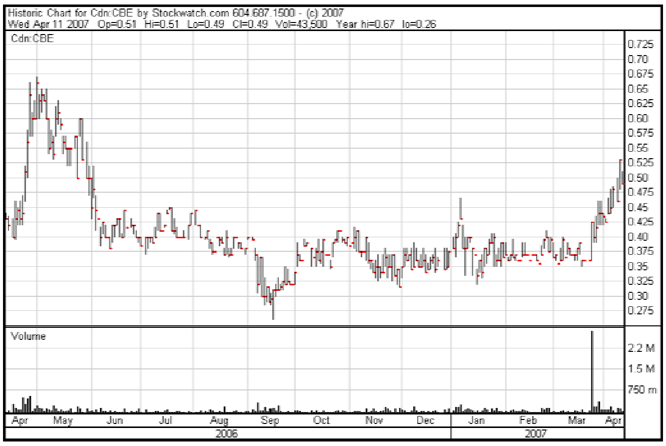
Research Note

CABO DRILLING CORP.

Market Cap.	C$19.3m
Listing	TSX-V: CBE
Shares Issued	40,205,346
Fully Diluted	51,297,213
Recent Share Price	C$0.48
Year High - Low	C$0.67 – 0.26
Cash at 28-02-2007	~C$3m
Avg. daily volume	60,000
Financial Y/E	30th June
Last Financing (Q1 2007)	C$2.7m & C$0.53m @ C$0.375

Significant Shareholders:

Management	10.2%
Pan American Capital Group	8.2%
Praetorian Capital Management	6.2%
Microcapital Fund LLP	2.6%
Humbolt Capital Group	1.2%



(Courtesy of www.stockwatch.com)

April 2007

- In 2004/5 Cabo Drilling Corp ("Cabo" or "the Company") purchased 100% of five small Canadian drilling companies and is now expanding into Latin America and Spain.
- Cabo had a long history under its previous names – variations on the 'Cabo' theme. Cabo was originally an exploration junior that in 2002 decided to provide commercial drilling services in order to obtain cash flow in the metals sector.
- The Company's exploration properties have been spun out into a newly listed International Millennium Mining Corp ("IMMC"), leaving Cabo as a pure drilling enterprise now moving rapidly into profitability.
- The board is made up of a mix of businessmen who have backgrounds operating both private and public businesses.
- Drilling is currently a boom industry, not just in Canada but globally. There is heavy demand for mineral exploration drilling and, as a result, margins are improving.
- Cabo historically reported lower margins than its larger listed competitors, but the gap is now narrowing and gross margins should reach close to 25% on a regular quarterly basis.
- Organic, internally funded, growth of ~20% year on year for Canadian business is expected; overseas expansion where margins are higher is now underway.
- The share price has fallen since 2004, as profits have been slow in arriving due to historically depressed margins on drilling and the lack of market support for the then "drilling funds exploration" story.
- The recent C$3m financing had two purposes. The first and foremost was to ensure the success of the IMMC spin out, and the second to fund expansion into Latin America and Spain. The Company has a significant bank facility which remains lightly used, if at all.
- The shares are widely held as would be expected given the corporate history, and we believe the current share price (C$0.48) currently reflects good value with significant appreciation to be expected over the next 18 months.

We believe that following the spin off of the exploration assets, Cabo will become recognised as a pure drilling play where estimates of forward P/E and other measures can be meaningfully applied. It is now seeing an increase in gross margin as well as significant organic growth and should report maiden taxable profits this financial year. In the following year ending 30th June 2008 we are setting a target post-tax profit of C$3m and a target share price of C$1.00. Cabo is exposed to the commodities and mineral exploration cycle, but should now take on the characteristics of a business rather than an exploration venture. The share is a BUY for commodities cycle bulls who are looking for medium term capital appreciation without the risk profile of exploration.

Loeel Arion & Co. Limited.

AUTHORISED AND REGULATED BY THE FINANCIAL SERVICES AUTHORITY
MEMBER OF THE LONDON STOCK EXCHANGE AND PLUS MARKETS

Georgian House
63, Coleman Street
London
EC2R 5BB

Telephone
+44 (0) 20 7628 1128

Fax
+44 (0) 20 7638 0756

This note reviews the operations of Cabo Drilling Corp ("Cabo"). The company has its headquarters in Vancouver, Canada and was continued out of British Columbia under the Yukon Business Corporations Act. Loeb Aron & Co visited the Kirkland Lake, Ontario and Surrey, British Columbia Divisions and two Cabo drill sites in November 2006.

CONTENTS **PAGE**

1 INVESTMENT SUMMARY

- Cabo Drilling Corp is a drilling services company headquartered in North Vancouver, British Columbia, Canada. The Company provides services through its subsidiaries Advanced Drilling Ltd. of Surrey, British Columbia; Forages Cabo Inc. of Montréal, Québec; Heath & Sherwood Drilling Inc., of Kirkland Lake, Ontario; and Petro Drilling Company Limited of Springdale, Newfoundland. From July 1st 2007 all these subsidiaries will become known as Cabo Drilling Divisions in their respective regions.

Built up by acquisitions in 2004-5 when drilling assets were cheap

- Cabo carried out a series of low-priced acquisitions in 2004-5 changing its business model from drilling supported exploration to that of a pure drilling services company. The process was completed in January 2007 with the spin-out and listing of International Millenium Mining Corp (IMI-TSX).

Organic growth in Canada

- Increasing turnover and improving margins, now allow Cabo to fund future growth organically from cash flow. We believe that most of this growth will soon be from overseas rather than in Canada where significant competition keeps gross margins down to less than ~30%.
- Overseas expansion has taken place into Mexico, Panama and Spain.
- Mexico was selected because there are a substantial number of Canadian funded exploration and project development companies active and the country has a good track record of turning exploration projects into mines which can bring significant follow on business.

Overseas subsidiaries formed

- Panama was selected because Cabo has significant in-country contacts leading to immediate business, the possibility of geotechnical / civil engineering work with the expansion of the Panama Canal, the sophistication of the banking and financial services industry, and the fact that as a trading nation the import/export of drill rigs and parts can be carried out smoothly. Panama, for historical reasons, is a natural jumping off point for business in Colombia – a country where mineral exploration is now expanding rapidly.
- Initially Spain will include work in the mining sector, with the potential for civil / environmental / geotechnical work to follow. Cabo anticipates using experienced Latin American drillers as Spanish-speaking trainers to accelerate expansion.

Now entering profitability

- We believe that Cabo will be able to show a continued upward trend in year-on-year gross margins reported in quarterly financials, sustainable growth, and will report maiden taxable profits for the current financial year on a turnover of about C$34m.
- The following year should see turnover above C$40m and, we target, post-tax profits of ~C$3m. On a "net cash plus 15x earnings" basis, a share price of C$1.00 should be achievable.
- A distribution of IMMC units, of a share and a 1/3 warrant, has taken place with record date 11th January 2007. This should be value additive for shareholders, since in these situations the stock declaring the dividend rarely drops by the amount of the dividend paid out.

2 CORPORATE PROFILE

2.1 Corporate Structure and History

Listed in Canada since 1985

First Incorporated in June 1985 as Drexmore Resources, the Company changed its name to Cabo Ventures in June 1989. There were then subsequent name changes to Cabo Exploration Ventures (February 1996), Cabo Mining (July 1998) and Cabo Mining Enterprises before becoming Cabo Drilling Corp in January 2006 when drilling became the sole focus.

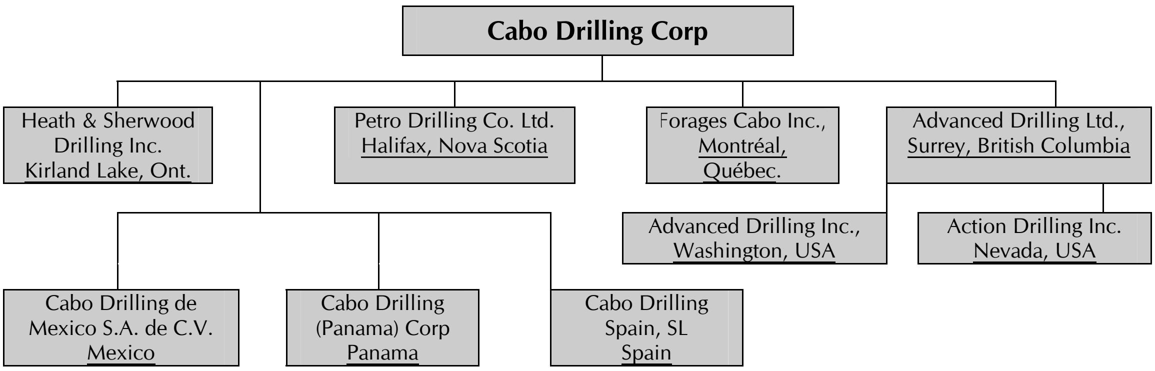
Gradual consolidation of small drilling companies

The first foray into drilling took place when it was decided that purchase of a drilling company, many of which were struggling to survive the minerals exploration downturn and hence were available cheaply, could provide Cabo with cash flow and potential long term stability, while it funded its exploration activities through private placements. Subsequently, the drilling side continued to expand as Cabo saw the opportunity, as a listed company, to consolidate a number of smaller drilling contractors and divisions in anticipation of a mineral exploration upturn. To date, Cabo has acquired Heath & Sherwood Inc (2004), Stratacan (Québec) Inc (October 2004), Petro Drilling Maritimes Ltd (2004), Advanced Drilling Group (February 2005), and Forages Cabo Inc (June 2005) – formerly Les Forages de Montréal (1988) Inc.

Re-focused solely on drilling.

The Company is now reorganised as a drilling company and has vended its four mineral properties to spin out International Millennium Mining Corp ("IMMC"), for 10m units, at least 75% of which has been distributed to shareholders of Cabo. IMMC has significant management overlap with Cabo, notably John Versfelt as CEO, Calvin Lucyshyn as CFO and Sheri Barton as Manager – Marketing and Investor Relations.

Figure 1 Corporate Structure of Cabo Drilling Corp (all 100% owned)



2.2 Management & Directors

Cabo's board, led by the outgoing John A Versfelt and supported by Cal Lucyshyn, both with wide experience in contracting companies, combines general business backgrounds, drawn mostly from Mr. Versfelt's Vancouver *milieu*, with drilling or technical backgrounds. The board is quite numerous as natural consequence of the absorption of a number of smaller drilling companies. A good number of these deals brought board appointments in their wake, but a prudent CEO would balance these appointments with those whose prime loyalties are unequivocally to the Company as a whole.

John A. Versfelt BA (Commerce) (57 years old) – President, CEO & Director

Mr Versfelt qualified at the Simon Fraser University, B.C. and started his career with forestry company MacMillan Bloedel as internal auditor and subsequently business analyst and consultant until 1982. He then became involved in the public and private company sector to which he consults via American Resource Management Consultants Inc ("ARMC"). Apart from Cabo, current involvements include IMMC, to which Cabo has recently sold mineral properties for shares) and Open EC Technologies Inc. Mr. Versfelt indicates that he spends about three quarters of his time on the affairs of Cabo.

Thomas G. Oliver BComm (63 years old) – Director

Mr Oliver is a former real estate developer, currently the CEO of a number of small private corporations and, in addition, acts as a consultant in financial administration and management. Since 1998 he has been president and manager of SplashDown Waterpark just south of Vancouver, BC. He was also business administrator for the Diocese of New Westminster for 5 years.

Frank J. Nolan BSc MSc P.Eng (74 years old) – Director

Mr Nolan, a geologist since 1956, has worked within the mining and oil and gas industries as a consultant. He has considerable experience in geo-environmental engineering and engineering in general and has 30 years experience as a consulting engineer founding Nolan, Davis and Associates which became part of the major Canadian engineering firm ADI in 1992. Mr Nolan was, in 1968, a founding partner of Petro Drilling purchased by Cabo in 2004.

Peter Walton (78 years old) – Director

Mr. Walton has held positions as a Tax Partner with Peat Marwick, Mitchell (later part of KPMG) and a former Director for the Hong Kong Bank of Canada and Granges Inc and subsequently of Vista Gold Inc. He has held positions as Chairman of the Vancouver Board of Trade Taxation Committee, Governor of the Canadian Tax Foundation, and Chairman of the Canadian Bar and Canadian Institute of Chartered Accounts Joint Committee on Taxation. Mr Walton is lifetime Honorary Director of the Lion Gate Hospital Foundation, Vancouver and past-President of the Capilano Golf and Country Club.

Robin Preston CFP (64 years old) – Director

Mr. Preston left the UK for Canada to pursue an already successful sales oriented career with IBM. In 1982 he joined Pemberton Securities (taken over by RBC Dominion Securities in 1989) where he followed a career as a broker and financial advisor. On retirement in 2002 he was managing C$800m in private investments, specialising in the fixed income sector.

Terry Aimone BSc P.Eng (60 years old) - Director

A mining engineer by training (Michigan Tech, 1971), Mr Aimone worked for 5 years in the mining industry before embarking on a sixteen-year career in banking. In1992, he joined Heath and Sherwood as Director of International Marketing and Business Development, being appointed CEO in 1995. Heath and Sherwood, established in 1927, was bought by Cabo in 2004.

Robert W Schellenberg BA CPA (55 years old) – Director

Mr. Schellenberg was formerly a member of the tax staff at the CPA firm Touche Ross (now Deloitte & Touche LLP) Mr. Schellenberg is a Certified Public Accountant and owner of accounting and tax planning firm Schellenberg & Evers in Grand Rapids, Michigan. He has lectured at Grand Valley State University at seminars regarding taxation, financial planning, valuations and employee benefits.

Greg Gerrie (47 years old) BEc BEd – Director

Greg Gerrie is a Vancouver based motivational speaker, trainer and author of "Fired Up For Life: How to Get and Stay Motivated". He holds degrees from Queen's University and undertook officer training with the Canadian Armed Forces.

Management

Cal Lucyshyn BComm CA - Chief Financial Officer

Mr. Lucyshyn, a chartered accountant since 1993, has held financial control and reporting positions in the drilling industry for over ten years: from 1993 -1998 with NQL Energy Services[1] with locations in Canada, USA, Venezuela, the Netherlands and the Middle East. He was then, until 2003, the financial controller at The Crossing Company Inc, a civil engineering horizontal drilling company operating in Canada and the USA.

2.3 Options

As of 30th September 2006 there were 2,428,000 options outstanding, all "out of the money", Table 1.

Options, not too many and all out of the money

Table 1 Cabo Drilling Inc., options issued as of 30th September 2006

Number	Strike Price	Expiry
598,000	$0.75	June 17, 2007
995,000	$0.80	October 18, 2007
50,000	$0.80	October 18, 2009
235,000	$0.80	May 18, 2008
275,000	$0.50 - $1.00	January 22, 2009
100,000	$0.50 - $1.00	October 1, 2009
175,000	$0.80	January 22, 2011

2.4 Warrants

Warrants just "at the money" and callable

Some 8,663,867 warrants were issued in as part of a recent placing; these have a strike price of C$0.50, a life of two years and may be called by the Company in the event that Cabo's share trades at or above 60c for 20 consecutive days.

[1] A provider of equipment to the drilling industry, recently taken over by a subsidiary of National Oilwell Varco, Inc.

3 FINANCIAL SUMMARY & ANALYSIS

3.1 Financial history to balance sheet date (31st December 2006)

Cabo consolidated its shares 1:5 at the start of fiscal 2004 and then financed itself through two private placings raising C$7m allowing the completion of two previously agreed acquisitions in June 2004, detailed below.

First recorded earnings were for the 2005 FY, starting 1 July 2004. A further brokered private placing, raising C$1m by the issue of 1.25m units at C$0.80, allowed Cabo to finance mineral property exploration.

Significant debt facility, but not much used

In February 2006 Cabo secured a $ 4.0 million debt finance facility to fund working capital requirements with HSBC Bank Canada. This comprises a $2.5 million operating loan secured by accounts receivable, and a $1.5 million demand loan. The demand loan is secured by a general security agreement charge over Company assets and the cost of both facilities is Canadian bank prime plus 1%. The demand loan can be drawn down in multiple advances and is repayable in monthly payments over 5 years.

At the end of 2006, Cabo placed a total of 8,663,867 units at a price of 37.5c raising nearly C$3.25m gross. This allowed Cabo to subscribe in the IPO of spin-off International Millennium Mining Corp (IMI-TSX) and to establish operations in Panama. The placing was non-brokered, but included subscriptions from PanAmerica Capital Group, a Panama-based brokerage firm.

3.2 Acquisitions

Acquisitions made prior to the recent mineral exploration boom – drilling assets were cheap

Cabo started its transformation into a drilling company with the purchases in June 2004 of Heath and Sherwood Inc and Petro Drilling Maritimes Limited ("PDML"), and the change was completed in June 2005 with the acquisition of Le Forages (1988) de Montréal. The total outlay for all acquisitions came to a total of approximately C$6.2m in cash and shares.

The acquisition of Kirkland Lake, Ontario based Heath and Sherwood (1986) Inc ("H&S") was announced as complete on 30th June 2004. H&S was purchased through the issuance of 2,120,000 common shares for a total consideration of C$1,060,000. At that time, H&S owned a fleet of 37 drill rigs, including 16 aboveground and 21 underground drills and it had approximately 120 full time employees. Although most of H&S's business was Canadian, it had completed projects in Central and South America, the Caribbean and Africa.

At the same time PDML's shares were bought for C$100 cash, clearance of C$499,900 of shareholder loans and the issue of a total of 1,157,500 common shares in settlement of shareholder debt to Frank Nolan and the purchase of the minority shares in a subsidiary. PDML, headquartered in Halifax, Nova Scotia, then owned 23 rigs and had approximately 25 full time employees. Apart from mineral exploration, PDML specialises in slim-hole core drilling for oil and gas exploration and environmental applications. PDML brought further international experience to Cabo, having carried out projects in Panama, Gabon, Guinea, Ireland and the Middle East as well as a number in the Canadian Arctic.

Both of these acquisitions were of financially struggling companies, yet to benefit from the upturn in metals prices and increased exploration expenditure.

In October 2004, Cabo bought the remaining 60% of the shares of Stratacan Inc and Stratacan (Québec) Inc for C$83,333 and 196,000 common shares. Stratacan conducts geo-technical and environmental drilling in Québec, Newfoundland and Labrador. In fiscal 2003, Stratacan reported total revenue of C$729,876 and net income of C$10,898. Stratacan was subsequently merged with Les Forages de Montreal (1988) Inc in 2005.

Advanced Drilling Ltd ("Advanced") was acquired in February 2005 and added a further 35 drill rigs (19 surface and 16 underground) to Cabo's fleet, bringing the total at that time to over 100 and more than 225 employees. The price was C$3,000,000, made up of C$1,350,000 cash and 1,833,333 shares at a deemed price of C$0.90 per share. Advanced operates from Surrey, British Colombia with a workshop/warehouse operation in Whitehorse, Yukon. A subsidiary (Action Drilling Inc) will operate in Nevada in 2007.

The final purchase to date, that of geo-technical drilling services provider Les Forages de Montréal (1988) Inc, was announced 9th June 2005. The price was C$750,000 made up of C$350,000 cash and 500,000 common shares of Cabo with a deemed value of C$0.80 per share. Forages de Montréal, now renamed Forages Cabo Inc. and incorporating Stratacan, had at that time a fleet of 12 drill rigs and a staff of 20.

Cabo now has a wide geographical spread across Canada and a range of technical abilities. People were kept in place as far as possible and Cabo's listing provided part of the acquisition cost by the issue of stock. In a press release at the time of the Advanced Drilling acquisition, Mr Versfelt commented:

"… Cabo has retained staff and management of all these companies as valuable, quality professionals that fit well within the Cabo way of doing business… we decided long ago that you can buy metal and equipment, but it's the people themselves that make an asset valuable…"

An increase in size through the mergers should enable procurement savings and increased flexibility. The public listing of Cabo gives a degree of confidence to the more conservative of clients, who want to ensure that their drilling contractor is on a sound financial footing. By retaining staff, changes and management improvements will be made more gradually than would be the case with a "new broom" policy; but the importance of retaining qualified, experienced and properly incentivised management, drilling engineers and crew cannot be over-emphasised.

3.3 Consolidated Balance Sheet

All figures in $Canadian, Dec 2006 figures unaudited		30/12/2006	30/06/2006
Assets			
Current assets			
Cash and cash equivalents		1,689,399	1,051,298
Restricted Cash		0	63,531
Short term investments and marketable securities		227,268	313,029
Accounts receivable		5,551,709	5,509,249
Prepaid expenses		169,684	294,109
Work in progress		118,965	118,791
Inventories		3,800,220	3,536,435
	Sub-total	11,557,245	10,886,442
Property, plant and equipment		9,172,003	7,837,332
Long term investment		4,700,000	0
Resource properties held for sale		0	3,500,000
	Sub-total	13,872,003	11,337,332
	Total	**C$25,429,248**	**C$22,223,774**
Liabilities			
Current liabilities			
Bank indebtedness		258,699	453,203
Accounts payable and accrued liabilities		4,775,702	5,102,527
Unearned revenue		575,164	704,893
Income tax payable		452,016	77,916
Demand loan		530,000	590,000
Current portion of long term debt		313,886	308,167
Current portion of obligation under capital lease		462,155	323,344
	Sub-total	7,367,622	7,560,050
Long term debt		1,002,445	958,833
Obligations under capital lease		648,314	434,149
Future income tax		432,960	475,019
	Subtotal	2,083,719	1,868,001
	Total Debt	9,451,341	9,428,051
Shareholders Equity (Deficiency)			
Share capital		28,511,382	25,974,398
Contributed surplus		1,551,817	1,540,117
Deficit		(14,085,292)	(14,718,792)
	Sub-total	15,977,907	12,795,723
	Total	**C$25,429,248**	**C$22,223,774**

Debt burden quite light, cash increasing

3.4 Consolidated Statements of Operations and deficit (H1 2006/7, H2 2005/6, H1 2005/6)

All figures in $Canadian H1 2006/7 and H1 2005/6 unaudited		**H1 2006/7** 01/07 – 31/12	**H2 2005/6** 01/01 – 30/06	**H1 2005/6** 01/07 – 31/12
Revenue		17,870,711	13,561,818	15,229,360
Direct Costs		13,491,902	10,902,676	12,116,527
Gross Profit		4,378,809	2,659,142	3,112,833
Expenses				
General and Administrative		2,504,369	3,062,504	2,224,231
Stock based compensation		11,700	100,357	0
Amortization		647,088	663,361	546,061
Interest income		(6,071)	(5,920)	(5,656)
Interest Expense		118,420	92,432	56,718
(Gain) / Loss on Foreign		(671)	14,869	487
Other (income) / expense		(21,175)	(26,784)	6,152
	Sub-total	3,253,660	3,900,819	2,827,993
Income before other items and income taxes		1,125,149	(1,241,677)	284,840
Other items				
Gain / (loss) on disposal of assets		(8,248)	16,011	(44,254)
Write down of goodwill		0	86,602	0
Write down of marketable securities		30,000	0	0
Write down of property, plant and equipment		0	206,626	0
Write down of resource properties		0	1,652,438	0
Resource properties maintenance / (recovery) expenses		50,956	0	0
Income before income taxes		**1,052,441**	**(3,203,354)**	**329,094**
Income tax expense / (recovery)				
Current		461,000	(93,297)	155,000
Future		(42,059)	(120,980)	(52,517)
Net income for the period		**C$633,500**	**C$(2,989,077)**	**C$226,611**
Deficit, beginning of period		(14,718,792)	(11,729,715)	(11,956,326)
Deficit, end of period		C$(14,085,292)	C$(14,718,792)	C$(11,729,715)

3.5 FINANCIAL PERFORMANCE

Over the past three years Cabo has been somewhat of a moving target, with acquisitions throughout the period and the seasonality of the drilling year obscuring quarter on quarter comparisons. Some key quarterly performance indicators compiled from the Cabo press releases from 2004 onwards are shown in Table 2.

Increasing turnover and margins

Table 2 Quarterly key performance indicators (Source: Company)

	Revenue C$m	Change on Year (%)	Gross Margin (%)	EBITDA C$m	Post tax net earnings C$m
Q2 2006/2007	7.372	15.0	25.8	0.687	0.211
Q1 2006/2007	10.498	19.0	23.6	1.194	0.423
FY 2005/6	***28.791***	***24.0***	***20.0***	***0.530***	***(2.762)***
Q4 2005/2006	7.564	3.1	20.0	0.007	(0.782)
Q3 2005/2006	5.998	1.7	19.1	(0.409)	(2.206)
Q2 2005/2006	6.410	36.5	25.1	0.462	0.110
Q1 2005/2006	8.819	66.6	17.0	0.469	0.117
FY 2004/5	***23.222***	**-**	***16.9***	***0.525***	***(0.752)***
Q4 2004/2005	7.339	-	21.1	0.094	(0.575)
Q3 2004/2005	5.898	-	11.4	(0.023)	0.239
Q2 2004/2005	4.694	-	14.7	(0.004)	(0.773)
Q1 2004/2005	5.292	-	17.9	~0.379†	~0.356†

† Figures quoted in Q1 2004/5 do not allow for the cost of stock based compensation

The exceptional year-on-year growth in Q1 and Q2 FY 2005/6 was due to the acquisition of Advanced Drilling. The post-tax earnings for FY 2005/6 were negatively affected by ~C$2m of write downs of mineral properties, goodwill and other property, plant and equipment, mostly in advance of the sale of mineral properties to IMMC.

The increases in revenues for the first two quarters of FY 2006/7 were not fuelled by acquisitions, and are further supported by increasing gross margins – repeatedly exceeding 20% for two quarters in a row for the first time. This probably reflects the effect of greater demand for rigs and the effects of gradually larger contracts (and generally more profitable) as juniors spend the money that has been pumped into the exploration sector over the last two years. In the recent announcement of the Q2 2006/7 results, the CEO suggested that the increased margins were due to "*improved productivity and improved contract pricing*", which broadly amounts to the same thing. The Company is also forecasting continued gross margins for FY 2006/7 in the region of 23% - 25% as being "*due to longer term projects, continual efforts to improve utilization and efficiency, and increased technological and technical expertise across all divisions.*" These factors are likely to persist, and we believe that Cabo Drilling is very likely to emerge into reasonably solid post-tax profitability for the first time in FY 2006/7.

Maiden pre-tax profits likely this FY

The drilling cycle in Canada is such that October – March represents the slowest part of the year – due to problems of access due to snow or other severe weather, the Christmas break and the like. This represents Q2 and Q3 in Cabo's financial cycle. Q1 and Q4 represent the busiest parts of the year. **Our best estimates at this point in time, are a forecast EBITDA for FY 2006/7 of between C$2.5m and C$3.0m with post-tax earnings of about C$1m.**

4 GEOGRAPHICAL SUMMARY & RECENT CONTRACTS

100 drill rigs

Cabo has four established divisions, all operating out of Canada with a total of approximately one hundred drill rigs that operate in Canada. All the divisions have had experience of drilling abroad. The company is also in the process of establishing a base of operations in Panama and Spain, and expanding those in Mexico. Cabo itself has the capability to satisfy almost all exploration, mining, geotechnical and civil engineering drilling requirements. Operations in Nevada, USA, are controlled from Surrey B.C.

The Springdale, Newfoundland division historically specialised in surface drilling, mainly in the very cold areas in and around Canada's Newfoundland and Labrador together with the slim-line drilling capabilities for oil and gas exploration. The division also has a fair degree of experience of geo-environmental drilling and drilling in environmental – impact sensitive areas. This combines well with the civil and environmental engineering focus of the Forages Cabo operations based at Chambly, Québec, where a large maintenance facility is located.

Over the past two years or so, Cabo has announced numerous drilling contracts won. These are summarised in Table 3 below. Apart from an increase in 2006 compared to 2005, no crystal clear trends as such are present. However, we can note that:

(i) repeat business is frequent;

(ii) underground drilling ("U/G") is important to Cabo;

(iii) expansion into the Athabasca / Thelon basin uranium boom has taken place, and

(iv) business from overseas has been a small fraction to date, but is likely to increase.

Well spread through Canada

Figure 2 Locations of Cabo facilities within Canada *(Source: Company)*

Figure 3 RC drill rig, prepared for truck transport at Cabo's Kirkland Lake Division.
(Loeb Aron & Co. Ltd photo 2006)

The Panama contract with Bellhaven Copper & Gold Inc is particularly significant, in that it is a relatively chunky start for a new subsidiary. Bellhaven is led by Julio Benedetti, a central figure in mining in Panama since the 1980's and formerly a Director of Cabo from 1995 to 2004. This sort of quality in-country connection suggests that Cabo's new subsidiary will be able to take advantage of many opportunities in Panama, possibly including some of the drilling aspects of the ongoing $5.2bn project to expand the capacity of the Panama Canal as well as increased interest in mineral exploration brought about by the improved price of copper over recent years.

Although a contract has not yet announced by Cabo, the Company has set itself up so that it will be able to do business in Spain in the near future.

An example of how the consolidation of a number of drilling companies with different specialisations under one banner is bringing benefits can be seen in the July 2006 announcment of a geotechnical and environmental drilling contract with IKC Borealis on behalf of INCO at Voisey's Bay. The Halifax division (Petro Drilling) was involved with the initial stages of Voisey's Bay such as exploration and more significantly resource definition and development drilling. The Chambly division (Forages Cabo) is now taking on some geotechnical and geo-environmental drilling at Voisey's Bay and it is likely that it was the acquisition of both companies by Cabo that allowed this contract to be won.

Drill contracts summary 2005-2007

Table 3 Summary of publicly announced Cabo drilling contracts January 2005 – March 2007.

Date	Location	Client	Size of Contract	Notes
Jan 2005	Mexico	Stroud Res. & Amerix	"significant"	First Mexican contract
May 2005	Newfld & Lab	Altius Minerals	20,000m	At Rambler
June 2005	Greenland	Intl. Molybdenum Ltd	-	2nd Greenland contract
June 2005	Newfld & Lab	New Millenium Capital Corp	Initial 8,000m	LabMag iron ore project
July 2005	Yukon	Copper Ridge Explorations	Minimum 1,200m	
July 2005	Newfoundland	Aur Resources	Up to 7,000m	
July 2005	B.C.	Orphan Boy Resources	Planned 5,000m	
July 2005	Québec	Manicouagan Minerals Inc.	Several holes	Up to 5000ft depth each
Aug 2005	Ontario	Plato Gold Corp.	5,000m	
Aug 2005	B.C.	Sultan Minerals Inc	Minimum 1,000m	U/G
Sep 2005	Newfld & Lab	Altius Minerals & JNR	1,000m	
Sep 2005	Ontario	Cline Mining Corp	2x1,500ft deep holes	
Sep 2005	Ontario	Newstrike Resources Ltd	Minimum 5,000ft	800ft – 2,000ft deep holes
Nov 2005	Ontario	Vault Minerals Inc	5,000m	In a residential area
Jan 2006	Ontario	Spider / KWG / Freewest	2 or 3 holes	Fly in/out & helicopter
Jan 2006	Saskatchewan	Titan Uranium Inc	5 or 6 holes	First Athabasca contract
Jan 2006	Yukon	Sherwood Copper Corp	3,000m	
Feb 2006	Ontario	Champion Bear Res. Ltd	5,000m	Environmentally sensitive
Feb 2006	Québec	Superior Diamonds Inc	20 holes plus	
Mar 2006	B.C.	Barrick Gold Corp	Up to 10,000m	U/G, contract since 1996
Mar 2006	Saskatchewan	ESO Uranium Corp	5,000m	
Mar 2006	Ontario	ESO Uranium Corp	2,500m	U/G
Apr 2006	Newfld & Lab	Playfair Mining Ltd	3,000m	Large diameter HQ
Apr 2006	Newfld & Lab	Aur Resources	Up to 27,000m	U/G
May 2006	Ontario	Houston Lake Mining Inc	Minimum 1,000m	
May 2006	Nunavut	Commander Resources	5,000m	Baffin island, fly in/out
June 2006	Yukon	Tagish Lake Gold Corp	5,000m	
June 2006	Ontario	Wallbridge Mining Inc	Minimum 2,700m	
July 2006	Ontario	Spider Resources	2 x >900m holes	
July 2006	Yukon	Procon	Up to 10,000m	U/G, for Canadian Zinc
July 2006	Labrador	IKC Borealis	26 env. & geotech.	For Inco at Voisey's Bay
July 2006	Yukon	Pacifica Resources Ltd	Minimum 6,000m	
Aug 2006	NWT	Titan Uranium Inc	3,000m	Thelon Basin
Aug 2006	Newfld & Lab	Kermode resources ltd	Minimum 5,000m	
Sep 2006	Ontario	INCO	62,000ft	U/G at Creighton Mine
Sep 2006	Ontario	INCO	21,000ft	U/G at Garson Mine
Oct 2006	Saskatchewan	GLR / Uranium City	Minimum 6,000m	
Nov 2006	B.C.	Breakwater Resources Ltd	31,000m	Myra Falls, surface + U/G
Jan 2007	Ontario	Cline Mining Corp	10,000ft	Up to 2000ft depth
Jan 2007	N. Ontario	KWG Resources Inc	3,000m	Fly in/out
Feb 2007	B.C.	Sultan Minerals Inc	Up to 14,000ft	U/G
Feb 2007	Ontario	Rockcliff Resources Inc	3,000m	
Feb 2007	Mexico	Auramex	Minimum 1,000m	
Mar 2007	Panama	Bellhaven Copper & Gold Inc	5,000m	
?	Spain	Iberian Minerals Corp	?	Not yet announced by Cabo

Drill rig utilisation still quite low

Cabo is currently running at a relatively low rig utilisation rate of 45-50%, constrained by lack of staff with suitable experience. The staff issue will be one common to all drilling companies, and is being addressed on a group wide basis with the initiation of new training schemes from the school leaver upwards. The drill rig utilisation rate could do with improvement, but to a certain extent reflects a potential opportunity as much as a problem since the under-utilised rigs are essentially assets bought and paid for in the hands of a company with relatively low debt. Full capacity would be represented by a utilisation rate of 65-70% (considered to be close to full utilisation when one factors in maintenance / overhauling of rigs, rig moving between projects and rigs held for specialized projects).

5 COMPARABLE COMPANIES

There are two listed Canadian companies with some similarities, one much bigger and one slightly specialist company slightly smaller than Cabo.

Major Drilling –Canadian listed but much larger competitor

The larger is Major Drilling Group International Inc. Major is a world presence in mineral drilling with operations in many countries; revenues are approximately fifteen times greater than Cabo's and Major achieved gross margins slightly higher at about 30%. Revenue growth over the last two 12-month periods (just under 24%) is similar to Cabo's although their last quarter results (to 31st January 2007) were exceptionally strong. Only 30% of Major's revenues are from Canada and the USA, with fastest growing area by revenue being Latin America. Major trades on approximately a 17x forward P/E.

Energold – similar sized and Canadian listed, but specialist niche

The smaller is Energold Drilling Corp, with about 30 rigs operative nearly all of them man portable modular hydraulically driven shallow capability rigs (~100m to 450m) capable of worldwide airborne deployment at short notice and in-country transport by helicopter, small truck mules or men when fully dis-assembled. Annualised revenues are about C$24m, so it is much closer in size to Cabo than is Major. The company has headquarters in Canada and maintains representative and logistics offices throughout Latin America. There is a healthy cash balance and extremely good gross margins (~50%) compared to Cabo or Major. The high revenue per drill rig is suggestive of extremely high utilization rates and lack of competition in its chosen markets. About half the market capitalisation of ~C$53m is made up of cash and shares in IMPACT Silver Corp; subtracting these leaves Energold trading on a quite attractive forward P/E of about 10:1.

Energold's superior margins are due to its revenue stream coming almost entirely from the Caribbean and Latin America where exploration drilling demand has mushroomed and yet in-country capabilities were cut back severely during the exploration slump 1997-2004. Their capability of flying rigs in and out of country on demand and modular maintenance has allowed them to address the whole of the regional exploration market, without establishing a full infrastructure in each country. Energold recognise that they are a niche player:

Geographic diversification to improve margins

> *"By working in less developed countries we have a market niche that allows us to maintain reasonable margins. Local competition is limited and new competitors from outside are generally unwilling to invest the time and energy to establish themselves in these markets."* ***Energold 2005 Annual Report***

The high margins achievable by Energold support Cabo's efforts at geographic diversification away from Canada where margins remain highly competitive and the capital needed to set up new drilling enterprises is relatively easy to obtain.

6 VALUATION AND TARGETS

We believe that Cabo should be capable of generating top line revenues of C$34m in the coming year ending 30th June 2007 and that gross margins of 25% are to be expected. Canadian business growth rates of 20% per annum should be possible, while overseas higher margins and higher growth are both likely. Forecast post-tax earnings of ~C$1 are suggested, compared to losses in the previous year of about C$1m before exceptional write-offs of property and equipment.

Provided that mineral exploration proceeds apace, as we believe likely, then over the next few years significant growth will come from outside Canada where margins are greater. Retained earnings will allow accelerated organic growth. Thus, it is entirely plausible to suggest that post-tax earnings for FY 2007/8, supported by increased margins and growing turnover, could reach C$3m.

We believe that Cabo should trade on a growth stock valuation of "cash plus 20x forward P/E" for FY's 2006/7 and should by mid-2008 justify a "cash plus 15x P/E" on loosely estimated post-tax profits for that year of about C$3m. In order to achieve this revenue Cabo will need to increase by 20% year-on-year and margins increase to 28% by FY 2007/8. These predictions are reasonably conservative, and allow for growth from retained cash flow without further issue of shares.

The next quarter is likely to be better than usual, if the comments of Major Drilling in their last quarterly (to 31st January) where they report unusually heavy activity for the month of January compared to the previous year are taken at face value.

With just over 40m shares in issue and a 48c share price, we believe there is clear scope for an increase in price to 55c – 60c per share by the time the results for FY 2006/7 are known, probably at the end of October 2007.

If overseas growth and margin improvements take place as we suggest, the 50c warrants are likely to be potentially called bringing in a further ~C$4.3m in 2007/8 and allowing further expansion. Our medium term target (18-months from now) is for a ~C$1.00 share price on the basis of 50m shares in issue, C$3m post-tax earnings and a strong cash position.

7 CONCLUSIONS

- Cabo is one of the smaller listed drilling companies and is expanding rapidly on the back of the current mineral exploration boom.
- Management is conscious of Cabo's reliance on mineral exploration drilling, and is actively expanding revenues from the geotechnical and civil engineering sectors. The opening of an office in Panama which will seek engineering drilling contracts associated with the Panama Canal expansion is an example of this strategy.
- Organic growth of 20% per annum is forecast for Canadian operations, with gross margins gradually improving to 30%. Overseas growth, now just starting, is likely to be faster and with higher margins possible. This growth can be funded from retained cash flow.
- The Company should move into profitability this financial year, with the prospect of substantial growth and improving margins still ahead of it.
- We recommend the company as a BUY at prices to ~55c over the next few months, with a target share price of C$1.00 within about 18 months.
- The risk level remains moderate to high for a company of this size, and success will depend on the commodities price cycle.

Loeb Aron & Co.

For further information please contact:

Dr. Jonathan Willis-Richards	**E-mail:**	richards@loebaron.co.uk
Mr. Michael Seager	**E-mail:**	michael@loebaron.co.uk
Loeb Aron & Co. Ltd., 63 Coleman Street,	**Phone:**	+44 (0) 20 7628 1128
Georgian House, London EC2R 5BB	**Fax:**	+44 (0) 20 7638 0756

Copyright, Disclosure and Risk Warnings. This note is © Loeb Aron & Company Limited, April 2007

Cabo Drilling Corp is a corporate client of Loeb Aron

Cabo Drilling Corp is a corporate client of Loeb Aron & Company Ltd ("Loeb Aron"). Loeb Aron will receive compensation for corporate advisory services to the Company and the publication and dissemination of Marketing Material. **This note should not, therefore, be treated as independent or impartial research.**

Not an offer to buy or sell

This note is not and under no circumstances is to be construed as an offer to buy or sell or deal in any security and/or derivative instruments based on such securities. It is not an invitation or an inducement to engage in investment activity under S21 of the Financial Services and Markets Act 2000.

Note prepared in good faith

Comments made in this research note represent the current opinions of Loeb Aron as of the date of this document and have been arrived at in good faith. No representation or warranty either actual or implied is made as to the accuracy, precision, completeness or correctness of the statements, opinions and judgements contained in this document.

Loeb Aron & Co.'s and related interests

The analysts who produced this research note, Mr Michael Seager and Dr Jonathan Willis-Richards are an employee and director of Loeb Aron respectively. The Company was visited in November 2006 by Mr Michael Seager. Loeb Aron & Co and/or its employees and/or directors and associates currently hold shares and warrants in Cabo Drilling Corp (the result of subscription to a placing) and reserve the right to add to or dispose of such positions in the future.

Information purposes only

This document is purely intended for background information purposes only and this report is furnished on the basis and understanding that Loeb Aron is to be under no responsibility or liability whatsoever in respect thereof.

Investment Risk Warning

The value of any potential investment made in relation to companies mentioned in this document may rise or fall and sums realised may be less than those originally invested. Any reference to past performance should not be construed as being a guide to future performance.

Investment in small companies, and especially mineral exploration companies, carries a high degree of risk and an independent financial adviser, authorized under the Financial Services and Markets Act 2000 who specializes in investments of this kind, should be consulted before making any such investment. Investment in the companies or metals mentioned in this document may be affected by the British Pound sterling, the Canadian Dollar, and the United States Dollar. Changes in the value of the GB£, US$, C$ and other currencies and commodities including gold, copper, lead and zinc may have an adverse effect on the value, price or income of the investment.

Distribution

Unless subsequently approved under S21(1) of FSMA 2000, this research note is not for public distribution, nor for distribution to, or to be used by, private clients. Without such approval it may only be distributed to persons (or groups of persons) coming within the appropriate exemptions from the requirement to issue a prospectus apply either individually or collectively.

Cabo Drilling Corporation

Company Research - Conditions of Issue and Disclaimer

This document has been approved under section 21(1) of FSMA 2000 by Loeb Aron & Company Ltd ("Loeb Aron & Co."). It should not be construed as investment advice. Specifically, Loeb Aron & Co. does not provide investment advisory services to private customers.

This document does not constitute or form part of any offer, solicitation or invitation to subscribe for or purchase any securities nor shall it or any part of it form the basis of or be relied upon in connection with any contract or commitment whatsoever. The opinions, forecasts and judgements herein should not be attributed to the Company, except where explicitly so indicated. Readers are reminded that the Company is publicly listed in Canada and that information from the Company can be found at www.sedar.com. This research circular is not an offer or a solicitation to buy or sell any securities.

The opinions, forecasts and judgements stated herein were prepared by Loeb Aron & Co. on the basis of *publicly available information and believed to be reliable* and are solely those of Loeb Aron & Co. Any forecasts and valuations therein have not been endorsed by the Company or by any of its other advisers. Loeb Aron & Co., in issuing this document, is not authorised to and is not making any representation or warranty (express or implied) on behalf of the Company or the Company's directors, officers or agents.

All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. Loeb Aron & Co. may be required to observe a quiet period either before the commencement of dealings and/or after the commencement of dealings in respect of this company and accordingly may be unable during that period to comment on any future developments involving this company. Any recipient must itself take responsibility for reading this document in the light of further information which may be announced by the Company, making such adjustments as it deems appropriate.

This document does not constitute a personal recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and their financial and operational resources. Loeb Aron & Co. accepts no fiduciary duties to the reader of this document and in communicating this research material is not acting in any fiduciary capacity. Loeb Aron & Co. has not formally verified the contents of this document. Neither Loeb Aron & Co. nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in the preparation or publication of this document; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services.

Loeb Aron & Co. or one or more of its associates or a director or an employee of Loeb Aron & Co. or of an associate may from time to time have a position, or may have undertaken or may undertake an own account transaction, in a security referred to in this document or in a related security. Such a position or such a transaction may relate to the activities of Loeb Aron & Co. Loeb Aron & Co. or one or more of its associates may from time to time have an advisory or other relationship with a company the subject of or referred to in this document, including acting as that company's financial or technical adviser or placing agent and providing corporate finance or other financial services. Loeb Aron & Co. will be remunerated for its services to the Company and this may include the grant of equity or of an option over equity in that company.

Loeb Aron & Co. does not regard this research as independent or impartial as defined by to the rules of the Financial Services Authority.

THIS DOCUMENT HAS BEEN PREPARED FOR PERSONS IN THE UNITED KINGDOM AND IS NOT INTENDED FOR DISTRIBUTION OR USE OUTSIDE THE UNITED KINGDOM. THIS MATERIAL IS BEING SUPPLIED TO YOU SOLELY FOR YOUR INFORMATION AND IS NOT DIRECTED AT YOU IF LOEB ARON & CO. IS PROHIBITED OR RESTRICTED BY ANY LEGISLATION OR REGULATION IN ANY JURISDICTION FROM MAKING IT AVAILABLE TO YOU. YOU SHOULD SATISFY YOURSELF BEFORE READING IT THAT LOEB ARON & CO. IS PERMITTED TO PROVIDE RESEARCH MATERIAL CONCERNING INVESTMENTS TO YOU UNDER RELEVANT LEGISLATION AND REGULATORS. LOEB ARON & CO. ACCEPTS NO RESPONSIBILITY WHATEVER FOR ANY FAILURE BY A PERSON RESIDENT OUTSIDE THE UNITED KINGDOM TO OBSERVE THE FOREGOING AND BY ACCEPTING THIS MATERIAL YOU AGREE TO OBSERVE AND BE BOUND BY THE FOREGOING.

Authorised and Regulated by the Financial Services Authority.

Member of the London Stock Exchange and of PLUS Markets.