XTREME COIL DRILLING CORP.

DEEPER, FASTER, SAFER

2006 ANNUAL REPORT

CORPORATE PROFILE

Xtreme Coil Drilling Corp. ("Xtreme") is a TSX-listed Canadian company with corporate offices in Calgary, Alberta and new drilling rig design and assembly operations in Nisku, Alberta. Xtreme's wholly owned subsidiary, Xtreme Coil Drilling Corporation, has an office in Casper, Wyoming. Xtreme holds a 51 percent interest in Coil-X Drilling Systems Corporation, a private joint venture company formed with Shell Technology Ventures B.V.

Xtreme develops and applies leading edge patented and patent-pending technology and designs to build and transport new Coil Over Top Drive™ drilling rigs. These innovative and efficient drilling rigs, developed for operation in both the United States and Canada, use larger coil to drill for hydrocarbons in deeper horizons. Xtreme's proprietary technology also features modular transportation units, larger injectors, larger drilling rigs and new methodologies to achieve deeper, faster and safer drilling.

ANNUAL MEETING OF SHAREHOLDERS

Xtreme Coil Drilling Corp. invites all shareholders to attend the annual meeting on Wednesday, April 25, 2007 at 3:00 pm (Calgary time) in the Viking Room of the Calgary Petroleum Club at 319 Fifth Avenue SW, Calgary, Alberta. We encourage all shareholders, whether attending or not, to complete, sign and return their Form of Proxy which accompanies the annual meeting materials mailed with this report.

Photo credits: Rig# 4 in CO on pg 4 and back cover by Jacek Bogucki, Video Works, Casper WY
Xtreme's employees took all other photos

This report uses Canadian dollars unless otherwise noted

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Forward-looking Statements
The information in this annual report may include certain information and statements about management's view of future events, expectations, plans and prospects that constitute forward-looking statements. Assumptions subject to significant risks and uncertainties are the basis for these forward-looking statements. Because of these risks and uncertainties and, as a result of a variety of factors, the actual results, expectations, achievements or performance may differ materially from those anticipated and indicated by these forward-looking statements. Although Xtreme believes that the expectations reflected in any forward-looking statements are reasonable, we can give no assurances that the expectations of any forward-looking statements will prove to be correct. Xtreme disclaims any intention, and assumes no obligation to update or revise any forward-looking statements to reflect actual results, whether as a result of new information, future events, changes in assumptions, changes in factors affecting such forward-looking statements or otherwise, except as required pursuant to applicable securities laws.

2006 HIGHLIGHTS

	2006	2005
Revenue *($)*	**4,817,000**	-
Loss *($)*	**1,813,000**	3,364,000
Loss per share - basic *($)*	**0.07**	0.24
Weighted average number of common shares - basic	**24,997,450**	13,813,036
Capital expenditures *($)*	**75,245,000**	13,552,000
Number of coiled tubing drilling rigs completed	**4**	-
Operating days	**216**	-

MESSAGE TO SHAREHOLDERS

Xtreme Coil Drilling Corp. ("Xtreme") had a remarkable year during 2006 as we initiated operations. We are proud to report these accomplishments.

- *three XTC 200 coiled tubing drilling rigs delivered to field operations and a fourth commissioned*
- *216 operating days completed, achieving operational successes and producing our first revenues*
- *six more rigs under construction and a further four on order*
- *39 patents-pending relating to Xtreme's proprietary drilling equipment designs and transportation technology*
- *Coil-X Drilling Systems Corporation ("Coil-X"), a corporate joint venture created with Shell Technology Ventures B.V. ("STV") to pursue new marketing and technology development opportunities both inside and outside North America.*

OPERATING RESULTS

Xtreme achieved 216 operating days in 2006, representing 79 percent rig utilization and producing our first revenues of $4.8 million. We recorded a number of operational highlights during 2006.

- *Rig #4, an XTC 200DT, drilled the deepest North American well with 3-1/2 inch coiled tubing, reaching a total depth of 7,466 feet (2,275 meters).*
- *We drilled the longest "S" curve well using coil in a 7-7/8 inch diameter hole, reaching approximately 6,000 feet (1,828 meters).*
- *In Colorado and Wyoming, we achieved record drilling times compared to conventional drilling operations.*
- *We continued to develop our technology, designing new rigs and rig components, consulting with our customers to address their drilling project requirements, and establishing our supply chains and markets.*

INTELLECTUAL PROPERTY

An important element of Xtreme's competitive advantage and long-term growth strategy is aggressive intellectual property development and protection. As we develop new techniques, methodologies, equipment and processes, we apply for patents to protect any new and innovative breakthroughs from infringement.

Since incorporation in May 2005, Xtreme has filed 39 patent applications in the United States, Canada and other jurisdictions. In March 2007, we announced the United States Patents office had issued Xtreme's first two patents. Both patents relate to Xtreme's unique tilting mast, a key design feature of our XTC 200 series of coiled tubing drilling rigs. The remaining patent applications cover a wide range of Xtreme's proprietary coiled tubing drilling and transportation technology, including equipment and methods for coiled tubing drilling to depths of 3,000 meters and greater.

RIG BUILD PROGRAM

During 2006, Xtreme rigged up and commissioned four coiled tubing drilling rigs, and three began field operations with the fourth deployed in January 2007. At 2006 year-end, we had six more drilling rigs in various stages of construction as well as a further four on order.

Xtreme's 2006 rig build program did not meet our planned objectives because we intended to construct 10 rigs. Unforeseen delays in delivery of key components significantly slowed this build-out. The robust economic environment in Alberta during most of 2006 resulted in demand beyond the capability of many Alberta equipment manufacturers. Xtreme was able to overcome some of these problems by having components built in regions outside of western Canada.

Looking forward in 2007, we believe additional manufacturing capacity will become available. Many exploration and production ("E&P) and drilling service companies have reduced their 2007 capital expansion programs in response to weaker natural gas prices. We plan to take advantage of this opportunity to continue Xtreme's fleet expansion. Following successful completion of a private placement equity financing in mid February, we increased Xtreme's 2007 capital program which initially projected the building of 14 coiled tubing drilling rigs. We subsequently added four more rigs to our build program.

In many projects, Xtreme's coiled tubing drilling rigs are proving to be more efficient and economical for our E&P customers than conventional drilling rigs. Consequently, we believe continuing to expand Xtreme's fleet is prudent. Our 2007 rig build program of 14 rigs may cross over year-end and into early 2008 when we anticipate Xtreme's fleet will total 18 rigs.

MARKETS, PARTNERS AND CUSTOMERS

Xtreme has entered into six long-term contracts. In 2006, we formed Coil-X, a 51 percent owned corporate joint venture with STV. Long-term contracts and Xtreme's access to lower cost, high quality manufacturing in North America comprise the solid foundation from which we will move forward to generate profits in 2007. Through Coil-X, we expect to further strengthen the credibility of our technology and broaden its exposure and applications. This exciting joint venture is intended to expand our access to drilling projects and open up new marketing opportunities both in and beyond North America.

After our first XTC 200ST rig completed an initial contract in Alberta, we reviewed the North American drilling market, particularly in Canada where lower natural gas prices had significantly reduced drilling budgets. To address downward price pressure and the reduced daily rates we were observing in the Western Canada Sedimentary Basin, we revised Xtreme's business plan in the last half of 2006. Considering the market, we accelerated deployment of most of Xtreme's rig fleet to the United States. There, our primary emphasis is Xtreme's existing and new drilling contracts for E&P companies operating in the Rocky Mountain Region.

We plan to expand the market reach of Xtreme's new technology to both traditional and non-traditional oil and natural gas exploration. We will continue to work with our customers and partners to develop and advance our new technology to assist them in exploiting new prospects while reducing their finding costs.

We want to thank our partners and anchor E&P customers for their belief and support in Xtreme's new technologies. As our coiled tubing drilling and rig transportation technology evolves, we expect drilling with coil will continue to provide substantial benefits for our customers.

MESSAGE TO SHAREHOLDERS

OUTLOOK FOR 2007

Xtreme's board of directors has approved an aggressive corporate development plan for 2007. We expect to:

- *establish a solid financial base to deliver profit and return on investment;*
- *maintain a safe working environment for our employees and our customers;*
- *improve and enhance operational performance;*
- *drill faster, deeper and safer as well as excel in all aspects of our business;*
- *deliver new coiled tubing drilling rigs and rig designs to our existing and new markets on a timely and cost-efficient basis;*
- *rig up and commission our first XTC 400 late in the first quarter and deploy it early in the second quarter for operations in the United States under a long-term contract;*
- *develop our joint venture with STV with the aim of rapidly deploying our current and future technology; and,*
- *continue innovating and developing coiled tubing drilling technology to achieve maximum benefit for our E&P customers.*

OUR PEOPLE FACTOR

Only through the dedication of our Canadian and United States' employees and our board of directors' belief in our vision for coiled tubing drilling have we achieved the milestones of 2006. The total number of employees in all of Xtreme's operations increased from 4 to over 120 at 2006 year-end. We appreciate everyone's efforts and the sacrifices you and your families contributed to Xtreme's progress in our first operational year.

To our shareholders in Canada, the United States and other parts of the world, we welcome your participation in Xtreme's growth and confirm our commitment to maintaining and building value that will reward our investors.

T Wood

Tom Wood
Chairman
and Managing Director,
United States and International Operations

Ric Charron
Chief Executive Officer
and Director

Management for Xtreme Coil Drilling Corp. ("Xtreme", the "company", "we", "our") has based this MD&A on the operating and financial results for the three months and year ended December 31, 2006. Management's analysis is based on information available as at March 15, 2007. Xtreme was incorporated May 24, 2005. For this MD&A, Xtreme has provided comparative data for the period from May 24, 2005 to December 31, 2005. This comparative data represents a partial year during which Xtreme had not commenced field operations. Management has prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and expressed all amounts in Canadian dollars unless otherwise stated.

FORWARD-LOOKING STATEMENTS

Except for historical financial information contained herein, matters discussed in this report may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief and current expectations. Management cautions current and prospective investors that any such forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) the preliminary nature of the information which may be subject to further adjustment; (ii) risks related to the uncertainty inherent in the oil and natural gas industry; (iii) the impact of commodity price fluctuations; (iv) start-up risks; (v) general operating risks; (vi) dependence on third parties; (vii) changes in government regulation; (viii) the effect of competition; (ix) dependence on senior management; and, (x) fluctuations in currency exchange rates and interest rates.

DESCRIPTION OF THE BUSINESS

Xtreme is a drilling contractor using Coil Over Top Drive™ ("COTD™") drilling rigs which employ new patent-pending coil designs and technologies. In addition to their coil capabilities, these rigs can drill with conventional jointed drill pipe. Xtreme is currently building drilling rigs under contract with several third parties. Upon completion of the coiled tubing drilling rigs, we contract out Xtreme's drilling rigs to oil and natural gas exploration and production ("E&P") companies. Xtreme's activities currently focus on both the United States and western Canada, with the majority our operations planned for the United States.

Xtreme's corporate and head office is in Calgary, Alberta. Xtreme has a United States field office in Casper, Wyoming and has plans to establish a sales office in Denver, Colorado.

Xtreme acquired two patents in March 2007 and has 37 patent applications pending in the United States, Canada and other jurisdictions. These patent applications cover Xtreme's coiled tubing drilling and transportation technology including equipment and methods for coiled tubing drilling to depths of 3,000 meters and greater.

Effective May 1, 2006 Xtreme amalgamated with Norquay Capital Ltd. ("Norquay"), a capital pool company. The transaction constituted Norquay's "qualifying transaction" for the purposes of Policy 2.4 of the TSX Venture Exchange. The amalgamated entity continues operating as Xtreme Coil Drilling Corp. On May 4, 2006, Xtreme's common shares commenced trading on the TSX Venture Exchange under the symbol "XDC". On September 5, 2006, Xtreme's common shares graduated to trading on the Toronto Stock Exchange under the same symbol.

EQUIPMENT UNDER CONSTRUCTION

Xtreme has designed five different models of coiled tubing drilling rigs. Currently, we expect to construct at least 14 drilling rigs during 2007 with completion of some in early 2008. At December 31, 2006, four rigs were completed and ready for field operations, with six more drilling rigs in various stages of construction and four more on order.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Since inception, Xtreme planned to build 10 rigs in 2006 and 14 rigs in 2007. Unforeseen delays in numerous key components have significantly slowed this build-out. In fact, several key components not yet received have been on order for over a year. The robust economic environment in Alberta during most of 2006 resulted in demand beyond the capability of many Alberta equipment manufacturers. Going forward it appears that additional manufacturing capacity will become available as softening Canadian oilfield activity has led a number of oilfield service companies to reduce their capital expansion programs. We plan to take advantage of this opportunity to expand Xtreme's fleet of coiled tubing drilling rigs. We believe that our coiled tubing drilling rigs will prove to be more efficient and economical for our customers to contract than conventional drilling rigs. Consequently, we believe continuing to expand our fleet is prudent even if other drilling contractors are slowing their expansion plans.

Xtreme's efforts focus on timely delivery of our drilling rig components. These efforts include obtaining a number of components outside of Alberta, as well as sourcing components from multiple suppliers, to achieve simultaneous production of certain required components with the objective of accelerating delivery of Xtreme's next rigs. Once third party suppliers provide the outstanding components, Xtreme completes the assembly with the remaining components and, finally, fully rigs-up and commissions each drilling rig prior to deploying it for field operations. Initially, we expected 70 to 80 percent of Xtreme's drilling rig fleet would work in the United States. Current market conditions suggest the proportion of Xtreme's rigs working in the United States will be higher.

SELECTED ANNUAL INFORMATION

($ thousand except per share amounts and days)	31 Dec 2006	31 Dec 2005
Revenue	**4,817**	-
Net loss	**1,813**	3,364
Net loss per share	**0.07**	0.24
Capital assets	**88,511**	13,528
Total assets	**117,735**	41,605
Total long-term financial liabilities	**139**	-
Operating days (1)	**216**	-

(1) Management cautions readers that 'operating days' does not have a standardized meaning prescribed by GAAP. Xtreme's method of calculating operating days may differ from other companies and may not be comparable to measures used by other companies. Operating days represent the total of all drilling, moving, standby and other revenue days in the period. Management uses operating days to measure rig utilization because it identifies the quantity of revenue-generating activity of the rigs.

RESULTS OF OPERATIONS

Although Canadian drilling activity softened during the later half of 2006, primarily due to weakening natural gas prices and volatile crude oil prices, this only minimally affected Xtreme's operating results during the year. Our first XTC 200ST drilling rig, Rig #1, commenced drilling in the third quarter and continued to work with minimal downtime until the beginning of the fourth quarter. Although our second XTC 200ST drilling rig, Rig #2, was ready to commence drilling before the end of the third quarter, weaker Canadian market conditions prompted management to move Rig #2 to the more active United States market where it commenced drilling under an existing long-term contract. This contract will ultimately be completed by one of our XTC 200DT rigs.

Early in the fourth quarter, management further approved deployment of Rig #1 to the United States to take advantage of higher day rates; better potential utilization; existing long-term contracts in the United States; reduced drilling activity in much of the Canadian market; and to mitigate unanticipated delays in delivery of certain key components for rigs originally designed for the United States market. Xtreme will continue to closely monitor future market conditions in the United States and Canada to determine the most effective deployment of these rigs. Also during the fourth quarter, Xtreme's third drilling rig, Rig #4, an XTC 200DT, commenced drilling under an existing long-term contract in the United States.

During 2006, Xtreme's first three rigs achieved 216 operating days, representing 79 percent utilization from the date operations commenced to year-end. Total revenue for the year was $4,817,000, which equates to $22,300 per operating day.

Gross margin for 2006 was $632,000 or 13 percent of revenue. Gross margin was impacted by routine start-up issues related to hiring and training staff and establishing support infrastructure in advance of rigs becoming operational, normal new equipment expenses and lost time while moving the rigs to the United States. In the future, we anticipate this overhead will reduce proportionately as Xtreme's expanded fleet of coil drilling rigs becomes fully operational.

We are marketing Xtreme drilling rigs in the United States and Canada and seeking long-term contracts for the majority of our fleet. Xtreme has signed long-term contracts for six rigs with two major E&P companies in the United States. Contract negotiations with other E&P companies are ongoing. The total number of employees in all areas of Xtreme increased from 4 to over 120 at 2006 year-end.

SALES

Xtreme generated sales revenue of $4,817,000 during the year ended December 31, 2006 (2005 - nil) as we completed drilling rigs and commenced field operations.

OPERATING EXPENSES

Xtreme incurred operating expenses of $4,185,000 during the year ended December 31, 2006 (2005 - nil) as field operations commenced. Operating costs during the year, as a portion of revenue, were higher than expected due to costs of required crew training as well as developing infrastructure for Canadian and United States operations. In the future we expect these costs on a per rig basis to moderate significantly as the rig fleet expands.

SELLING, GENERAL AND ADMINISTRATION EXPENSE ("SG&A")

SG&A for the year ended December 31, 2006 was $3,704,000 (2005 - $707,000). Increased costs associated with the start-up of both the Canadian and United States offices were included during the year. As Xtreme's full complement of drilling equipment nears completion, we are incurring additional costs to establish the required infrastructure in preparation for, and in support of, active operations in both Canada and the United States. SG&A personnel at 2006 year-end increased to 12 (2005 - 4).

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the year ended December 31, 2006 increased to $628,000 (2005 - $71,000). This increase was primarily the result of depreciating the first three rigs once they commenced active field operations as well as depreciation of additional assets purchased to support Xtreme's growing infrastructure. In addition, intangibles were amortized for a full year as compared to a partial year.

STOCK-BASED COMPENSATION

Stock-based compensation for the year ended December 31, 2006 decreased to $401,000 (2005 - $3,064,000). In 2005 Xtreme recorded a one-time charge of $2,990,000 to stock-based compensation expense related to performance warrants issued. During 2006 stock-based compensation from the stock option plan increased as a result of granting of options to purchase common shares during the year, as well as an increase in the volatility assumption associated with Xtreme becoming a public company in May 2006.

FOREIGN EXCHANGE

Xtreme realized a foreign exchange gain for the year ended December 31, 2006 of $38,000 (2005 - $86,000 loss). These foreign exchange gains and losses result from a translation on Xtreme's United States dollar net working capital. In particular, most of the gain in 2006 resulted from Xtreme holding United States dollar cash on hand while the exchange rate recovered. As Xtreme's operations grow and mature, we expect to generate the majority of cash flow in United States funds, while the majority of cash requirements for the continuation of drilling rig construction could require settlement in Canadian funds.

INTEREST EXPENSE

Xtreme had interest expense for the year ended December 31, 2006 of $141,000 (2005 - nil). The major component of this cost was the standby fee of 0.35 percent on Xtreme's new $50 million revolving credit facility. Interest charges for field vehicles under capital leases are also included in this category.

INTEREST INCOME

Interest income for the year ended December 31, 2006 was $1,664,000 (2005 - $419,000). This resulted from investment of temporary surplus cash available during completion of the build-out of Xtreme's initial fleet of coiled tubing drilling rigs. Interest income increased when Xtreme raised additional equity during 2006.

INCOME TAXES

During 2006, the federal government enacted a number of tax reductions for corporations, specifically reducing general corporate tax rates from 21 percent to 19 percent phased in between 2008 and 2010, the elimination of the federal Large Corporations Tax effective January 1, 2006 and the elimination of the corporate surtax effective January 1, 2008. In addition, the Alberta government also enacted reduced corporate tax rates from 11.5 percent to 10 percent effective April 1, 2006.

During the year ended December 31, 2006, Xtreme recorded a future income tax recovery of $729,000 (2005 - $146,000). The increased recovery provision is primarily the result of a larger loss. We expect to generate enough taxable income to fully utilize the tax losses we are carrying forward.

NET LOSS

The net loss for the year ended December 31, 2006 was $1,813,000 (2005 - $3,364,000). This decreased loss was a result of the earlier mentioned charge to stock-based compensation of $2,990,000 in 2005. Other expenses had increased related to the build-up of infrastructure to handle the substantial activity required to commence operations in Canada and the United States.

SEGMENTED INFORMATION

This table summarizes the results of operations for Xtreme's two geographic operating segments of Canada and the United States. Most operations in Canada occurred in the third quarter, while all operations in the United Sates occurred in the fourth quarter.

($ except days ,unaudited)	Canada	United States	Total
2006 Revenue	1,359,000	3,458,000	4,817,000
Operating days	58	158	216
Revenue *(per day)*	23,438	21,885	22,302

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended						
($ thousand, except per share amounts and days, unaudited)	31 Dec 2006	30 Sep 2006	30 Jun 2006	31 Mar 2006	31 Dec 2005	30 Sep 2005	30 Jun 2005
Revenue	**3,620**	1,197	-	-	-	-	-
Net loss	**781**	426	334	272	3,078	209	76
Net loss per share ($)	**0.03**	0.02	0.01	0.01	0.22	0.02	0.22
Capital assets	**88,511**	64,275	39,804	24,545	13,528	5,988	-
Total assets	**117,735**	101,169	98,766	94,052	41,605	39,854	11,453
Operating days	**163**	53	-	-	-	-	-

ANALYSIS FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 ("FOURTH QUARTER")

In the discussion of fourth quarter, we provide 2006 third quarter data for comparative purposes since Xtreme initiated field operations in the 2006 third quarter.

Xtreme commenced operations in the United States during the fourth quarter. In that period, we moved all three operating rigs to the United States. Revenue for the fourth quarter was $3,620,000 over 163 operating days or $22,200 per operating day (3Q 2006 - $1,197,000 or $22,600 per day). Utilization for the three rigs was 66 percent for the fourth quarter as moving Rig #1 to the United States caused major downtime. Operating costs of $3,306,000 (3Q 2006 - $879,000) were higher in the fourth quarter because of increased drilling activity and required crew training as well as higher infrastructure costs per rig during the start-up phase of operations. As operations grow in the United States, we expect operating expenses as a proportion of revenue to decrease. SG&A cost increased during the fourth quarter to $1,210,000 (3Q 2006 - $1,091,000) due to a general increase in support activity as operations commenced. Depreciation and amortization increased to $328,000 (3Q 2006 - $154,000) as operating days increased. Short term investments decreased during the fourth quarter with the use of cash to build rigs and, therefore, corresponding interest income decreased in the fourth quarter to $219,000 (3Q 2006 - $487,000). This position reversed with the raising of equity at the end of the fourth quarter and in early 2007. Net loss increased to $781,000 (3Q 2006 - $426,000) due, in part, to the increase in depreciation and the reduction of interest income during the 2006 fourth quarter.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006 Xtreme had cash balances of $16.7 million (2005 - $25.2 million), a decrease of $8.5 million. Similarly, working capital decreased to $10.6 million (2005 - $23.8 million). Drilling rigs under construction, as well as completion of the first four rigs, contributed to these decreases.

Xtreme maintains a $50.0 million revolving debt facility with a Canadian financial institution for construction of equipment, as well as a $5.0 million operating line supported by accounts receivable. Presently, Xtreme has drawn no amounts on these facilities and, other than capital leases for field vehicles, Xtreme has no other long-term debt.

Xtreme invested $75.2 million in fixed assets during the year ended December 31, 2006 (2005 - $13.6 million), primarily for continued construction of drilling rigs. We estimate the additional cost to complete the drilling rigs in our announced program to bring our fleet to 18 at approximately $126 million. The capital budget for 2007 estimates $95 million to spend on the build program with an additional $31 million in 2008 to complete the 18 rigs. At December 31, 2006 we had commitments of $36.8 million, primarily for drilling rig components. These commitments are included in the aggregate estimated cost of $126 million described previously.

To date, Xtreme's operations have used cash rather than provided cash. As Xtreme's revenues continue to grow, we expect to generate cash sufficient to fund ongoing operating activities. As an element of this growth we expect accounts receivable increases to be the primary aspect of working capital to require funding. On a cash basis, management expects that funds on hand, together with existing debt facilities, will be sufficient to complete the first 18 drilling rigs as well as to fund related ongoing operating requirements. As we continue to build more drilling rigs that increase Xtreme's asset base, we will determine the appropriate vehicle and timing for expanding our financial capacity to support future capital requirements.

This table summarizes Xtreme's contractual obligations at December 31, 2006.

PAYMENTS DUE BY PERIOD

($ thousands, unaudited)

Contractual obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years
Capital lease obligations	**242**	91	151	-
Operating leases	**581**	134	366	81
Commitments	**36,800**	36,800	-	-
Total contractual obligations	**37,623**	37,025	517	81

OUTSTANDING COMMON SHARES

As at December 31, 2006, Xtreme had 27,723,625 common shares outstanding. During 2006, Xtreme issued 10,081,945 common shares with two private placements and common shares issued upon amalgamation as well as common shares issued upon exercise of both performance warrants and agent options. These issues resulted in net proceeds of $65.7 million.

As at December 31, 2006, Xtreme had 2,079,000 options outstanding to purchase common shares at a weighted average exercise price of $4.09 per share. In addition, 6,316 agent options were outstanding at an exercise price of $4.50 per share. All the agent options became exercisable when issued.

As at December 31, 2006 Xtreme had outstanding 333,333 Series 1 and 1,000,000 Series 2 Performance Warrants. Each performance warrant entitles the holder to purchase one common share at a strike price of $0.01 per common share. In June 2006, all of the Series 1 Performance Warrants vested. On March 7, 2007, on receipt of Xtreme's first patent, all of the Series 2 Performance Warrants vested. Subsequently, 666,667 performance warrants were exercised. On December 19, 2006, Xtreme issued a private placement of common shares with 2,092,574 warrants attached which will become exercisable when the warrant holder contracts a specific number of rigs. The exercise price of these warrants is $16.00 per share.

As of March 15, 2007, the aggregate effect of the options, agent options, performance warrants and other warrants would increase Xtreme's shares outstanding by 4,887,556.

Share capital on March 15, 2007 was $164 million (33,750,292 shares). The aggregate effect of adding the above described options and warrants would increase Xtreme's outstanding shares to 38,637,848.

SUBSEQUENT EVENT

On February 15, 2007 Xtreme closed a private placement equity financing of 5,200,000 common shares at a price of $10.50 per common share for aggregate gross proceeds of $54.6 million (the "Offering"). In addition to the Offering, and pursuant to the terms of an agreement between Xtreme and Shell Technology Ventures B.V. ("STV"), STV acquired 160,000 common shares at a price of $10.50 per common share for gross proceeds of $1.7 million. In total, these two transactions generated aggregate gross proceeds of $56.3 million. We will use the net proceeds to fund an increase in Xtreme's 2007 capital expenditure program and for general working capital purposes.

On March 7, 2007, Xtreme announced receipt of United States Patents No. 7,182,140 and 7,185,708, both entitled "Coiled Tubing/Top Drive Rig and Method". These two initial patents relate to Xtreme's unique tilting mast, a key design feature of our XTC 200 series of coiled tubing drilling rigs. The acquisition of Xtreme's first patent triggered the vesting of one million previously issued Series 2 Performance Warrants and subsequent exercise of 666,667 performance warrants.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for Xtreme. In accordance with the requirements of Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, evaluations of the design and operating effectiveness of DC&P and the design effectiveness of ICFR were carried out under their supervision as of December 31, 2006.

Based on these evaluations, the CEO and CFO have concluded that Xtreme's DC&P are designed and operating effectively to provide reasonable assurance that material information relating to Xtreme, including its consolidated subsidiaries, is made known to them by others within those entities. They have also concluded that the Xtreme's ICFR is designed effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There was no change to Xtreme's internal control over financial reporting during the most recent interim period that has materially affected, or is reasonably likely to materially affect, Xtreme's ICFR.

OFF-BALANCE SHEET ARRANGEMENTS

Currently Xtreme has no off-balance sheet arrangements.

RELATED PARTIES TRANSACTIONS

During 2006 Xtreme had no transactions involving any related parties.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported.

Depreciation

The accounting estimate that has the greatest impact on the financial results is depreciation and amortization. Depreciation incorporates estimates of useful lives and residual values of Xtreme's capital assets. These estimates may change as we obtain more experience or as general market conditions change and we analyse the impact on Xtreme's operations and capital assets.

Stock-based compensation

Compensation expense associated with options to purchase common shares at their grant date is estimated based on various assumptions such as volatility, risk-free interest and expected life using the Black-Scholes methodology to produce an estimate of the fair value of such compensation.

Allowance for doubtful accounts receivable

Xtreme assesses the credit worthiness of customers and grants credit based on past payment history, financial conditions and anticipated industry conditions. We monitor customer payments regularly and establish provision for doubtful accounts based on the specific situation and overall industry conditions. The cyclical nature of the oil and natural gas industry can cause credit risk to change suddenly and without notice.

ACCOUNTING POLICIES

Xtreme has not made changes to its accounting policies. However, as operations commenced during 2006, management proposed, and the board of directors approved, several new accounting policies for initial adoption.

Depreciation

Several new types of assets were identified as Xtreme became operational, including drilling rigs and drill pipe.

Xtreme depreciates drilling rigs using a unit of production method based on 5,000 drilling days with an estimated residual value of 20 percent of historical cost. We considered several alternative methods of depreciation including straight-line and declining balance. The unit of production method of depreciation we apply to drilling equipment recognizes usage of equipment as an appropriate basis for allocating the amortizable value over its useful life.

Xtreme depreciates drill pipe on a straight-line basis over eight years. We considered other alternatives including unit of production. Because we expect to drill the majority of our wells using coiled tubing rather than jointed pipe, we believe our drill pipe may last longer than pipe used by most conventional drilling companies. For Xtreme's operations, the straight-line depreciation method is appropriate.

Foreign currency translation

Xtreme's United States operations are categorized as integrated foreign operations. As a result, we use the temporal method of translation under which we translate all foreign currency transactions at the rate in effect as at the transaction date. We translate monetary assets and liabilities at the rate in effect as at the balance sheet date, non-monetary assets and liabilities at their historical rate and recognize gains and losses into the consolidated statements of operations in the period they occur.

Inventory

Inventory comprises coiled tubing and spare rig parts and is recorded at the lower of cost and replacement cost.

Revenue recognition

Xtreme generally provides services by contracts with customers that include a fixed or determinable price based upon daily rates. We recognise revenue when services are rendered.

Joint venture accounting

Coil-X Drilling Systems Corporation ("Coil-X"), an entity established with a third party, is accounted for as a joint venture. Coil-X held cash and had not commenced activity by December 31, 2006. The activities of the joint venture will be included on a proportionate basis.

Financial instruments

The new CICA Handbook section 3855 "Financial Instruments - Recognition and Measurement", which deals with the recognition and measurement of financial instruments at fair value, is effective for annual and interim periods in fiscal years beginning on or after October 1, 2006. The new standards are intended to harmonize Canadian standards with United States and international accounting standards. Xtreme will commence following these standards in the first quarter of 2007. We are currently assessing this new standard, but no significant impact is expected.

BUSINESS RISKS AND UNCERTAINTIES

A number of risks and uncertainties affect Xtreme's operations. Although Xtreme can take actions to mitigate some of these risks, many risks are beyond our control. The risks discussed in this section do not comprise an exhaustive list of all possible risks.

As a start-up business with significant assets under construction and an aggressive building program, Xtreme is dependent on suppliers to deliver equipment on schedule and to meet necessary quality standards. Failure of our suppliers in any aspect of our building program would severely impact Xtreme's ability to expand operations as planned and to retain customers.

Xtreme accounts for and reports all activities in Canadian dollars. Certain contracts are denominated in United States dollars whose rates of exchange to Canadian dollars fluctuate. This foreign exchange risk may create gains and losses which could have an effect on Xtreme's financial results.

Xtreme's equipment includes certain technologies which have not been proven in actual field operations. We cannot assure the effectiveness of these technologies in field operations. Competing technologies could prove more effective than those used by Xtreme. In addition, patents applied for may not be issued.

Management's ability to expand services will depend on attracting qualified personnel as needed. Demand for skilled oilfield employees is high and supply is limited. Any unexpected loss of Xtreme's key personnel, or inability to retain or recruit skilled personnel, could have an adverse effect on Xtreme's business, results of operations and cash flows.

In addition, demand for Xtreme's coiled tubing drilling services is largely dependent on the level of oil and natural gas industry activity in North America. Numerous factors over which Xtreme has no control influence industry activity, including, but not limited to, changes in crude oil and natural gas prices, government legislation, regulatory and economic conditions, global political and military events, international trade barriers or disputes, and fuel and environmental conservation.

OUTLOOK

At December 19, 2006, Xtreme signed a number of agreements with STV to form a corporate joint venture, Coil-X, which will use Xtreme's technology to build and operate rigs for Shell affiliates. These agreements provide Xtreme with access to Shell affiliates as well as to international markets where Shell operates. Coil-X will use Xtreme's proprietary technology but will also access Shell's technology and expertise to engineer and modify coiled tubing drilling rigs. In 2007, Coil-X will commence building its first rig and expects to build at least four additional rigs within the following three years. Xtreme anticipates that revenue from this joint venture will not be significant until 2008. Xtreme's initial investment in Coil-X was $51,000. Xtreme expects to fund the expansion of Coil-X primarily by debt obtained directly by Coil-X. However, it may be necessary for Xtreme to provide additional capital to Coil-X in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Xtreme's unique patented and patent-pending coiled tubing drilling rigs will drill to depths of up to 3,000 meters (approximately 10,000 feet) with coil and up to 4,100 meters (approximately 14,000 feet) with jointed drill pipe. Xtreme's drilling rigs will allow E&P companies to take advantage of cost savings resulting from the faster drilling times associated with coiled tubing. Xtreme's new designs will expand the depth range of current coiled tubing drilling technology. This will open up a larger segment of crude oil and natural gas exploration and development programs to coiled tubing drilling in the United States and Canada.

Early in the fourth quarter, management approved deployment of Rig #1 to the United States to take advantage of higher day rates and better potential utilization. We were committed to existing long-term contracts in the United States and were experiencing reduced drilling activity in much of the Canadian market. Moving Rig #1 to the United States mitigated unanticipated delays in delivery of certain key components for rigs originally designed for use in that market. Xtreme will continue to closely monitor future market conditions in the United States and Canada to determine the most effective deployment of the rigs in our fleet.

Currently Xtreme is operating four coiled tubing drilling rigs and expects to exit 2007 with fourteen or more operating coiled tubing drilling rigs. Since 2006 year-end, we have ordered critical parts for four more XTC 400 rigs for which we are currently tendering construction bid requests to several manufacturers. We expect to order additional coiled tubing drilling rigs to respond to market demand. Early in 2007, we have experienced improved response from the manufacturing sector for components used in our rig construction program, likely due to reductions in natural gas drilling budgets in western Canada. More timely access to components should assist Xtreme in maintaining a robust rig build out program.

Xtreme is well positioned to capitalize on drilling activity in both Canada and the United States. Management expects E&P companies with active drilling programs will continue to utilize Xtreme's unique patented and patent-pending coiled tubing drilling rigs.

ADDITIONAL INFORMATION

Information relating to Xtreme is available on SEDAR at www.sedar.com. To obtain copies of published corporate information, contact Xtreme Coil Drilling Corp., 1402, 500 Fourth Avenue SW, Calgary, AB T2P 2V6 (telephone 403.262 9500), visit Xtreme's website www.xtremecoildrilling.com or e-mail ir@xtremecoil.com.

2006 TRADING

	Open	High	Low	Close	Volume traded
2nd Quarter (1)	$14.67	$15.25	$10.25	$11.00	6,038,815
3rd Quarter (2)	$11.29	$13.30	$9.51	$10.46	2,282,406
4th Quarter	$10.40	$12.97	$9.00	$12.40	1,681,888
Total					10,003,109

(1) Xtreme Coil Drilling Corp. ("XDC") began trading on the TSXV on May 4, 2006.
(2) Xtreme Coil Drilling Corp. ("XDC") graduated to trading on the TSX on September 5, 2006.

Ric Charron

Vic Fitch

MANAGEMENT'S REPORT

To the Shareholders of Xtreme Coil Drilling Corp.

The accompanying financial statements of Xtreme Coil Drilling Corp. ("Xtreme") and all of the information in the annual report are the responsibility of management and have received approval from the Board of Directors.

Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles as outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure fair presentation of the financial statements in all material respects. Management has reviewed the financial information contained elsewhere in the annual report to ensure it is consistent with the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of Xtreme's financial reporting

To express their opinion on the financial statements, PricewaterhouseCoopers LLP, the Corporation's external auditors, conduct an independent examination of the financial statements in accordance with generally accepted auditing standards. Their examination includes such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

Xtreme's Audit Committee has reviewed the financial statement, including notes thereto, with management and PricewaterhouseCoopers LLP. The Board of Directors approved the financial statements on the recommendation of the Audit Committee.

Ric Charron
Chief Executive Officer

Vic Fitch
Chief Financial Officer

Calgary, Alberta
March 15, 2007

AUDITORS' REPORT

To the Shareholders of Xtreme Coil Drilling Corp.

We have audited the consolidated balance sheets of Xtreme Coil Drilling Corp as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and of cash flows for the year ended December 31, 2006 and the period May 24, 2005 to December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and the period May 24, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

March 15, 2007
Calgary, Alberta

CONSOLIDATED BALANCE SHEET

	As at December 31, 2006	As at December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	**$ 16,740,375**	$ 25,224,576
Accounts receivable	**5,831,531**	181,934
Prepaid expenses	**1,773,820**	76,593
Inventory	**387,668**	-
	24,733,394	25,483,103
Future income tax *(note 10)*	**2,506,589**	641,359
Equipment *(note 3)*	**88,511,190**	13,527,576
Intangibles *(note 4)*	**1,983,551**	1,952,708
	$ 117,734,724	$ 41,604,746
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 14,068,993**	$ 1,720,840
Current portion of obligation under capital leases *(note 5)*	**77,536**	-
	14,146,529	1,720,840
Long term liabilities		
Obligations under capital leases *(note 5)*	**138,659**	-
	14,285,188	1,720,840
SHAREHOLDERS' EQUITY		
Share capital *(note 8)*	**105,913,202**	40,183,580
Warrants *(note 8e)*	**1,234,619**	-
Contributed surplus *(note 8c)*	**1,477,807**	3,063,832
Deficit	**(5,176,092)**	(3,363,506)
	103,449,536	39,883,906
	$ 117,734,724	$ 41,604,746

Commitments *(note 12)*

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors

Marc Staniloff, *Director*

Ric Charron, *Director*

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Year ended December 31, 2006	Period from May 24, 2005 to December 31, 2005
Sales	$ 4,817,276	$ -
Expenses		
Operating expenses	4,185,423	-
Selling, general and administrative	3,704,105	706,671
Depreciation of capital assets	524,271	24,307
Amortization of intangibles	103,859	46,875
Stock-based compensation	401,226	3,063,832
Foreign exchange (gain) loss	(38,183)	86,223
Interest on long term debt and capital leases	141,492	-
Interest (income)	(1,663,790)	(418,854)
Loss before taxes	(2,541,127)	(3,509,054)
Future tax recovery *(note 10)*	728,541	145,548
Net loss for the period	(1,812,586)	(3,363,506)
Deficit, beginning of period	(3,363,506)	-
Deficit, end of period	$ (5,176,092)	$ (3,363,506)
Net loss per common share - basic and diluted	(0.07)	(0.24)
Weighted average number of common shares - basic	24,997,450	13,813,036
Weighted average number of common shares - diluted *(note 8f)*	27,459,694	15,806,369

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31, 2006	Period from May 24, 2005 to December 31, 2005
CASH PROVIDED BY (USED IN)		
Operating activities		
Net loss for the period	$ (1,812,586)	$ ($3,363,506)
Items not affecting cash:		
Depreciation and amortization	628,130	71,182
Signing bonus settled in shares	-	32,500
Stock-based compensation	401,226	3,063,832
Unrealized foreign exchange gain	(10,913)	-
Future taxes	(728,541)	(145,548)
	(1,522,684)	(341,540)
Changes in non-cash operating working capital	(5,565,945)	(57,265)
	(7,088,629)	(398,805)
Financing activities		
Proceeds from shares issued upon amalgamation	1,802,412	-
Proceeds from shares issued	65,658,731	39,255,018
Financing costs	(3,609,930)	(1,474,749)
Capital lease payments	(46,925)	-
	63,804,288	37,780,269
Investing activities		
Acquisitions of equipment	(75,244,764)	(13,551,883)
Increase in Intangibles	(134,702)	(124,583)
Change on non-cash working capital relating to capital items	10,179,606	1,519,578
	(65,199,860)	(12,156,888)
Increase in cash and cash equivalents during the period	(8,484,201)	25,224,576
Cash and cash equivalents - beginning of period	25,224,576	-
Cash and cash equivalents - end of period	$ 16,740,375	$ 25,224,576
Supplemental disclosure of cash flow information		
Interest received	$ 1,683,049	$ 369,058
Interest paid	$ 141,492	-
Income taxes paid	-	-
Non-cash transactions		
Purchase of patents in exchange of shares	-	1,875,000
Signing bonus settled in shares	-	32,500
Shares issued in exchange for advance to shareholder	-	300,000

See accompanying notes to the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Xtreme Coil Drilling Corp. (the "Company" or "Xtreme"), was incorporated May 24, 2005 under the Business Corporations Act of Alberta. Xtreme is in the business of operating coiled tubing drilling rigs using new patent pending coiled rig designs and technology. At year-end December 31, 2006, the Company's patents for the designs were pending in the United States. Upon completion of the coiled tubing drilling rigs, Xtreme contracts out these rigs to oil and gas exploration and development companies in both Canada and the United States. Activities are currently directed from Xtreme's head office in Calgary, Alberta, Canada and an operating office in Casper, Wyoming, United States.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include only the accounts of the Company.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Amortization rates and the recoverable amounts for equipment and intangibles are the more significant items subject to estimates in these consolidated financial statements.

Principles of consolidation
The consolidated financial statements include the accounts of Xtreme and its subsidiaries. All are wholly-owned subsidiaries and are fully consolidated. Xtreme includes joint venture accounts on a proportionate basis and has eliminated all inter-entity transactions.

Cash and cash equivalents
Cash and cash equivalents consist of cash on deposit and commercial paper with maturities at the date of acquisition of 90 days or less and are recorded at cost.

Inventory
Inventory is composed of coiled tubing and spare rig parts and is recorded at lower of cost and replacement cost.

Equipment
Xtreme records equipment at cost. The Company provides for depreciation using the methods outlined below to amortize the cost of the equipment, software, furniture and leaseholds over its estimated useful life.

Computer equipment	3 years
Computer software	1 year
Office furniture	5 years
Vehicles	3.3 years
Leaseholds	6 years (over term of lease)
Drill pipe	8 years

Drilling equipment under construction will be depreciated once available for use. Xtreme records equipment at cost and depreciates it using a unit of production method based on 5,000 drill days with an estimated residual value of 20 percent.

Intangibles

Xtreme's pending United States coil drilling and technology patents are being amortized on a straight line basis over a period of 20 years which is the life of the patent.

Foreign currency translation

Xtreme considers United States operations integrated foreign operations and translates them using the temporal method under which all foreign currency transactions are translated at the rate in effect as at the transaction date. Monetary assets and liabilities are translated at the rate in effect as at the balance sheet date, non-monetary assets and liabilities are translated at their historical rate and gains and losses are recognized into the consolidated statements of operations in the period that they arise.

Stock-based compensation

Xtreme has a stock-based compensation plan as described in note 8(d). The Company uses the fair value method of accounting for stock-based compensation. The fair value of stock options awarded to employees under the Company's stock option plan is determined using the Black-Scholes option pricing model. The amount of the fair value is charged to earnings over the vesting period of the stock option and a corresponding credit is made to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that options expire without being exercised, previously recognized compensation expense associated with such stock options is not reversed.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

Per share amounts

Basic per share amounts are calculated by dividing earnings from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The Company uses the treasury stock method to determine the dilutive effect of stock options for the calculation of diluted per share amounts.

Impairment of long-lived assets

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of the asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value. In assessing fair value, discounted cash flow calculations are considered.

Revenue recognition

Xtreme's services are generally sold by contract with the customer and incorporate a fixed or determinable price based upon daily rates. Xtreme recognizes revenue when services are rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. EQUIPMENT

	2006 Dec 31			2005 Dec 31
($)	Cost	Accumulated amortization	Net	Net
Office and shop equipment	761,272	206,615	554,657	168,379
Leasehold improvements	66,315	13,458	52,857	53,445
Vehicles	528,393	58,177	470,216	-
Drilling equipment	33,420,824	270,328	33,150,496	-
Drilling equipment - construction in progress	54,282,964	-	54,282,964	13,305,752
	89,059,768	548,578	88,511,190	13,527,576

Xtreme is currently in the process of building coiled tubing drilling rigs under contract with third parties. Drilling rigs will be depreciated at the time the rigs are put in use.

4. INTANGIBLES

	2006 Dec 31			2005 Dec 31
($)	Cost	Accumulated amortization	Net	Net
Patents	2,134,285	150,734	1,983,551	1,952,708

In June 2005, Xtreme acquired certain pending United States coil drilling patents. In 2006, Xtreme filed additional patent applications. Costs of $134,702 for legal expenses relating to registration of patent applications were added during the year.

5. OBLIGATION UNDER CAPITAL LEASES

Xtreme has field vehicles under capital leases. Minimum lease payments under the capital leases are outlined below.

($)		2006 Dec 31
Year ending December 31	2007	91,508
	2008	86,841
	2009	63,825
Total minimum lease payments		242,174
Less amounts representing future interest at annual rates between 5 percent and 7 percent		25,979
Balance of obligation		216,195
Less current portion		77,536
		138,659

Amortization of leased equipment is on a straight line basis over forty months. The amount of amortization charged to expense is $44,913.

($)	2006 Dec 31
Capital lease cost	263,120
Accumulated amortization	44,913
	218,207

6. JOINT VENTURE

On December 19, 2006 the Company and a third party jointly incorporated a new entity, Coil-X Drilling Systems Corporation (Coil-X). This joint venture expects to utilize Xtreme's technology to build and operate rigs for the third party. Xtreme currently owns 51 percent of Coil-X. As at December 31,2006 Coil-X had not commenced active operations.

7. AMALGAMATION

On May 1, 2006 Xtreme amalgamated with Norquay Capital Ltd. ("Norquay") pursuant to an amalgamation agreement approved by shareholders of both companies. Under the terms of the amalgamation agreement a new entity ("Amalco") was established and will continue operating under the name "Xtreme Coil Drilling Corp." Former shareholders of Xtreme received one common share of Amalco in exchange for each common share held, with 25,541,680 such shares being issued. Former shareholders of Norquay received one common share of Amalco in exchange for 30 common shares held, with 555,556 such shares being issued. Xtreme's shares were listed and commenced trading on the TSX Venture Exchange on May 4, 2006.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of amalgamation.

($)	
Cash	1,817,344
Accounts payable	(14,932)
Net assets acquired	1,802,412
Value assigned to common shares issued	1,802,412

8. SHARE CAPITAL

Authorized and issued shares

The Company is authorized to issue an unlimited number of common voting shares without nominal or par value. Following is a summary of the Company's issued and outstanding Common Shares.

	2006 Dec 31		2005 Dec 31	
	Number of shares	Amount *($)*	Number of shares	Amount *($)*
Balance before receivable from shareholder, beginning of period	**17,641,680**	**40,483,580**	-	-
Shares issued	**-**	**-**	6,170,013	9,255,018
Initial private placement for cash				
Issued in exchange for advance to shareholder	**-**	**-**	200,000	300,000
Issued in lieu of signing bonus	**-**	**-**	21,667	32,500
Issued in exchange for patents	**-**	**-**	1,250,000	1,875,000
Private placement for cash, net of issue costs	**8,842,705**	**60,944,644**	10,000,000	28,525,251
Shares issued upon amalgamation, net of issue cost	**555,556**	**1,566,277**	-	-
Warrants exercised	**666,667**	**2,000,000**	-	-
Agent options exercised	**17,017**	**92,922**	-	-
Future income tax effect of share issue costs, at expected tax rates	**-**	**1,125,779**	-	495,811
	10,081,945	**65,729,622**	17,641,680	40,483,580
Receivable from shareholder	**-**	**(300,000)**	-	(300,000)
Balance, end of period	**27,723,625**	**105,913,202**	17,641,680	40,183,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

a. Shares and agent options issued upon amalgamation

Pursuant to the amalgamation 555,556 shares of Xtreme were issued to former shareholders of Norquay in exchange for shares of Norquay. In addition, Xtreme issued Agent options to purchase 23,333 shares of Xtreme with a strike price of $4.50 per share in exchange for agent options to purchase shares of Norquay. All of the agent options were fully exercisable when issued and expire on May 4, 2008 if not exercised. During the year 17,017 agent options were exercised, leaving 6,316 agent options outstanding.

b. Private placements

On March 2006, Xtreme completed a private placement of 7,900,000 common shares at a price of $7.00 per share for gross proceeds of $55,300,000. The agent was paid a commission of 6 percent of gross proceeds or $3,318,000. In addition, legal and financing fee costs of $78,221 resulted in net proceeds of $51,903,779.

On December 19, 2006 Xtreme completed a private placement of 942,705 shares at a price of $10.90 per share for net proceeds of $10,275,484.

c. Contributed surplus

($)	2006 Dec 31	2005 Dec 31
Contributed surplus - opening balance	**3,063,832**	-
Stock based compensation	**401,226**	3,063,832
Contributed surplus transferred on exercise of options and warrants	**(1,987,251)**	-
Contributed surplus - ending balance	**1,477,807**	3,063,832

d. Stock options outstanding

Xtreme established a stock option plan for directors, officers, employees and consultants which permits the granting of options to purchase up to a maximum of 10 percent of the Company's issued outstanding shares. The Board of Directors sets the number of options and exercise price at the time of grant provided that such exercise price shall not be less than that from time to time permitted under the rules of any stock exchange or exchanges on which the Xtreme's shares may be listed. The options granted under the plan may be exercisable for a period not exceeding five years, generally with one-third of the options vesting each year for the first three years, commencing one year after grant.

During the year, the Board of Directors approved the granting of 537,000 options at exercise prices ranging between $3.00 to $13.52. As of December 31, 2006, a total of 2,079,000 (2005 - 1,610,000) options were outstanding. During the year, a compensation expense of $401,226 (2005-$3,063,832) relating to these options was recorded as part of stock-based compensation expense and credited to contributed surplus.

Xtreme uses the fair value method of accounting for stock-based compensation. The fair value of options granted by the Company was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants assuming no dividends are paid on common shares, a risk-free interest rate ranging from 4 percent to 4.5 percent, an average life of 3.0 years and an expected volatility ranging from zero (when private) to 50 percent. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders. The amount of the fair value is charged to earnings over the period of vesting of the stock options and a corresponding credit is made to contributed surplus.

A summary of the status of the stock option plan and the agent options at December 31, 2006, is presented below.

	2006 Dec 31		2005 Dec 31	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		($)		($)
Stock options and agent options outstanding, beginning of period	**1,610,000**	**3.00**	-	-
Granted	**560,333**	**7.70**	1,610,000	3.00
Exercised	**(17,017)**	**4.50**	-	-
Expired/cancelled	**(68,000)**	**7.92**	-	-
Stock options and agent options outstanding, end of the period	**2,085,316**	**4.09**	1,610,000	3.00
Stock options and agent options exercisable, end of period	**542,979**	**3.02**	-	-

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
($)			($)		($)
3.00 - 4.50	1,761,316	3.6 yrs	3.09	542,979	3.02
7.00 - 13.52	324,000	4.5 yrs	9.49	-	-
	2,085,316	3.8 yrs	4.09	542,979	3.02

e. Warrants

As part of the private placement in July 2005, Xtreme issued to one officer and two directors 1,000,000 Series 1 and 1,000,000 Series 2 Performance Warrants. Each performance warrant entitles the holder to purchase one common share at a defined strike price of $0.01 per common share. All warrants expire on July 21, 2008 if not exercised.

During 2006, Xtreme's liquidity value exceeded the threshold value of $4.75 per share established within the agreement for the 1,000,000 Series 1 Performance Warrants. As a result, all Series 1 Performance Warrants vested and became exercisable. The value allocated to these warrants was $2,990,000 which was recognized as contributed surplus in 2005 During 2006, a total of 666,667 warrants were exercised, leaving 333,333 warrants exercisable and outstanding.

The Series 2 Performance Warrants are not exercisable and will not vest until the date on which Xtreme acquires any of the initial patents for which applications are outstanding. As the likelihood of this event was not determinable as at December 31, 2006, no value has been attributed to these warrants as at year end.

On December 19, 2006 the private placement of shares had 2,092,574 warrants attached. Once vested each of these warrants entitles the holder to acquire one additional share at an exercise price of $16.00 per share. The warrant holder must meet certain conditions to contract a specific amount of rigs before the warrants are exercisable. All warrants expire on December 19, 2009 if not exercised. The fair value allocated to these warrants using the Black-Scholes option pricing model is $1,234,619.The assumptions used in the model are: a risk-free interest rate of 4 percent, an average life of 3.0 years and an expected volatility of 45 percent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

f. Diluted earnings per share

The common shares potentially issuable in exchange for stock options, agent options and performance warrants are not included in the computation of diluted earnings per share as to do so would be anti-dilutive. Diluted weighted average common shares outstanding is calculated using the treasury stock method, which assumes that any proceeds obtained on exercise of stock options are used to purchase common shares at the average price for the year.

	2006 Dec 31	2005 Dec 31
Weighted average common shares outstanding - basic	**24,997,450**	13,813,036
Effect of stock options and warrants	**2,462,244**	1,993,333
Weighted average common shares outstanding - diluted	**27,459,694**	15,806,369

9. CREDIT FACILITIES

In March 2006 Xtreme negotiated credit facilities with a major Canadian bank. The facilities require the Company to maintain certain financial covenants. At December 31, 2006 Xtreme was in compliance with these covenants.

Xtreme has a $5 million operating loan facility. This facility bears interest at the bank's prime rate plus 0.25 percent and is secured by accounts receivable. At December 31, 2006 no amount was owing under this facility.

The Company has a $50 million committed 364-day extendible revolving credit facility. The facility is extendible at the bank's discretion for a further period of 364 days and reverts to a term loan to be repaid monthly over a period of 48 months. The extendible revolving facility bears interest at the bank's prime rate plus 0.75 percent. If not extended the term loan bears interest at the bank's prime rate plus 1.00 percent. A standby fee of 0.35 percent per annum applies to the unutilized portion of the facility. The facility is secured by a general security agreement over all present and future assets, excluding intellectual property, of the Company. At December 31, 2006 no amounts had been drawn on this facility.

10. INCOME TAXES

Net future income tax asset

Future income taxes arise from temporary differences, which are differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. The components of future income tax balances are as follows.

($)	2006 Dec 31	2005 Dec 31
Future income tax assets and liabilities		
Non-capital losses carried forward	**1,053,485**	181,657
Equipment, differences between net book value and undepreciated capital cost	**143,561**	8,172
Intangibles, differences between net book value and cumulative eligible capital balance	**46,155**	15,760
Financing costs	**1,263,388**	435,770
Net future income tax asset	**2,506,589**	641,359

The non-capital losses carried forward expire primarily between 2015 and 2026.

The provision for income taxes in the statement of operations and deficit varies from the amount that would be computed by applying the expected tax rates of 32.12 percent to income before income taxes. The principle reason for the differences between such expected income tax expense and the amount actually recorded are as follows.

($ except where indicated)	2006 Dec 31	2005 Dec 31
Loss before tax	**2,541,127**	3,509,054
Income tax rate *(percent)*	**32.12**	33.62
Computed expected income tax recovery	**816,210**	1,179,744
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	**(15,041)**	(4,136)
Stock based compensation	**(128,874)**	(1,030,060)
Rate reduction on future income tax and other	**12,806**	-
Higher effective tax rate on non-Canadian operations	**43,440**	-
	728,541	145,548
Effective income tax recovery rate *(percent)*	**28.67**	4.15

11. FINANCIAL INSTRUMENTS

Fair values

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

Foreign exchange risk

The Company is exposed to risk from fluctuations in foreign currency exchange rates as portions of its financial instruments are denominated in United States dollars. The effect of the foreign exchange gains and losses are included in income as they occur.

Credit risk

The Company is exposed to credit risk in relation to its accounts receivable at December 31, 2006 which includes balances owing from customers primarily operating in the oil and gas industry. The Company assesses the credit worthiness of its customers on an ongoing basis and considers the credit risks on these amounts as normal for the industry.

12. COMMITMENTS

a. Operating leases

Xtreme is committed to operating leases for office and shop space. The approximate annual base rental payments are as follows.

($)	
2007	133,540
2008	122,000
2009	122,000
2010	122,000
2011	81,333
	580,873

Under the terms of the leases, Xtreme is also responsible for its proportionate share of realty taxes, operating costs and utilities.

b. Purchase commitments

The Company has commitments to suppliers with respect to contracts for the construction of the coiled tubing drilling rigs in the amount of $36.8 million which is not reflected in these consolidated financial statements.

13. SEGMENTED INFORMATION

In 2006, Xtreme began contract drilling services in Canada and the United States. The amounts related to each geographic area are as follows.

2006 Drilling services

($)	Canada	United States	Total
Revenue	1,359,393	3,457,883	4,817,276
Property and equipment, net	63,036,658	25,474,532	88,511,190

Revenue from three customers of Xtreme's drilling segments in Canada and the United States represent approximately $4.7 million of the Company's total revenue.

14. SUBSEQUENT EVENTS

On February 15, 2007 Xtreme completed a private placement of 5,360,000 shares at a price of $10.50 per share for gross proceeds of $56,280,000.

On March 7, 2007 Xtreme was notified that two patents had been issued which related to the Series 2 Performance Warrants. As a result, these performance warrants vested and became exercisable.

On March 9, 2007 a total of 666,667 Series 2 Performance Warrants were exercised, leaving 333,333 Series 2 Performance Warrants exercisable and outstanding.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Randolph M. Charron [4,5]
President
Characo Corporation
Calgary, AB

Richard R. Charron
Chief Executive Officer
Xtreme Coil Drilling Corp.
Calgary, AB

Daniel Z. Remenda [2,3,5]
Independent Businessman
Calgary, AB

Marc L. Staniloff [2,4]
Chairman
and Chief Executive Officer
Superior Lodging Corp.
Calgary, AB

Kyle W. Swingle [5]
Chief Operating Officer
Canadian Operations
Xtreme Coil Drilling Corp.
Greenwood Village, CO, USA

David A. Tuer [2,3,4]
Independent Businessman
Calgary, AB

Thomas D. Wood [1,3]
Chairman and Managing Director,
United States and International
Operations
Xtreme Coil Drilling Corp.
Calgary, AB

MANAGEMENT

Richard Charron
Chief Executive Officer

Kyle Swingle
Chief Operating Officer
Canadian Operations

Vic Fitch
Chief Financial Officer
and Corporate Secretary

Richard Havinga
Vice President, Engineering and
Design

Scott Hennenfent
Corporate Controller

Chris White
Manager, United States Operations

Reg Layden
Manager, Canadian Operations

[1] *Chairman of the Board*
[2] *Audit Committee*
[3] *Compensation Committee*
[4] *Governance & Nominating Committee*
[5] *Health, Safety, Environment Committee*

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Calgary, AB

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HSBC Bank Canada
Calgary, AB

SOLICITORS

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Shareholders and other interested individuals can access current public information about Xtreme at www.xtremecoildrilling.com. Xtreme's website has historical information, shareholder reports, press releases, the current corporate presentation, as well as trading and contact information.

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