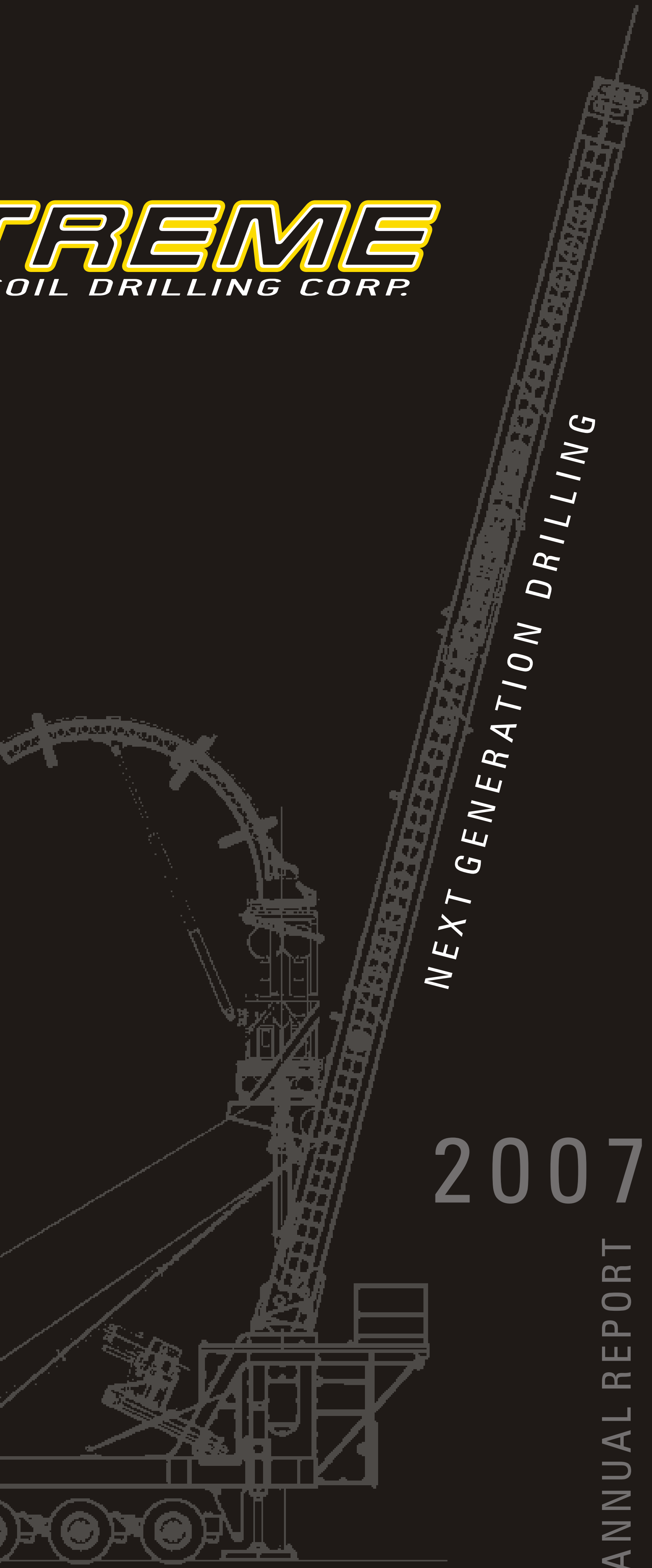
XTREME
COIL DRILLING CORP.



NEXT GENERATION DRILLING

2007

ANNUAL REPORT

Photo Credits: Videoworks, Casper WY; Trilogy Studios, Calgary AB; and several individuals with Xtreme Coil in the United States and Canada.

This report uses Canadian dollars unless otherwise noted

CORPORATE PROFILE

Xtreme Coil Drilling Corp. ("Xtreme Coil") develops and applies leading edge patented and patent-pending technology and designs to build and transport new Coil Over Top Drive® ("COTD™") drilling rigs. These innovative and efficient drilling rigs, developed for operation in the United States, Canada and, potentially, outside North America, drill with larger coil to reach hydrocarbons in deeper horizons. Xtreme Coil's proprietary technology also features modular transportation units, larger injectors, larger drilling rigs and new methods of achieving deeper, faster and safer drilling. Xtreme Coil's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "XDC".

ANNUAL MEETING OF SHAREHOLDERS

Xtreme Coil Drilling Corp. invites all shareholders to attend the annual meeting on Wednesday, April 23, 2008 at 3:00 pm (Calgary time) in the Cardium 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.

Reader Advisory

This report may include certain information, statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects that constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Xtreme Coil's future outlook and anticipated events or results and may include statements related to anticipated future contracts; commodity pricing; rates of currency exchange; rig building, completion or deployment; operating expenses; capital expenditures and other 2008 guidance provided throughout this report.

These statements are based on certain factors and assumptions regarding, among others: projection of current operations; ongoing and future business negotiations and opportunities; timing of capital expenditures; market costs and other variables affecting rig building and operating expenses; the ability of vendors to provide rig component equipment, services and supplies, including labour, in a cost-effective and timely manner; the availability and costs of financing; foreign currency exchange rates; the receipt of applied-for patents; and government regulations. Although Xtreme Coil considers these assumptions reasonable as of the current date based on information currently available to management, the assumptions may ultimately prove incorrect.

Forward looking-information is also subject to certain factors, including risks and uncertainties, that could cause actual results to differ materially from what we currently expect. These factors include, but are not limited to: the cyclical nature of drilling markets, currency exchange rates, and commodity prices; access to credit facilities and equity markets; competition from other drilling contractors for customers, labour and vendor-provided rig components. Because of these risks and uncertainties, actual results, expectations, achievements or performance may differ materially from those anticipated and indicated by these forward-looking statements.

Financial outlook information contained in this report about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this report should not be used for purposes other than for which it is disclosed herein.

Readers should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Xtreme Coil 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.

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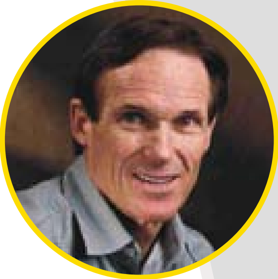
CHAIRMAN'S MESSAGE



Thomas D. Wood
Chairman and Chief Executive Officer

Xtreme Coil Drilling Corp. ("Xtreme Coil") is pleased to report our operating and financial results for the year ended December 31, 2007. By 2007 year-end, we began to capture promising results from our aggressive rig build program as we deployed more of our new Coil Over Top Drive® ("COTD™") drilling rigs to the field operations of exploration and production ("E&P") companies in the United States and Canada. Xtreme Coil exited 2007 with 11 completed drilling rigs and nine were operating for our customers in field locations.

Our fleet now features four prototype, field tested, drilling rigs: the XTC 400, the XTC 300, the XTC 200DT and the XTC 200ST. We are looking forward to field testing our newest design, the XTC 200DT Plus, which is currently situated in west Texas undergoing final commissioning for a new project.

EARLY 2007 MILESTONES

In our early operations, with the encouragement and support of our customers, we achieved results that solidified our belief in the long-term potential for our proprietary drilling rig designs.

In March 2007, one of our first XTC 200DT drilling rigs based in the United States Rocky Mountain region drilled to a world record depth of 8,125 feet with 3-1/2 inch coiled tubing in a Wattenburg well in the Denver-Julesburg Basin of Colorado. Our XTC 400 followed that up in July 2007, in the same Basin, completing a record 51.25 rotating hours drilling with coil to a total depth of approximately 8,375 feet. This 7-7/8 inch wellbore, is the deepest well drilled to date with 3-1/2 inch coiled tubing.

From inception, Xtreme Coil's focus on delivering next generation drilling has involved a parallel business strategy to protect our innovative technology. We apply for patents as we develop new designs for coiled tubing drilling and related equipment. The United States Patent and Trademark Office issued our first two patents in late February 2007. Currently, we have more than 30 patent applications pending or under review in the United States, Canada and other jurisdictions.

As we ramped up operations in the United States, it became clear that moving our unique drilling equipment between locations, cost effectively and safely, required superior transportation services which were not readily available. In April 2007, we established Xtreme Oilfield Trucking, Inc. based in Cheyenne, Wyoming and it is proving successful in serving our own customers as well as others.

We completed a $56.3 million private placement financing in February 2007 which led to the board of directors' decision to add four of our larger model drilling rigs to our earlier-announced 14 rig build program.

2007 OPERATIONS GREW SUBSTANTIALLY

Xtreme Coil's operations teams in the United States and Canada, led by Kyle Swingle, have worked very hard during 2007 as we deployed new drilling rigs operating with new technology. Kyle and our field operations employees deserve a lot of credit for their effort and responsiveness as they remedied start-up challenges and applied their on-site training to achieve drilling results that met or exceeded our customers' expectations.

We now have our first prototype XTC 300 and our first three XTC 400 drilling rigs working in the United States Rocky Mountain region under long-term contracts. In 2007, Xtreme Coil recorded 1,492 operating days compared to 216 operating days in 2006. Our drilling operations teams played a significant role as we demonstrated improving operating results from month to month to complete 2007 just shy of reporting our first profitable quarter.

CHAIRMAN'S MESSAGE

2007 RIG BUILD PROGRAM

Xtreme Coil's technical and design team, led by Richard Havinga, also had an industrious and challenging year. They achieved significant successes and, at the same time, responded to unexpected difficulties as we deployed prototype drilling rigs into initial operations. Our engineering and design team is responsible for optimizing our designs to meet customer requirements. Throughout 2007, they improved on the design of our drilling rig and related equipment to help us expand field operations. In the future, their expertise and achievements will be integral to augmenting Xtreme Coil's access to even broader drilling markets.

In 2007, the Canadian drilling market declined and we expected more manufacturing capacity would facilitate our announced 18 drilling rig construction program. However, the demand worldwide for drilling components adversely affected our build program. We experienced unforeseen delays in component delivery which significantly slowed the pace we had intended for our 2007 drilling rig build-out.

2007 FINANCIAL RESULTS

In the competitive United States and the softening Canadian drilling markets, we managed activity levels that delivered improvements in our gross margin during the 2007 fourth quarter. These improvements produced a modest amount of income before tax. For 2007, Xtreme Coil's loss before tax was entirely attributable to activity in first three quarters of 2007, when we were expanding our crews and infrastructure to ramp up drilling operations. Operating expenses were higher than we anticipate once we are fully operational and our field crews become more experienced.

In direct relation to the expansion of Xtreme Coil's drilling rig fleet, we increased our 2007 revenue to $32.2 million from $4.8 million in 2006. Our concentration of operations in the United States suffered somewhat from the 2007 downward trend in the average exchange rate between the United States and the Canadian dollar.

During the last half of 2007, as we expanded operations and depleted previous cash surpluses, Xtreme Coil began drawing down the $50 million revolving credit facility as well as the $5 million operating line. This allowed us to continue drilling rig construction and dedicate required funds to ongoing operating requirements.

OUR E&P CUSTOMERS AND ALLIANCES WITH OTHER DRILLING SERVICES

Xtreme Coil's current and future accomplishments are aligned with the success of our customers' current and future drilling projects. The E&P companies who have utilized Xtreme Coil's new drilling rigs and related equipment are valuable partners in our industry's transition to next generation drilling.

Our customers are committed to applying our technology to their exploration of existing and new geological horizons, especially those that involve directional drilling and re-entry programs. Our mutual challenge is to continue to find innovative solutions that are cost effective and deliver results. During 2007, we met with many E&P drilling and operations leaders and their technical teams or delivered face-to-face presentations focused on Xtreme Coil's proprietary technology and its adaptation to specific projects. These lunch and learn or interactive discussions will ultimately improve how E&P companies and Xtreme Coil drill with coiled tubing.

Throughout 2007, Xtreme Coil has forged new relationships with drilling service companies who develop and deploy companion drilling equipment. These strategic alliances with other service companies will be integral to advancing new ideas and resolving the challenges of efficiently extracting crude oil and natural gas from old and new geological horizons.

XTREME COIL'S PEOPLE

I believe we have assembled a strong team of unique and dedicated people who are committed to responding quickly and efficiently to all the challenges we have faced and expect to address in the future.

We were pleased in 2007 to welcome Kyle Swingle's appointment to Chief Operating Officer for all of Xtreme Coil's operations in North America. Together with our joint venture partner, Shell Technology Ventures Fund 1 B.V., we also welcomed the appointment of Rod Uchytil to Chief Operating Officer of Coil-X Drilling Systems Corporation based in Houston, Texas.

On behalf of the board of directors and management, it is a pleasure to express appreciation to our more than 200 employees in our drilling operations throughout the United States and Canada, in our rig construction division at Nisku and in our offices in Calgary, Casper, Cheyenne and Houston.

Xtreme Coil's shareholders and I are very fortunate to draw on the expertise and knowledge of a strong board of directors with broad industry and business experience. Our directors, Randy Charron, Danny Remenda, David Tuer, Marc Staniloff, Kyle Swingle and Ric Charron have contributed immensely to Xtreme Coil's pace of growth in 2007.

OUTLOOK FOR 2008

Xtreme Coil is well positioned to capitalize on drilling markets in the United States, Canada and outside North America. We anticipate exiting 2008 with eighteen COTD™ drilling rigs. As we negotiate new contracts, we are prepared to build additional drilling rigs.

Now that several of our drilling rig prototypes are fully operational, we will focus on improving Xtreme Coil's balance sheet while forging ahead with next generation drilling. As the number of drilling rigs in our fleet increases, and as our larger rigs comprise a greater proportion of our fleet, we anticipate further improvement in Xtreme Coil's gross margins.

Currently, we are negotiating on several fronts. In some cases this may create a brief lag in rig utilization as we customize certain rig models for deployment into new North American or into international markets.

In the United States, gaps in work activity may occur due to some shorter term contracts for certain of our drilling rigs. In Canada, our rigs have just completed winter work and are heading into spring break-up. We expect our Canadian drilling commitments to commence when weather and ground conditions permit. We will maintain our roots and presence in Canada where the long-term market and knowledge base is significant.

We believe that Xtreme Coil's market niche will continue to grow as we focus on proving our Coil Over Top Drive® drilling rigs can perform more efficiently and cost effectively for our E&P customers than conventional drilling rigs.

We believe Xtreme Coil is developing a substantial base of operations from which we can continue to expand our drilling fleet within the United States market. We will continue to negotiate in markets outside the United States and Canada. We have progressed with preliminary work to establish structures for operating units in Mexico, Russia, North Africa and the Middle East. We expect to aggressively pursue the worldwide drilling market and to develop our relationships with international E&P companies and other drilling service companies.

Moving into an era of next generation drilling is not without its challenges. As discussed earlier, Xtreme Coil owes a debt of gratitude to our customers, vendors and shareholders for their support during our start-up phase when drilling markets and the stock market presented significant challenges. In 2008, we are committed to working hard to respond to our customers' needs and to deliver results that reward our shareholders.

T Wood

Tom Wood
Chairman

HIGHLIGHTS

($ thousand except where indicated)	**2007**	**2006**
Revenue	**32,195**	4,817
Loss	**3,203**	1,812
Loss per share *($)*	**0.10**	0.07
Weighted average number of common shares - basic	**33,018,531**	24,997,450
Capital expenditures	**103,823**	75,245
Completed COTD™ drilling rigs	**11**	4
Operating days	**1,492**	216

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

($ thousand, except where indicated and share and per share date)

Management for Xtreme Coil Drilling Corp. ("Xtreme Coil", the "company", "we", "our") based this MD&A on the operating and financial results for the three months and year ended December 31, 2007. Management recommends reading this discussion and analysis of Xtreme Coil's financial condition and results of operations in conjunction with the audited consolidated financial statements for the year ended December 31, 2007. Management has prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and expressed all amounts in thousands of Canadian dollars unless otherwise stated. Management's discussion and analysis is based on information available as at March 13, 2008.

FORWARD-LOOKING STATEMENTS

This MD&A or documents incorporated herein by reference may include certain information, statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects that constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Xtreme Coil's future outlook and anticipated events or results and may include statements related to anticipated future contracts; commodity pricing; rates of currency exchange; rig building, completion or deployment; operating expenses; capital expenditures and other 2008 guidance provided throughout this MD&A.

These statements are based on certain factors and assumptions regarding, among others: projection of current operations; ongoing and future business negotiations and opportunities; timing of capital expenditures; market costs and other variables affecting rig building and operating expenses; the ability of vendors to provide rig component equipment, services and supplies, including labour, in a cost-effective and timely manner; the availability and costs of financing; foreign currency exchange rates; the receipt of applied-for patents; and government regulations. Although Xtreme Coil considers these assumptions reasonable as of the current date based on information currently available to management, the assumptions may ultimately prove incorrect.

Forward looking-information is also subject to certain factors, including risks and uncertainties, that could cause actual results to differ materially from what we currently expect. These factors include, but are not limited to: the cyclical nature of drilling markets, currency exchange rates, and commodity prices; access to credit facilities and equity markets; competition from other drilling contractors for customers, labour and vendor-provided rig components. Because of these risks and uncertainties, actual results, expectations, achievements or performance may differ materially from those anticipated and indicated by these forward-looking statements.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Xtreme Coil 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.

DESCRIPTION OF THE BUSINESS

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

Xtreme Coil was incorporated May 24, 2005. Our corporate and head office is in Calgary, Alberta. Xtreme Coil has United States field offices in Casper, and Cheyenne, Wyoming.

We market the majority of Xtreme Coil's new drilling rigs in the United States and Canada with the objective of achieving long-term contracts. Xtreme Coil 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.

In March 2007, the United States Patent and Trademark Office issued Xtreme Coil its first two patents, both entitled "Coiled Tubing/Top Drive Rig and Method". Xtreme Coil has more than 30 further patent applications pending in the United States, Canada and other jurisdictions. These patent applications cover our coiled tubing drilling and transportation technology including equipment and methods for coiled tubing drilling to deeper horizons of 3,000 meters (10,000 feet) or more.

Xtreme Coil's common shares trade on the Toronto Stock Exchange under the symbol "XDC".

EQUIPMENT UNDER CONSTRUCTION

Xtreme Coil has designed six models of COTD™ drilling rigs and has now completed five designs. Currently, we have plans to complete at least eighteen drilling rigs. At December 31, 2007, Xtreme Coil had eleven rigs (2006 - four rigs) completed. Two of the completed rigs were awaiting deployment to client projects. Seven more drilling rigs were in various stages of construction.

During 2007, some additional manufacturing capacity became available as softening Canadian oilfield activity led a number of oilfield service companies to reduce their capital expansion programs. Xtreme Coil took advantage of this opportunity to continue to expand our fleet of coiled tubing drilling rigs. The robust economic environment in Alberta during most of 2006 had resulted in demand beyond the capability of many Alberta equipment manufacturers. Throughout 2007, unforeseen delivery delays of numerous key components, some lagging as much as one year, significantly slowed our drilling rig and related equipment build-out.

Xtreme Coil's efforts focus on timely delivery of our drilling rig components. Once third party suppliers provide the ordered and outstanding components, Xtreme Coil completes the assembly with the remaining components and, finally, fully rigs-up and commissions each drilling rig prior to deployment for field operations. We continue to purchase a number of components outside of Alberta, as well as source components from multiple suppliers, to achieve simultaneous production of several drilling rigs in an effort to maintain the required pace of rig delivery to meet contractual obligations.

During 2007, we deployed Xtreme Coil's new rigs to United States operations and operated two rigs in Canada. Since inception, we had anticipated 70 to 80 percent of Xtreme Coil's drilling rig fleet would work in the United States. Of the nine rigs in the field at December 31, 2007, seven rigs were in the United States and two were in Canada.

SELECTED ANNUAL INFORMATION

($ thousand, except where indicated)	31 Dec 2007	31 Dec 2006	31 Dec 2005
Revenue	**32,195**	4,817	-
Net loss	**3,203**	1,812	3,364
Net loss per share *(dollars)*	**0.10**	0.07	0.24
Capital assets	**188,913**	88,511	13,528
Total assets	**213,464**	117,735	41,605
Total long-term financial liabilities	**29,969**	139	-
Operating days [1]	**1,492**	216	-

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Three months ended *($ thousand, except where indicated)*	31 Dec 2007	30 Sep 2007	30 Jun 2007	31 Mar 2007
Revenue	**12,416**	**9,574**	**5,416**	**4,789**
Net loss	**204**	**1,338**	**1,144**	**517**
Net loss per share *(dollars)*	**0.01**	**0.04**	**0.03**	**0.02**
Capital assets	**188,913**	**167,788**	**148,503**	**111,908**
Total assets	**213,464**	**190,191**	**175,358**	**168,612**
Operating days [1]	**579**	**398**	**280**	**235**
Rig utilization *(percentage)*	**77**	**62**	**66**	**65**
Weighted average rigs in service	**8.1**	**7.0**	**4.6**	**4.0**
Completed rigs, end of quarter	**11**	**8**	**7**	**4**

	31 Dec 2006	30 Sep 2006	30 Jun 2006	31 Mar 2006
Revenue	3,620	1,197	-	-
Net loss	781	426	334	272
Net loss per share *(dollars)*	0.03	0.02	0.01	0.01
Capital assets	88,511	64,275	39,804	24,545
Total assets	117,735	101,169	98,766	94,052
Operating days [1]	163	53	-	-
Rig utilization *(percentage)*	79	83	-	-
Weighted average rigs in service	2.3	0.7	-	-
Completed rigs, end of quarter	4	1	-	-

[1] *Management cautions readers that 'operating days' does not have a standardized meaning prescribed by GAAP. Xtreme Coil'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 to quantify the revenue-generating activity of the rigs.*

Xtreme Coil's drilling operations continued to grow through 2007 Q4. Our expanded fleet of drilling rigs, together with increased utilization of the fleet, produced a 30 percent increase in revenue compared to 2007 Q3. Operating costs per day decreased on a trailing quarter basis. These changes were the primary factors in reducing the net loss.

RESULTS OF OPERATIONS

Revenue

	Three months ended Dec 31			Year ended Dec 31		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Total revenue	**12,416**	3,620	243	**32,195**	4,817	568
Operating days	**579**	163	255	**1,492**	216	591
Revenue per operating day	**21.4**	22.2	(3)	**21.6**	22.3	(3)
Rig utilization *(percentage)*	**77**	79	(3)	**69**	79	(13)

At December 31, 2007, Xtreme Coil had nine rigs operating (2006 - four completed). As we constructed, commissioned and deployed each new drilling rig in 2007, the number of operating days and revenue increased.

For the year ended December 31, 2007, revenue per operating day decreased modestly. The most significant factor in this decrease was a 6.5 percent drop in the average exchange rate between the United States dollar and the Canadian dollar during 2007. Most of Xtreme Coil's new drilling rigs deployed to the United States during 2007 were the larger models which operate at a higher daily rate. The lower foreign exchange rate mitigated the effect of the higher daily rate.

Other factors included a weakening Canadian drilling market during the second half of 2007, primarily due to volatile natural gas prices and an announcement from the Government of Alberta regarding planned 2009 changes to the royalty regime. However, this had minimal effect on Xtreme Coil's overall operating results for the year ended December 31, 2007 since only two of Xtreme Coil's rigs operated in Canada.

In 2007 4Q, total revenue increased proportionately to the increase in the number of operating days as new drilling rigs were deployed during the period.

Operating Expenses

	Three months ended Dec 31			Year ended Dec 31		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Operating expenses	**8,969**	3,306	171	**27,209**	4,185	550
Operating expenses *(percentage of revenue)*	**72**	91	(21)	**85**	87	(3)
Operating expenses per operating day	**15.5**	20.3	(24)	**18.2**	19.4	(6)

During the year ended December 31, 2007 field operations continued to grow. For the three and twelve months ended December 31, 2007, operating costs as a proportion of revenue decreased as we captured the benefit of prior start-up investment in crew training and infrastructure for United States and Canadian operations. In the future, we anticipate further moderation of operating expenses as a proportion of revenue as Xtreme Coil's rig fleet expands and field crews become more experienced.

Gross Margin[1]

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Gross margin	**3,447**	314	998	**4,986**	632	689
Gross margin *(percentage of revenue)*	**28**	9	220	**15**	13	18
Gross margin per operating day	**5.9**	1.9	209	**3.4**	2.9	14

[1] Management cautions readers that 'gross margin' does not have a standardized meaning prescribed by GAAP. Xtreme Coil's method of calculating gross margin may differ from other companies and may not be comparable to measures used by other companies. Gross margin represents the revenue minus operating expenses. Management believes that gross margin is a useful supplemental measure of the financial performance of our principal business activities before considering how the activities are financed or taxed, as well as other costs that are not closely associated with activity levels.

For the three and twelve months ended December 31, 2007, gross margin improved primarily as a result of increased revenue generated by our expanding fleet of drilling rigs. During the first three quarters of 2007, routine start-up costs related to hiring and training field staff and establishing support infrastructure in advance of deployment and operation of Xtreme Coil's drilling rigs dampened gross margin. In 2007 4Q, our expanded fleet of coil drilling rigs generated higher revenue. Support infrastructure costs have lessened in proportion to generated revenue and resulted in a higher gross margin.

Selling, General and Administration Expense ("SG&A")

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
SG&A	**1,210**	1,210	-	**4,111**	3,704	11
SG&A *(percentage of revenue)*	**10**	33	(71)	**13**	77	(83)

For the year ended December 31, 2007, SG&A, as a percentage of revenue, decreased as expected as Xtreme Coil's current rig fleet became operational. In 2007 4Q, SG&A as a percentage of revenue decreased further. We anticipate this trend will continue as we commission and deploy more rigs to active operations.

Depreciation and Amortization

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Depreciation and amortization	**1,519**	328	383	**3,532**	524	500

Depreciation is based on a unit-of-production basis and will increase in proportion to operating days. For the year ended December 31, 2007, the increase in depreciation and amortization resulted primarily from the increase in equipment commencing active field operations.

Stock-Based Compensation

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Stock-based compensation	**141**	144	(2)	**556**	401	39

The growth of operations during 2006 and 2007 resulted in increased stock-based compensation as Xtreme Coil awarded new employees options to purchase common shares. In 2007 4Q, with most staff already in place for the drilling rigs in operation, stock-based compensation was stable.

Foreign Exchange

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Foreign exchange - (gain)/loss	73	(59)	(124)	576	(38)	(1,616)

Foreign exchange gains and losses result from a translation on Xtreme Coil's United States dollar net working capital. In particular, most of the loss in 2007 resulted from Xtreme Coil holding United States dollar net working capital while the exchange rate declined. As Xtreme Coil's operations grow and mature, we expect to generate the majority of our 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

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Interest expense	457	49	833	685	142	382

During the last half of 2007, Xtreme Coil depleted the previous cash surpluses and began drawing down the $50 million revolving credit facility as well as the $5 million operating line. The facilities were used to continue drilling rig construction as well as to provide cash for ongoing operating requirements.

Interest Income

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Interest income	20	219	(91)	654	1,664	(61)

For the three and twelve months ended December 31, 2007, interest income resulted from investment of temporary surplus cash available during build-out of Xtreme Coil's initial fleet of coiled tubing drilling rigs. Interest income decreased as Xtreme Coil allocated initial surplus cash and funds from private placements to drilling rig construction.

Income (Loss) Before Tax

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Income (loss) before tax	3	(1,139)	100	(4,054)	(2,541)	(60)

For the year ended December 31, 2007, the loss before tax was entirely attributable to the first three quarters, when initial operating expenses were higher than would be expected for normal operating conditions. Revenues, operating costs and depreciation grew proportionally, while SG&A and stock-based compensation increased slightly. As Xtreme Coil moved from having cash on hand to a borrowing position, interest on a net basis no longer contributed to income but resulted in a net $31 expense (2006 - net $1,522 income), a difference of $1,553 year over year. Foreign exchange of $576 expense (2006 - $38 income) further contributed to net loss as the United States dollar weakened.

During 2007 4Q, activity levels and gross margin improved to a level sufficient to produce a modest amount of income before tax.

Income Taxes

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Income tax expense (recovery)	207	(358)	(158)	(851)	(729)	17

During 2007, the Canadian federal government enacted a number of tax reductions for corporations, specifically phasing-in, between 2008 and 2012, a reduction in general corporate tax rates from 21 percent to 15 percent and the elimination of the corporate surtax effective January 1, 2008.

For the year ended December 31, 2007, the recovery is in proportion to the loss before income tax less the impact of the lower Canadian tax rates. In 2007 4Q, income tax expense reflects the impact on Xtreme Coil's future tax asset related to the change in tax rates enacted in that period.

Net Loss

	Three months ended Dec 31			Year ended Dec 31		
	2007	2006	% Change	2007	2006	% Change
Net loss	204	781	(74)	3,203	1,812	77

Financial Condition, Liquidity and Capital Resources

	Year ended Dec 31		
($ million)	2007	2006	% Change
Cash balance	0.4	16.7	(98)
Working capital (deficit)	(10.0)	10.6	(194)
Long-term liabilities	30.0	0.1	-

Capital Expenditures and Commitments

	Three months ended Dec 31			Year ended Dec 31		
($ million)	2007	2006	% Change	2007	2006	% Change
Capital expenditures	22.6	24.5	(8)	103.8	75.2	38
Commitments	20.5	36.8	(44)	20.5	36.8	(44)

For the year ended December 31, 2007, investment in fixed assets was primarily for continued construction of drilling rigs. For the three and twelve months ended December 31, 2007, Xtreme Coil maintained a $50 million revolving debt facility with a Canadian financial institution for construction of equipment, as well as an operating line of $5 million supported by accounts receivable. At December 31, 2007 Xtreme Coil had drawn $35 million on these facilities. Other than capital leases for field vehicles, Xtreme Coil had no other long-term debt.

In March 2008 the existing credit facilities were renewed, extending Xtreme Coil's revolving facility until March 2009. In addition, we have entered into an agreement with our existing lender pursuant to which the lender has agreed to act as best efforts agent and arranger of new credit facilities on a syndicated basis. Currently, the new credit facilities are being documented and we expect closing to occur before the end of 2008 1Q. The new credit facilities are expected to include a $15 million revolving operating line and a revolving extendable facility, initially at $70 million, to be reduced to $60 million by December 31, 2008.

The Board of Directors has approved Phase I of our 2008 capital budget which allocates $34 million to the rig build program, including commitments existing at December 31, 2007 of $20.5 million. We continue to monitor the timing of commitments and payments for our capital expansion program and will determine the appropriate financial vehicle to fund additional requirements and continued growth opportunities. In addition to the expanded credit facility described above, we will assess the need for future equity or longer-term debt. To complete the remaining rigs in our announced eighteen rig program, we estimate incurring an additional $19 million.

In January 2008, Xtreme Coil announced the sale of an XTC 200DT^{Plus} rig to Coil-X Drilling Systems Corporation ("Coil-X"). Coil-X is jointly owned by Xtreme Coil and a partner. Financing for the purchase of this rig by Coil-X is primarily provided by our joint venture partner. As a result of this transaction, Xtreme Coil expects to receive more than $10 million in cash upon final closing.

During 2007, Xtreme Coil's operations contributed a modest amount of cash prior to changes in net working capital. As Xtreme Coil's revenues grow, we expect to generate stronger cash flow to fund ongoing operating activities. Management anticipates that funds on hand and funds to be received from our joint venture partner, together with our expanded credit facilities, will be sufficient to complete the announced eighteen drilling rigs as well as to fund related ongoing operating requirements. As we continue to increase Xtreme Coil's asset base by building more drilling rigs, we will determine the appropriate vehicle and timing for expanding our financial capacity to support future capital requirements.

This table summarizes Xtreme Coil's contractual obligations as at December 31, 2007.

Payments Due by Period

Contractual Obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years
Capital lease obligations	165	89	76	-
Operating leases	634	204	349	81
Revolving credit facility	35,000	-	-	35,000
Commitments	20,500	20,500	-	-
Total contractual obligations	56,299	20,793	425	35,081

As described under Subsequent Events, the revolving credit facility has been extended through March 2009 and no revolving debt payments are required within one year.

Segmented Information

This table summarizes the results of operations for Xtreme Coil's two geographic operating segments of Canada and the United States.

	2007			2006		
	Canada	United States	Total	Canada	United States	Total
Revenue	**4,365**	**27,830**	**32,195**	1,359	3,458	4,817
Operating days	**219**	**1,273**	**1,492**	58	158	216
Revenue *(per day)*	**19.9**	**21.8**	**21.6**	23.4	21.9	22.3

Outstanding Common Shares

	Year ended Dec 31		
	2007	**2006**	**% Change**
Common shares, beginning of year	**27,723,625**	17,641,680	57
Private placement	**5,360,000**	8,842,705	(39)
Shares issued on amalgamation	**-**	555,556	-
Warrants exercised	**666,667**	666,667	-
Agent options exercised	**6,315**	17,017	(63)
Options exercised	**208,800**	-	-
Common shares issued	**6,241,782**	10,081,945	(38)
Common shares, end of year	**33,965,407**	27,723,625	23

On February 15, 2007 Xtreme Coil 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 Coil 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 used the net proceeds of $52.8 million to fund an increase in Xtreme Coil's 2007 capital expenditure program and for general working capital purposes.

On March 7, 2007, Xtreme Coil 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 Coil's unique tilting mast, a key design feature of our XTC 200 and 300 series of coiled tubing drilling rigs. The acquisition of Xtreme Coil's first patent triggered the vesting of one million previously issued Series 2 Performance Warrants and subsequent exercise of 666,667 performance warrants.

As at December 31, 2007, Xtreme Coil had outstanding 2,012,200 (2006 - 2,079,000) options to purchase common shares at a weighted average exercise price of $4.60 per share (2006 - $4.09). During 2007, 6,315 agent options were exercised at an exercise price of $4.50 per share and one agent option was cancelled, leaving no agent options outstanding.

As at December 31, 2007, there were vested and outstanding 333,333 Series 1 and 333,333 Series 2 Performance Warrants. Each performance warrant entitled the holder to purchase one common share at a strike price of $0.01 per common share. In March 2007, on receipt of Xtreme Coil's first patent, all of the 1,000,000 Series 2 Performance Warrants vested and the holders exercised 666,667 of these warrants. In January 2008, the remaining Series 1 and Series 2 Performance Warrants were exercised. As at December 31, 2007 Xtreme Coil had outstanding 2,092,574 warrants held by our joint venture partner. Each warrant, once vested, entitles the holder to acquire one common share at an exercise price of $16.00 per share. The warrant holder is required to contract a specified number of rigs before the warrants are exercisable. As at December 31, 2007, these warrants were not vested.

Share capital on March 13, 2008 was $164.5 million (34,632,073 shares). The aggregate effect of adding the previously described options and warrants would increase Xtreme Coil's outstanding shares to 38,772,847.

Subsequent Events

In January 2008, the holder exercised 333,333 vested Series 1 Performance Warrants and 333,333 vested Series 2 Performance Warrants. After this transaction, no Series 1 or Series 2 Performance Warrants remained outstanding.

In January 2008, Xtreme Coil announced the sale of an XTC 200DT^{Plus} rig to Coil-X Drilling Systems Corporation ("Coil-X"). Coil-X is jointly owned by Xtreme Coil and a partner. Financing for the purchase of this rig by Coil-X is primarily provided by our joint venture partner. As a result of this transaction, Xtreme Coil expects to receive more than $10 million in cash. Because this rig will be owned by the joint venture, Xtreme Coil expects to report its 51 percent proportional share of operating results.

In March 2008, the existing credit facilities were renewed, extending Xtreme Coil's revolving facility until March 2009. In addition, we have entered into an agreement with our existing lender pursuant to which the lender has agreed to act as best efforts agent and arranger of new credit facilities on a syndicated basis. Currently, the new credit facilities are being documented and we expect closing to occur before the end of 2008 1Q. The new credit facilities are expected to include a $15 million revolving operating line and a revolving extendable facility, initially at $70 million, to be reduced to $60 million by December 31, 2008. These facilities will be used to fund Xtreme Coil's growing operations and continuing capital expansion program.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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 the company. 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, 2007.

Based on these evaluations, the CEO and CFO have concluded that Xtreme Coil's DC&P are designed and operating effectively to provide reasonable assurance that material information relating to the company, including its consolidated subsidiaries, is made known to them by others within those entities. They have also concluded that the Xtreme Coil'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.

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

Off-Balance Sheet Arrangements

Currently Xtreme Coil has no off-balance sheet arrangements.

Related Parties Transactions

During 2007, Xtreme Coil 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.

Recoverable amounts for equipment and intangible assets

The carrying value of equipment and intangible assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. This requires Xtreme Coil to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future. During 2007 4Q, Xtreme Coil completed its assessment and concluded that there was no impairment of the carrying value.

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 Coil'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 Coil's operations and capital assets.

Stock-based compensation

Compensation expense associated with options to purchase common shares at their grant date are estimates 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 Coil 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.

Future tax recovery

Xtreme Coil uses the liability method which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Future tax assets 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. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the asset will not be realized. Estimates of future taxable income and ongoing tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with Xtreme Coil's future tax assets.

Critical Accounting Policies

During 2007, Xtreme Coil did not make changes to its accounting policies, other than the required implementation of CICA Handbook section 1530, "Comprehensive Income"; section 3251, "Equity"; section 3855 "Financial Instruments - Recognition and Measurement"; and section 3865, "Hedges".

Depreciation

Xtreme Coil 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 Coil 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 Coil's operations, the straight-line depreciation method is appropriate.

Foreign currency translation

Xtreme Coil's United States operations are categorized as integrated foreign operations. As a result, we use the temporal method of translation under which we translated 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 is recorded at the lower of cost and replacement cost.

Revenue recognition

Xtreme Coil 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 Shell Technology Ventures B.V., is accounted for as a joint venture. Coil-X held cash and had not commenced drilling activity by December 31, 2007. This joint venture's expenses are included on a proportionate basis.

New accounting standards adopted

Xtreme Coil adopted on January 1, 2007 Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855 Financial Instruments - Recognition and Measurement; and Section 3865, Hedges.

Comprehensive income

The new standards introduce comprehensive income which consists of net earnings and other comprehensive income ("OCI"). Xtreme Coil's Consolidated Financial Statements now include a Consolidated Statement of Operations, Comprehensive Loss and Deficit, which includes the components of comprehensive income. Currently, Xtreme Coil has no material entries which comprise OCI.

Financial instruments

All financial instruments are required to be measured at fair value on the initial recognition of the instrument, except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with the changes in those fair values recognized in net earnings. Financial assets "available for sale" are measured at fair value with the changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" or "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by Xtreme Coil in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Following is a summary of the accounting model Xtreme Coil has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007.

Cash and cash equivalents	Held for trading
Accounts receivables	Loans and receivables
Accounts payable, accrued liabilities, obligations under capital leases and long-term debt	Other liabilities

Future accounting pronouncements

Following is an overview of accounting standard changes requiring adoption by Xtreme Coil in future years.

Capital disclosures and financial instruments - presentation and disclosure

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments - Disclosures, and section 3863, Financial Instruments - Presentation. The effective date for these new standards is for fiscal years beginning on or after October 1, 2007. Xtreme Coil will adopt them on January 1, 2008 and is in the process of evaluating disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward, unchanged, its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Seasonality of Operations

Drilling operations in most of Canada are subject to seasonal weather conditions that restrict drilling operations. Particularly in the Canadian north, movement of heavy equipment depends on the ground freezing to support the equipment. As the ground thaws in the spring, road bans placed on many roads prevent heavy equipment from moving until the ground is dry enough to support the loads. This period of low activity is commonly called "spring break-up". The timing and duration of freezing and spring break-up can affect Xtreme Coil's activity levels and operating results.

In areas of the United States where we currently work, drilling operations are less subject to weather constraints but may be restricted for other reasons. Some areas are subject to environmental stipulations on leases which prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protection. These restrictions may also affect our activity levels and operating results.

Business Risks and Uncertainties

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

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

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

Integral to Xtreme Coil's equipment are certain technologies which require proving in actual field operations. We cannot assure the effectiveness of these technologies in field operations. Competing technologies could prove more effective than those developed and used by Xtreme Coil. In addition, patents applied-for may not be issued.

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

In addition, demand for Xtreme Coil'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 Coil 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, as well as fuel and environmental conservation.

Outlook

Operating results improved from month to month throughout 2007 Q4, ending just shy of reporting our first profitable quarter. While we generally expect this trend to continue, there may be some interruption. In the United States, gaps in work activity may occur with some of our drilling rigs contracted for shorter terms. In Canada, our rigs have just completed their winter work and are heading into spring break-up. We have drilling commitments in Canada which we expect to commence when weather and ground conditions permit.

Xtreme Coil's market niche will continue to grow as we prove our Coil Over Top Drive® drilling rigs can perform more efficiently and cost effectively for our E&P customers than conventional drilling rigs. Our new rig designs expand the depth range of current coiled tubing drilling technology. We have designed Xtreme Coil's patented and patent-pending coiled tubing drilling rigs to drill with 3-1/2 inch coil to depths of up to 3,000 meters (approximately 10,000 feet) and as deep as 4,100 meters (approximately 14,000 feet) with jointed drill pipe.

The focus of our business plan and growth during 2008 and further is providing our E&P customers with the advantage of cost savings that result from the generally faster drilling times associated with coiled tubing. It is our view that Xtreme Coil's leading edge coiled tubing drilling technology has the potential to respond to a larger segment of crude oil and natural gas exploration and development programs in the United States, Canada and outside North America.

Currently, Xtreme Coil has available for operation eleven Coil Over Top Drive® rigs, has ten rigs in the field, one of which is being commissioned on site. Early in 2008, we determined our first XTC 300 prototype drilling rig required certain design changes. The first XTC 300 which began operating in late 2007 is being modified on site. All future models will incorporate this design change before deployment. This modification has delayed our 2008 delivery schedule.

We anticipate exiting 2008 with eighteen coiled tubing drilling rigs. As we negotiate new contracts, we are prepared to build additional coiled tubing drilling rigs. Currently, we are negotiating on several fronts which, in some cases, may create a lag in rig utilization as we customize certain rig models for deployment into new North American or into international markets. Xtreme Coil is well positioned to capitalize on drilling markets in the United States, Canada and outside North America.

Additional Information

Information relating to Xtreme Coil 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 Coil's website www.xtremecoildrilling.com or e-mail ir@xtremecoil.com.

2007 Trading

	Open	High	Low	Close	Volume
Quarter 1	$12.25	$12.25	$9.35	$10.95	1,730,701
Quarter 2	$10.00	$12.25	$9.81	$11.00	4,892,961
Quarter 3	$11.00	$11.00	$8.90	$10.24	2,307,001
Quarter 4	$10.01	$10.01	$6.76	$ 7.94	1,929,620
					10,860,283

MANAGEMENT'S REPORT

To the Shareholders of Xtreme Coil Drilling Corp.

The accompanying financial statements of Xtreme Coil Drilling Corp. ("Xtreme Coil") 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 Coil'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 Coil's Audit Committee has reviewed the financial statements, including notes thereto, with management and PricewaterhouseCoopers LLP. The Board of Directors approved the financial statements on the recommendation of the Audit Committee.

T. Wood

Thomas D. Wood
Chief Executive Officer

Vic Fitch

Vic Fitch
Chief Financial Officer

Calgary, Alberta
March 13, 2008

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, 2007 and 2006 and the consolidated statements of operations, comprehensive income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

March 13, 2008
Calgary, Alberta

CONSOLIDATED BALANCE SHEET

($ thousand, except where indicated and share and per share date)

	As at 31 Dec 2007	As at 31 Dec 2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 383**	$ 16,740
Accounts receivable	**13,039**	5,832
Prepaid expenses	**1,311**	1,774
Inventory	**335**	388
	15,068	24,734
Future income tax *(note 9)*	**4,530**	2,506
Equipment *(note 3)*	**188,913**	88,511
Intangible assets *(note 4)*	**4,953**	1,984
	$ 213,464	$ 117,735
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**19,877**	14,069
Current portion of obligations under capital leases *(note 5)*	**78**	77
Current portion of long-term debt *(note 7b)*	**5,104**	-
	25,059	14,146
Long-term liabilities		
Obligations under capital leases *(note 5)*	**73**	139
Long-term debt *(note 7b)*	**29,896**	-
	55,028	14,285
SHAREHOLDERS' EQUITY		
Share capital *(note 8)*	**162,514**	105,913
Warrants *(note 8d)*	**1,235**	1,235
Contributed surplus *(note 8b)*	**3,066**	1,478
Deficit	**(8,379)**	(5,176)
	158,436	103,450
	$ 213,464	$ 117,735
Commitments *(note 11)*	**-**	-

See accompanying notes to the consolidated financial statements

On behalf of the board of directors,

Marc Staniloff
Director

David Tuer
Director

CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

($ thousand, except where indicated and share and per share date)

	Year ended 2007 Dec 31	Year ended 2006 Dec 31
Sales	**$ 32,195**	$ 4,817
Expenses		
Operating expenses	**27,209**	4,185
Selling, general and administrative	**4,111**	3,704
Depreciation of capital assets	**3,532**	524
Amortization of intangibles	**234**	104
Stock-based compensation	**556**	401
Foreign exchange loss (gain)	**576**	(38)
Interest on long-term debt and capital leases	**685**	142
Interest (income)	**(654)**	(1,664)
Loss before tax	**(4,054)**	(2,541)
Future tax recovery *(note 9)*	**851**	729
Net loss for the year	**(3,203)**	(1,812)
Other comprehensive loss	**-**	-
Comprehensive loss	**(3,203)**	(1,812)
Deficit, beginning of year	**(5,176)**	(3,364)
Deficit, end of year	**$ (8,379)**	$ (5,176)
Net loss per common share - basic	**$ (0.10)**	$ (0.07)
Net loss per common share - diluted	**$ (0.10)**	$ (0.07)
Weighted average number of common shares - basic	**33,018,531**	24,997,450
Weighted average number of common shares - diluted *(note 8f)*	**34,989,268**	27,459,694

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ thousand, except where indicated and share and per share date)

	Year ended 2007 Dec 31	Year ended 2006 Dec 31
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net loss for the year	**$ (3,203)**	$ (1,812)
Items not affecting cash:		
Depreciation and amortization	**3,766**	628
Stock-based compensation	**556**	401
Unrealized foreign exchange loss	**(138)**	(11)
Future income tax	**(851)**	(729)
	130	(1,523)
Changes in non-cash operating working capital *(note 13)*	**(4,619)**	(5,566)
	(4,489)	(7,089)
Financing activities		
Proceeds from shares issued on amalgamation	**-**	1,802
Proceeds from shares issued	**56,942**	65,659
Share issue costs	**(3,440)**	(3,610)
Proceeds from long-term debt	**35,000**	-
Capital lease payments	**(66)**	(47)
	88,436	63,804
Investing activities		
Acquisition of equipment	**(103,823)**	(75,245)
Increase in intangibles	**(216)**	(135)
Changes in non-cash working capital relating to capital items	**3,735**	10,180
	(100,304)	(65,200)
(Decrease) increase in cash and cash equivalents during the year	**(16,357)**	(8,485)
Cash and cash equivalents, beginning of year	**16,740**	$ 25,225
Cash and cash equivalents, end of year	**$ 383**	$ 16,740
Supplemental disclosure of cash flow information		
Interest received	**$ 666**	$ 1,683
Interest paid	**685**	141
Income tax paid	**-**	-
Non-cash transactions		
Purchase of patents in exchange for warrants	**$ 2,990**	-

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

Xtreme Coil Drilling Corp. ("Xtreme Coil") was incorporated May 24, 2005 under the Business Corporations Act of Alberta. Xtreme Coil develops and operates coiled tubing drilling rigs using new patented and patent-pending coil rig designs and technology. At December 31, 2007, Xtreme Coil had received two patents and had more than 30 patent applications pending in Canada, the United States and other international jurisdictions. Upon completion of the Coil Over Top Drive® ("COTD™") drilling rigs, Xtreme Coil contracts drilling services to oil and natural gas exploration and development companies in both Canada and the United States. Xtreme Coil's head office is in Calgary, Alberta, Canada and field offices are located in Casper and Cheyenne, Wyoming in the United States.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These audited consolidated financial statements ("statements") are prepared in accordance with Canadian generally accepted accounting principles and include only the accounts of Xtreme Coil and its subsidiaries.

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, allowance for doubtful accounts receivable, stock-based compensation, tax recoveries and the recoverable amounts for equipment and intangible assets are significant items subject to estimates in these consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Xtreme Coil and its subsidiaries. All are wholly-owned subsidiaries and are fully consolidated. Xtreme Coil 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.

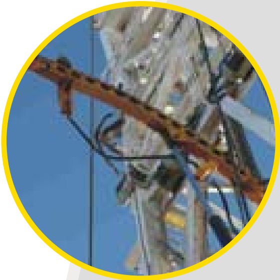
Inventory

Inventory is composed of coiled tubing and is recorded at the lower of cost and replacement cost.

Equipment

Xtreme Coil records equipment at cost. We provide for depreciation using the straight-line method over the estimated useful life to amortize the cost of the equipment, software, furniture and leaseholds.

	Years
Office and shop equipment	1 - 5
Leaseholds (over term of lease)	6
Vehicles	3.3
Trucking equipment	5
Drill pipe (included in drilling equipment)	8



($ thousand, except where indicated and share and per share date)

Drilling equipment under construction is depreciated once it commences operations. Xtreme Coil 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.

Intangible assets

Xtreme Coil amortizes drilling and technology patents and pending patents on a straight-line basis over a period of 20 years which is the life of each patent.

Foreign currency translation

Xtreme Coil considers United States operations as integrated foreign operations and uses the temporal method to translate all foreign currency transactions 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

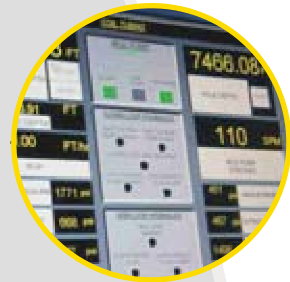
Xtreme Coil has a Stock Option Plan as described in note 8(c). We use the fair value method of accounting for stock-based compensation. The fair value of stock options awarded to employees under the stock option plan is determined using the Black-Scholes option pricing model. The amount of the fair value 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 reversed.

Income taxes

Xtreme Coil 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. Xtreme Coil uses the treasury stock method to determine the dilutive effect of stock options for the calculation of diluted per share amounts.



($ thousand, except where indicated and share and per share date)

Impairment of long-lived assets

Xtreme Coil 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 fair value. In assessing fair value, discounted cash flow calculations are considered.

Revenue recognition

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

New accounting standards adopted

Xtreme Coil adopted on January 1, 2007 Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855 Financial Instruments - Recognition and Measurement; and Section 3865, Hedges.

Comprehensive income

The new standards introduce comprehensive income which consists of net earnings and other comprehensive income ("OCI"). Xtreme Coil's Consolidated Financial Statements now include a Consolidated Statement of Operations, Comprehensive Loss and Deficit, which includes the components of comprehensive income. Currently, Xtreme Coil has no material entries which comprise OCI.

Financial instruments

All financial instruments are required to be measured at fair value on the initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with the changes in those fair values recognized in net earnings. Financial assets "available for sale" are measured at fair value with the changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" or "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by Xtreme Coil in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Following is a summary of the accounting model Xtreme Coil has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007.

Cash and cash equivalents	Held for trading
Accounts receivables	Loans and receivables
Accounts payable, accrued liabilities, obligations under capital leases and long-term debt	Other liabilities

($ thousand, except where indicated and share and per share date)

Future accounting standard changes

Following is an overview of accounting standard changes requiring adoption by Xtreme Coil in future years.

Capital disclosures and financial instruments - presentation and disclosure

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments - Disclosures, and section 3863, Financial Instruments - Presentation. The effective date for these new standards is for fiscal years beginning on or after October 1, 2007. Xtreme Coil will adopt them on January 1, 2008 and is in the process of evaluating disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward, unchanged, its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued section 3031, Inventories, which will replace section 3030, Inventories. This new standard is effective for fiscal years beginning on or after July 1, 2007, and Xtreme Coil will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. Xtreme Coil's accounting policy for inventories is consistent with measurement requirements in the new standard and, therefore, Xtreme Coil does not anticipate an impact on results. However, the new standard requires additional disclosures in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories.

3. EQUIPMENT

	2007 Dec 31			2006 Dec 31
	Cost	Accumulated amortization	Net book value	Net book value
Office and shop equipment	**$ 1,767**	**$ 401**	**$ 1,366**	$ 555
Leasehold improvements	**66**	**24**	**42**	53
Vehicles	**868**	**225**	**643**	470
Trucking equipment	**3,265**	**266**	**2,999**	-
Drilling equipment	**110,675**	**3,087**	**107,588**	33,150
Drilling equipment - construction in progress	**76,275**	**-**	**76,275**	54,283
	$ 192,916	**$ 4,003**	**$ 188,913**	$ 88,511

Xtreme Coil depreciates drilling rigs from the time the rigs commence operations.

($ thousand, except where indicated and share and per share date)

4. INTANGIBLE ASSETS

	2007 Dec 31			2006 Dec 31
	Cost	Accumulated amortization	Net book value	Net book value
Patents	$ 5,341	$ 388	$ 4,953	$ 1,984

On February 27, 2007 the United States Patent and Trademark office issued Xtreme Coil's first patent and we received notification on March 7, 2007. This first patent related to the Series 2 Performance Warrants. As a result, these performance warrants vested and became exercisable. The value of the performance warrants of $2,990 is recognized as contributed surplus and capitalized as part of intangibles.

5. OBLIGATIONS UNDER CAPITAL LEASES

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

		2007 Dec 31	2006 Dec 31
Year ended December 31	2007	$ -	$ 91
	2008	89	87
	2009	69	64
	2010	7	-
Total minimum lease payments		165	242
Less amounts representing future interest at annual rates between 5 percent and 8 percent		14	26
Balance of obligation		151	216
Less current portion		78	77
		$ 73	$ 139

	2007 Dec 31	2006 Dec 31
Capital lease cost	$ 266	$ 263
Accumulated amortization	113	45
	$ 153	$ 218

Interest expense during 2007 was $16 (2006-$10). Amortization of leased equipment is on a straight-line basis over 40 months. The amount of amortization charged to expense is $68 (2006 - $45).

($ thousand, except where indicated and share and per share date)

6. JOINT VENTURE

On December 19, 2006 Xtreme Coil and a third party jointly incorporated a new entity, Coil-X Drilling Systems Corporation (Coil-X). This joint venture expects to utilize Xtreme Coil's technology to build and operate rigs for the third party and for deployment to international projects. Xtreme Coil currently owns 51 percent of Coil-X. At December 31, 2007 Coil-X had not commenced active drilling operations. The following amounts represent Xtreme Coil's proportionate interest in the joint venture.

	2007	2006
Current assets	**$ 49**	$ 51
Current liabilities	**268**	-
Expenses	**270**	-
Cash provided by (used in) operating activities	**$ (2)**	-

7. CREDIT FACILITIES

Xtreme Coil has credit facilities with a major Canadian financial institution which require Xtreme Coil to maintain certain financial covenants. At December 31, 2007, Xtreme Coil was in compliance with these covenants.

a. Operating Facility

Xtreme Coil has a $5 million operating loan facility. The facility bears interest at the bank's prime rate plus 0.25 percent and is secured by accounts receivable. The effective average interest rate for 2007 was 6.2 percent. This facility was not used in 2006.

b. Long-term Debt

	2007 Dec 31	2006 Dec 31
Revolving credit facility	**$ 35,000**	-
Less current portion of long-term debt	**(5,104)**	-
	$ 29,896	-

Xtreme Coil 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 if not extended. The extendible revolving facility bears interest at the bank's prime rate plus 0.75 percent. The weighted average interest rate during 2007 was approximately 6.9 percent (2006 - nil). 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 Xtreme Coil's intellectual property.

At December 31, 2007, $5,104 (2006 - $1,417) of the outstanding balance on this facility is included in the current portion of long-term debt, representing the portion that would become due within one year if the bank did not renew the facility. Interest expense on the revolving credit facility during 2007 was $464 (2006 - nil).

($ thousand, except where indicated and share and per share date)

8. SHARE CAPITAL

Authorized and Issued Shares

Xtreme Coil is authorized to issue an unlimited number of common voting and preferred shares without nominal or par value. Xtreme Coil has no preferred shares outstanding. Following is a summary of issued and outstanding common shares.

	2007 Dec 31		2006 Dec 31	
	Number	**Amount**	**Number**	**Amount**
Balance before receivable from shareholder, beginning of year	**27,723,625**	**$ 106,213**	17,641,680	$ 40,483
Private placement for cash, net of issue cost	**5,360,000**	**52,840**	8,842,705	60,945
Shares issued on amalgamation, net of issue cost	**-**	**-**	555,556	1,566
Performance warrants exercised	**666,667**	**2,000**	666,667	2,000
Agent options exercised	**6,315**	**29**	17,017	93
Employee options exercised	**208,800**	**696**	-	-
Future income tax effect of share issue cost at expected tax rates	**-**	**1,036**	-	1,126
	6,241,782	**56,601**	10,081,945	65,730
Balance before receivable from shareholder, end of period	**33,965,407**	**162,814**	27,723,625	106,213
Receivable from shareholder	**-**	**(300)**	-	(300)
Balance, end of period	**33,965,407**	**$ 162,514**	27,723,625	$ 105,913

a. Private placements

On February 15, 2007, Xtreme Coil completed a private placement of 5,360,000 common shares at a price of $10.50 per share for gross proceeds of $56,280. Issue costs of $3,440 resulted in net proceeds of $52,840.

b. Contributed surplus

	2007 Dec 31	2006 Dec 31
Contributed surplus - opening balance	**$ 1,478**	$ 3,064
Stock based compensation	**662**	401
Warrants vested upon patent issuance	**2,990**	-
Contributed surplus transferred on exercise of options and warrants	**(2,064)**	(1,987)
Contributed surplus - ending balance	**$ 3,066**	$ 1,478

($ thousand, except where indicated and share and per share date)

c. Stock options outstanding

Xtreme Coil's Stock Option Plan (the "Plan") for directors, officers, employees and consultants permits granting of options to purchase up to a maximum of 10 percent of issued and outstanding common shares. The board of directors sets the number of options and exercise price thereof at the time of the option grant provided such exercise price is not less than that permitted from time to time under the rules of any stock exchange or exchanges on which Xtreme Coil's common shares may be listed. 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 2007, the board of directors approved granting of 187,000 options at various exercise prices ranging from $7.45 to $11.45. As at December 31, 2007, a total of 2,012,200 options (2006 - 2,079,000) were outstanding. During 2007, Xtreme Coil recorded compensation expense of $556 (2006 - $401) relating to these options as part of stock-based compensation expense and credited this amount to contributed surplus. For the year ended December 31, 2007, Xtreme Coil capitalized 2007 stock-based compensation of $97 (2006 - nil).

Xtreme Coil uses the fair value method of accounting for stock-based compensation. The fair value of options granted 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 4.0 to 4.6 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 with a corresponding credit to contributed surplus. This table summarizes Xtreme Coil's Stock Option Plan and agent options as at December 31, 2007.

	2007 Dec 31		2006 Dec 31	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	**2,085,316**	**$ 4.09**	1,610,000	$ 3.00
Granted	**187,000**	**9.91**	560,333	7.70
Exercised	**(215,115)**	**3.04**	(17,017)	4.50
Expired/cancelled	**(45,001)**	**10.09**	(68,000)	7.92
Outstanding, end of the period	**2,012,200**	**4.60**	2,085,316	4.09
Options exercisable, end of period	**1,020,866**	**$ 3.74**	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	1,546,200	2.6 yrs	$ 3.10	912,864	$ 3.06
$7.00 - $10.50	314,500	3.9 yrs	8.60	69,168	8.18
$10.51 - $13.52	151,500	3.8 yrs	11.69	38,834	11.82
	2,012,200	2.9 yrs	$ 4.60	1,020,866	$ 3.74

($ thousand, except where indicated and share and per share date)

d. Performance warrants

As part of the private placement in June 2005, Xtreme Coil issued 1,000,000 Series 1 and 1,000,000 Series 2 Performance Warrants to one officer and two directors. Each performance warrant entitles the holder to purchase one common share at a defined strike price of $0.01 per common share. As at December 31, 2007 there were 333,333 Series 1 Performance Warrants exercisable and outstanding. 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. (See note 14)

The joint venture partner holds 2,092,574 warrants. Each warrant, once vested, entitles the holder to acquire one common share at an exercise price of $16.00 per share. The warrant holder is required to contract a specified number of rigs before the warrants are exercisable. All unexercised warrants expire in December 2009. The fair value allocated to these warrants using the Black-Scholes option pricing model is $1,235. The assumptions used in the model are: risk-free interest rate of 4 percent, average life of 3.0 years and expected volatility of 45 percent. As at December 31, 2007, these warrants were not vested.

e. Agent options issued upon amalgamation

Pursuant to the amalgamation, Xtreme Coil issued agent options to purchase 23,333 shares of Xtreme Coil with a strike price of $4.50 per share in exchange for agent options to purchase shares of Norquay. During 2007, 6,315 vested options were exercised. One option was cancelled at the agent's request. No agent options were outstanding at December 31, 2007.

f. Diluted earnings per share

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 the exercise of stock options is used to purchase common shares at the average price for the year.

	2007 Dec 31	2006 Dec 31
Weighted average common shares outstanding - basic	**33,018,531**	24,997,450
Effect of stock options and warrants	**1,970,737**	2,462,244
Weighted average common shares outstanding - diluted	**34,989,268**	27,459,694

9. 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 the carrying amount in the balance sheet.

($ thousand, except where indicated and share and per share date)

The components of future income tax balances are as follows.

Future income tax assets and liabilities	**2007 Dec 31**	**2006 Dec 31**
Non - capital losses carried forward	**$ 4,455**	$ 1,053
Equipment - difference between net book value and undepreciated capital cost	**(1,574)**	144
Intangible assets - difference between net book value and cumulative eligible capital balance	**(223)**	46
Financing costs	**1,629**	1,263
Foreign tax credit available	**243**	-
Net future income tax asset	**$ 4,530**	$ 2,506

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 following table outlines the principal reasons for the differences between expected income tax expense and the amount actually recorded.

	2007 Dec 31	**2006 Dec 31**
Loss before tax	**$ 4,054**	$ 2,541
Income tax rate *(percentage)*	**32.12**	32.12
Computed expected income tax recovery	**$ 1,302**	$ 816
Increase (decrease) in income taxes resulting from:		
Non - deductible expenses	**(20)**	(15)
Stock - based compensation	**(79)**	(129)
Rate reduction on future income tax and other	**(359)**	13
Higher effective tax rate on non-Canadian operations	**152**	44
Other	**(145)**	-
	$ 851	$ 729
Effective income tax recovery rate *(percentage)*	**20.99**	28.67

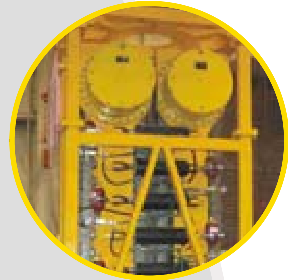
10. FINANCIAL INSTRUMENTS

Fair Value

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

Foreign Exchange Risk

Xtreme Coil is exposed to risk from fluctuations in foreign currency exchange rates as portions of financial instruments are denominated in United States dollars. As foreign exchange gains and losses occur, the effect is included in income.



($ thousand, except where indicated and share and per share date)

Interest Rate Risk

Xtreme Coil is exposed to interest rate price risk on fixed rate obligations under capital leases and to interest rate cash flow risk on short-term investments, as well as operating and revolving debt facilities.

Credit Risk

Xtreme Coil is exposed to credit risk in relation to accounts receivable which includes balances owing from customers primarily operating in the oil and gas industry. Management assesses the credit worthiness of customers on an ongoing basis and considers the credit risks on these amounts as normal for the industry. As noted under Segmented Information, Xtreme Coil is exposed to significant concentration of credit risk in that the majority of accounts receivable balances are with a concentrated group of customers.

Xtreme Coil is also subject to credit risk on short-term investments and has established procedures for investing in high quality instruments to reduce this risk to an acceptable level.

11. COMMITMENTS

a. Operating Leases

Xtreme Coil is committed to operating leases for office and field facilities. The approximate annual base rental payments are shown in the table. Under the terms of the leases, Xtreme Coil is also responsible for a proportionate share of realty taxes, operating costs and utilities.

2008	$	204
2009		196
2010		153
2011		81
2012		-
	$	634

b. Purchase Commitments

Xtreme Coil has commitments to suppliers with respect to contracts for the construction of Coil Over Top Drive® drilling rigs in the amount of $20.5 million which are not reflected in these consolidated financial statements.

($ thousand, except where indicated and share and per share date)

12. SEGMENTED INFORMATION

Xtreme Coil provides contract drilling services in Canada and the United States. The table below segments information by geographic area.

Revenue	2007	2006
Canada	**$ 4,365**	$ 1,359
United States	**27,830**	3,458
Total	**$ 32,195**	$ 4,817

Equipment	2007	2006
Canada	**$ 95,460**	$ 63,037
United States	**93,453**	25,474
Total	**$ 188,913**	$ 88,511

Canadian property and equipment includes construction in progress. When completed, this equipment will be transferred to Xtreme Coil's operations in the United States. Two customers of Xtreme Coil's drilling operations in the United States and Canada represent revenue of $21.3 million (2006 - three customers - $4.7 million).

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	2007 Dec 31	2006 Dec 31
Accounts receivable	**$ (7,207)**	$ (5,650)
Prepaid expenses	**463**	(1,697)
Inventory	**53**	(388)
Accounts payable and accrued liabilities	**2,072**	2,169
Total	**$ (4,619)**	$ (5,566)

14. SUBSEQUENT INFORMATION

On January 22, 2008 the holder exercised 333,333 vested Series 1 Performance Warrants and 333,333 vested Series 2 Performance Warrants. After this transaction, no Series 1 or Series 2 Performance Warrants remained outstanding.

Coil-X Drilling Systems Corporation purchased the first model of an XTC 200DT^{Plus} drilling rig from Xtreme Coil. Coil-X plans to commence active drilling operations by the end of the 2008 first quarter.

In March 2008 the existing credit facilities were renewed, extending Xtreme Coil's revolving facility until March 2009. In addition, we have entered into an agreement with our existing lender pursuant to which the lender has agreed to act as best efforts agent and arranger of new credit facilities on a syndicated basis. Currently, the new credit facilities are being documented and we expect closing to occur before the end of 2008 1Q. The new credit facilities are expected to include a $15 million revolving operating line and a revolving extendable facility, initially at $70 million, to be reduced to $60 million by December 31, 2008.

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CORPORATE INFORMATION

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[2] *Audit Committee*
[3] *Compensation Committee*
[4] *Governance & Nominating Ctte*
[5] *Health, Safety, Environment Ctte*

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Chief Executive Officer

Kyle Swingle
Chief Operating Officer

Vic Fitch
Chief Financial Officer
and Corporate Secretary

Richard Charron
Senior Vice President
Corporate Development

Richard Havinga
Vice President
Engineering and Design

Scott Hennenfent
Corporate Controller

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

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