder;

“**Outstanding Shares**” means at the relevant time, the number of the issued and outstanding Common Shares of the Company from time to time;

“**Participant**” means a Service Provider or Person engaged in Investor Relation Activities for the Company who becomes an Optionee;

“**Person**” means a company or an individual;

“**Plan Shares**” means the total number of Common Shares which may be reserved for issuance as Optioned Shares under the Stock Option Plan as provided in Section 2.2;

“**Regulatory Approval**” means the approval of the TSX Venture and any other securities regulatory authorities that may have lawful jurisdiction over the Stock Option Plan and any Option issued hereunder;

“**Securities Act**” means the *Securities Act*, R.S.C.B.C. 1996, c. 418, as amended from time to time;

“**Service Provider**” means a bona fide Director, Officer, Employee, Management Company Employee or Consultant, or a company, of which 100% of the share capital is beneficially owned by one or more Person Service Providers;

“**Share Compensation Arrangement**” means any Option under this Stock Option Plan but also includes any other stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Common Shares to a Service Provider;

“**Shareholders Approval**” means approval by a majority of the votes cast by eligible shareholders at a duly constituted shareholders’ meeting;

“**Stock Option Plan**” means this Stock Option Plan, the terms of which are set out herein or as may be amended;

“**Tier 1**” or “**Tier 2 Company**” means a Tier 1 Issuer or Tier 2 Issuer as defined in the TSX Venture Policies;

**TSX Venture** means the TSX Venture Exchange and any successor thereto; and

**TSX Venture Policies** means the rules and policies of the TSX Venture as amended from time to time.

## **ARTICLE 2 STOCK OPTION PLAN**

### **Establishment of Stock Option Plan**

2.1 There is hereby established a Stock Option Plan (hereinafter the “Plan”) to recognize contributions made by Service Providers and Persons employed to provide Investor Relations Activities and to create an incentive for their continuing assistance to the Company and its Affiliates. The Plan must receive Shareholders’ Approval annually at the Company’s duly called annual general shareholders meeting.

## Maximum Plan Shares

- 2.2 The maximum number of Common Shares issuable under the Plan shall not exceed 10% of the number of Outstanding Shares as of each Effective Date, inclusive of all Common Shares presently reserved for issuance pursuant to previously granted Options, unless Shareholders Approval is obtained in advance as set forth hereunder.

## Eligibility

- 2.3 Options to purchase Common Shares may be granted hereunder to Service Providers and Persons employed to provide Investor Relations Activities from time to time by the Board. Service Providers that are corporate entities shall be required to undertake in writing not to effect or permit any transfer of ownership or option of any of its shares, nor issue more of its shares (so as to indirectly transfer the benefits of an Option), as long as such Option remains outstanding, unless written permission of the TSX Venture and the Company is obtained.

## Options Granted Under the Plan

- 2.4 All Options granted under the Plan shall be evidenced by an Option Certificate showing the number of Optioned Shares, the term of the Option and the Exercise Price.
- 2.5 Subject to specific variations approved by the Board, all terms and conditions set out herein shall be deemed to be incorporated into and form part of an Option Certificate made hereunder.

## Limitations on Issue

- 2.6 Subject to Section 2.9, the following restrictions on issuance of Options are applicable under the Plan:
- (a) no Service Provider may be granted an Option if that Option would result in the total number of Options, together with all other Share Compensation Arrangements granted to such Service Provider in the previous 12 months, exceeding 5% of the Listed Shares (unless the Company is classified as a Tier 1 Issuer by the TSX Venture and has obtained Disinterested Shareholder Approval under Section 2.9(a)(iii) to do so);
  - (b) no Options may be granted under the Plan if the Company is on notice to have its listing transferred to the NEX (as defined in the TSX Venture Policies);
  - (c) the aggregate number of Options granted to Persons conducting Investor Relation Activities in any 12-month period must not exceed 2% of the Listed Shares, calculated at the time of grant, without the prior consent of TSX Venture; and
  - (d) the aggregate number of options granted to any one Consultant in any 12-month period must not exceed 2% of the Listed Shares, calculated at the time of grant, without the prior consent of TSX Venture.

## Options Not Exercised

- 2.7 In the event the Option granted under the Plan expires unexercised or is terminated by reason of dismissal of the Optionee for cause or is otherwise lawfully cancelled prior to exercise of the Option, the Optioned Shares that were issuable thereunder shall be returned to the Plan and shall be eligible for re-issue.

## Powers of the Board

- 2.8 The Board shall be responsible for the general administration of the Plan and the proper execution of its provisions, the interpretation of the Plan and the determination of all questions arising hereunder. Without limiting the generality of the foregoing, the Board has the power to:
- (a) allot Common Shares for issuance in connection with the exercise of Options;
  - (b) grant Options hereunder;

- (c) subject to Regulatory Approval, amend, suspend, terminate or discontinue the Plan, or revoke or alter any action taken in connection therewith, except that no general amendment or suspension of the Plan, shall, without the written consent of all Optionees, alter or impair any Option previously granted under the Plan unless as a result of a change in TSX Venture Policies or the Company's tier classification thereunder;
- (d) delegate all or such portion of its powers hereunder as it may determine to one or more committees of the Board, either indefinitely or for such period of time as it may specify, and thereafter each such committee may exercise the powers and discharge the duties of the Board in respect of the Plan so delegated to the same extent as the Board is hereby authorized so to do;
- (e) in its sole discretion amend this Plan (except for previously granted and outstanding Options) to reduce the benefits that may be granted to Service Providers (before a particular Option is granted) subject to the other terms hereof; and
- (f) appoint an Administrator.

### **Terms or Amendments Requiring Disinterested Shareholder Approval**

- 2.9 The Company shall be required to obtain Disinterested Shareholder Approval prior to any reduction in the Exercise Price of an Option previously granted to an Insider becoming effective.
- 2.10 The Company shall take no action requiring prior Disinterested Shareholder Approval to become effective, whereby the Plan, together with all of the Company's previously established and outstanding stock option plans or grants, could result at any time in:
  - (i) the aggregate number of Common Shares reserved for issuance under Options granted to Insiders exceeding 10% of the Listed Shares;
  - (ii) the number of Optioned Shares issued to Insiders within a one-year period exceeding 10% of the Listed Shares; or,
  - (iii) in the case of a Tier 1 Company only, the issuance to any one Optionee, within a 12-month period, of a number of Common Shares exceeding 5% of Listed Shares.

## **ARTICLE 3 TERMS AND CONDITIONS OF OPTIONS**

### **Exercise Price**

- 3.1 The Exercise Price of an Option shall be set by the Board at the time such Option is allocated under the Plan, and cannot be less than the Discounted Market Price.

### **Term of Option**

- 3.2 An Option may be exercisable for a maximum of 10 years from the Effective Date for a Tier 1 Company, or five years from the Effective Date for a Tier 2 Company.

### **Hold Period**

- 3.3 In addition to any resale restrictions pursuant to the Securities Act, where Options are granted by a Tier 2 Company or granted where the Exercise Price of the Option is the Discounted Market Price, all Optioned Shares shall be legended with a four month TSX Venture hold period commencing on the date the Option is granted or from the date of amendment of the Exercise Price.

### **Option Amendment**

- 3.4 Subject to Section 2.9(b), the Exercise Price of an Option may be amended only if at least six (6) months have elapsed since the later of the date of commencement of the term of the Option, or the date of the last amendment of the Exercise Price.
- 3.5 An Option must be outstanding for at least one year before the Company may extend its term, subject to the limits contained in Section 3.2.
- 3.6 Any proposed amendment to the terms of an Option must be approved by the TSX Venture prior to the exercise of such Option.

### **Vesting of Options Granted for Investor Relation Activities**

- 3.7 Options granted to Persons providing Investor Relation Activities for the Company shall vest:
- (a) over a period of not less than 12 months as to 25% on the date that is three months from the date of grant, and a further 25% on each successive date that is three months from the date of the previous vesting; or
  - (b) such longer vesting period as the Board may determine.

### **Optionee Ceasing to be a Service Provider or Person Providing Investor Relation Activities**

- 3.8 No Option may be exercised after the Participant has left the employ/office or has been advised that such Participant's services are no longer required or such Participant's service contract has expired, except as follows:
- (a) in the case of the death of an Optionee, any vested Option held by such Optionee at the date of death will become exercisable by the Optionee's lawful personal representatives, heirs, or executors until the earlier of one year after the date of death of such Optionee and the date of expiration of the term otherwise applicable to such Option;
  - (b) Options granted to any Service Provider must expire within 90 days after the date the Optionee ceases to be employed with or provide services to the Company;
  - (c) Options granted to a Person providing Investor Relation Activities for the Company must expire within 30 days of the date the Optionee ceases to conduct such activities; and
  - (d) in the case of an Optionee being dismissed from employment or service for cause, such Optionee's Options, will immediately terminate without right to exercise same.

### **Non-Assignable**

- 3.9 Subject to Section 3.8(a), all Options shall be exercisable only by the Optionee to whom they are granted and will not be assignable or transferable.

### **Adjustment of the Number of Optioned Shares**

- 3.10 The number of Common Shares subject to an Option shall be subject to adjustment in the events and in the manner following:
- (a) in the event of a subdivision of Common Shares as constituted on the date hereof, at anytime while an Option is in effect, into a greater number of Common Shares, the Company shall thereafter deliver at the time of purchase of Optioned Shares hereunder, in addition to the number of Optioned Shares in respect of which the right to purchase is then being exercised, such additional number of Common Shares as result from the subdivision without an Optionee making any additional payment or giving any other consideration therefore;

- (b) in the event of a consolidation of the Common Shares as constituted on the date hereof, at any time while an Option is in effect, into a lesser number of Common Shares of the Company shall thereafter deliver and an Optionee shall accept, at the time of purchase of Optioned Shares hereunder, in lieu of the number of Optioned Shares in respect of which the right to purchase is then being exercised, the lesser number of Common Shares as result from the consolidation;
- (c) in the event of any change of the Common Shares as constituted on the date hereof, at any time while an Option is in effect, the Company shall thereafter deliver at the time of purchase of Optioned Shares hereunder the number of shares of the appropriate class resulting from the said change as an Optionee would have been entitled to receive in respect of the number of Common Shares so purchased had the right to purchase been exercised before such change;
- (d) in the event of a capital reorganization, reclassification or change of outstanding equity shares (other than a change in the par value thereof) of the Company, a consolidation, merger or amalgamation of the Company with or into any other company or a sale of the property of the Company as or substantially as an entirety at any time while an Option is in effect, an Optionee shall thereafter have the right to purchase and receive, in lieu of the Optioned Shares immediately theretofore purchasable and receivable upon the exercise of the Option, the kind and amount of shares and other securities and property receivable upon such capital reorganization, reclassification, change, consolidation, merger, amalgamation or sale which the holder of a number of Common Shares equal to the number of Optioned Shares immediately theretofore purchasable and receivable upon the exercise of the Option would have received as a result thereof. The subdivision or consolidation of Common Shares at any time outstanding (whether with or without par value) will not be deemed to be a capital reorganization or a reclassification of the capital of the Company for the purposes of this Section 3.10 (d);
- (e) an adjustment shall take effect at the time of the event giving rise to the adjustment, and the adjustments provided for in this Section are cumulative;
- (f) the Company shall not be required to issue fractional shares in satisfaction of its obligations hereunder. Any fractional interest in a Common Share, except for the provisions of this Section 3.10(f), that would be deliverable upon the exercise of an Option shall be cancelled and not be deliverable by the Company; and
- (g) if any questions arise at any time with respect to the Exercise Price or number of Optioned Shares deliverable upon exercise of an Option in any of the events set out in this Section 3.10, such questions shall be conclusively determined by the Company's auditors, or if they decline to so act, any other firm of Chartered Accountants, in Vancouver, British Columbia (or in the city of the Company's principal executive office) that the Company may designate and who shall have access to all appropriate records, and such determination shall be binding upon the Company and all Optionees.

## **ARTICLE 4 COMMITMENT AND EXERCISE PROCEDURES**

### **Option Commitment**

- 4.1 Upon grant of an Option hereunder, the Administrator shall deliver to the Optionee an Option Certificate, together with a copy of the Plan, detailing the terms of such Option and upon such delivery the Optionee shall be subject to the Plan and have the right to purchase the Optioned Shares at the Exercise Price set out therein subject to the terms and conditions hereof. A copy of any amendment to the Plan shall be provided by the Administrator to each Optionee promptly upon Exchange acceptance of such amendment.

### **Manner of Exercise**

- 4.2 An Optionee who wishes to exercise an Option granted hereunder may do so by delivering:
- (a) an Exercise Notice to the Company's Administrator specifying the number of Optioned Shares being acquired pursuant to the Option; and
  - (b) cash or a certified cheque payable to the Company for the aggregate Exercise Price for the Optioned Shares being acquired.



### **Delivery of Certificate and Hold Periods**

- 4.3 As soon as practicable after receipt of an Exercise Notice from an Optionee, together with the payment in full for the Optioned Shares being acquired, the Company shall direct its transfer agent to issue a certificate to the Optionee for the appropriate number of Optioned Shares. Such issued certificate shall bear a legend stipulating any resale restrictions required pursuant to Section 3.3 and under applicable securities laws.

### **Condition of Issue of Common Shares Upon Exercise**

- 4.4 The issue of Common Shares by the Company pursuant to the exercise of an Option is subject to this Plan and compliance with the laws, rules and regulations of all regulatory bodies applicable to the issuance and distribution of such Common Shares and to the listing requirements of any stock exchange or exchanges on which the Common Shares may be listed. The Optionee shall comply with all such laws, rules and regulations and shall furnish to the Company any information, report and/or undertakings required to comply with and to fully cooperate with the Company in complying with such laws, rules and regulations.

## **ARTICLE 5 GENERAL**

### **Employment and Services**

- 5.1 Nothing contained in the Plan shall confer upon or imply in favour of any Optionee any right with respect to office, employment or provision of services with the Company, or interfere in any way with the right of the Company to lawfully terminate the Optionee's office, employment or service at any time pursuant to the arrangements pertaining to same. Participation in the Plan by an Optionee shall be voluntary.

### **No Representation or Warranty**

- 5.2 The Company makes no representation or warranty as to the future market value of Common Shares issued in accordance with the provisions of the Plan or to the effect of the *Income Tax Act* (Canada) or any other taxing statute governing the Options or the Common Shares issuable hereunder or the tax consequences to an Optionee. Compliance with applicable securities laws as to the disclosure and resale obligations of each Participant is the responsibility of such Participant and not the Company.

### **Interpretation**

- 5.3 The Plan shall be governed and construed in accordance with the laws of the Province of British Columbia.

### **Headings**

- 5.4 The headings used herein are for convenience only and are not to affect the interpretation of the Plan.

### **Amendment of the Plan**

- 5.5 The Board reserves the right, in its absolute discretion, to at any time amend, modify or terminate the Plan with respect to all Common Shares in respect of Options which have not yet been granted hereunder. Any amendment to any provision of the Plan shall be subject to any necessary Regulatory Approvals unless the effect of such amendment is intended to reduce (but not to increase) the benefits of this Plan to Service Providers and Persons providing Investor Relation Activities for the Company.

### **Agreement**

- 5.6 The Company and the Optionee shall be bound by and subject to the terms and conditions of the Plan.

**CABO DRILLING CORP.  
STOCK OPTION PLAN**

**OPTION CERTIFICATE**

This certificate is issued pursuant to the provisions of CABO DRILLING CORP. (the "Company") Stock Option Plan (the "Plan") and evidences that \_\_\_\_\_ (*Name of Optionee*) is the holder of an option (the "Option") to purchase up to \_\_\_\_\_ (*Number of Shares*) Common Shares (the "Shares") in the capital stock of the Company at a purchase price of \$\_\_\_\_\_ per Share.

Subject to the provisions of the Plan:

- (a) the Effective Date of this Option is \_\_\_\_\_ (*Insert Date of Grant*); and
- (b) the Expiry Date of this Option is \_\_\_\_\_ (*Insert Date of Expiry*).

This Option may be exercised in accordance with its terms and the terms of the Plan at any time and from time to time and including the Effective Date through to and including up to 5:00 p.m. (Pacific Standard Time) and on the Expiry Date, by delivering to the Company an Exercise Notice, substantially in the form provided in the Plan, together with this Option Certificate and a certified cheque or bank draft payable to the Company in an amount equal to the aggregate of the Exercise Price of the Shares in respect of which this Option is being exercised.

This certificate and the Option evidenced hereby is not assignable, transferable or negotiable and is subject to the detailed terms and conditions contained in the Plan. This certificate is issued for convenience only and in the case of any dispute with regard to any matter in respect thereof, the provisions of the Plan and the records of the Company shall prevail.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**CABO DRILLING CORP..**  
BY ITS AUTHORIZED SIGNATORY:

\_\_\_\_\_

**NAME:** \_\_\_\_\_

**TITLE:** \_\_\_\_\_

**EXERCISE NOTICE**

To: **CABO DRILLING CORP.** (the "Company")  
Attention: The Administrator, Stock Option Plan

The undersigned hereby irrevocably gives notice, pursuant to the Company Stock Option Plan (the "Plan"), of the exercise of the Option to acquire and hereby subscribes for: *(Cross out inapplicable item)*

- (a) all of the Common Shares which are the subject of the Option Certificate attached hereto; or
- (b) \_\_\_\_\_ of the Common Shares, which are the subject of the Option Certificate attached hereto.

Calculation of total Exercise Price:

(i) number of Common Shares to be acquired on exercise: \_\_\_\_\_

(ii) multiplied by the Exercise Price per Common Share: \$ \_\_\_\_\_

TOTAL EXERCISE PRICE, enclosed herewith: \$ \_\_\_\_\_

The undersigned tenders herewith a certified cheque or bank draft in an amount equal to the total Exercise Price of the aforesaid Common Shares, as calculated above, and directs the Company to issue the share certificate evidencing said Common Shares in the name of the undersigned to be mailed to the undersigned at the following address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DATED the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

\_\_\_\_\_  
Signature of Option Holder

\_\_\_\_\_  
Name of Option Holder *(Please Print)*