



DRILLING TECHNOLOGY WITHOUT BORDERS

2008 ANNUAL REPORT TO SHAREHOLDERS





CORPORATE PROFILE

Xtreme Coil develops and applies leading edge patented and patent-pending technology and designs to build, transport, and operate new COTD™ drilling rigs. Currently contracted in the United States and México and marketed to other international regions, Xtreme Coil's innovative, dual-purpose and efficient rigs drill with larger coil to reach hydrocarbons in deeper horizons. Xtreme Coil's proprietary technology also features modular transportation units, larger coil injectors and new methods for achieving deeper, faster and safer drilling. Xtreme Coil's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol "XDC".

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Xtreme Coil Drilling Corp. invites all shareholders to attend the annual and special meeting on:
Wednesday, April 22, 2009, 3:00 pm (Calgary time - MDT)
Viking Room of the Calgary Petroleum Club, 319 Fifth Avenue SW, Calgary, Alberta

We encourage all shareholders, whether attending or not, to complete, sign and return their Form of Proxy which you will receive with the meeting materials.

Reader Advisory

This annual report may include certain information, statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects constituting 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; operating expenses; rig building, completion or deployment; capital expenditures and other 2009 guidance provided throughout this annual report.

These statements are based on certain factors and assumptions regarding, among others: assessment of current, and projections for future, operations; ongoing and future business negotiations and opportunities to enter new, continue or extend existing contracts; the availability and cost of financing; foreign currency exchange rates; timing and magnitude of capital expenditures; costs and other variables affecting rig operating and construction expenses; the ability of vendors to provide rig component equipment, services and supplies, including labour, in a cost-effective and timely manner; the issuance of applied-for patents; jurisdictional changes in taxation rates; and, government regulations. Although Xtreme Coil considers the assumptions reasonable, based on information available to management as of March 16, 2009, the assumptions may ultimately prove incorrect.

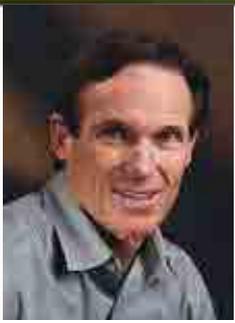
Forward looking-information is also subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from management's current expectations. These factors include, but are not limited to: the cyclical nature of drilling market demand, currency exchange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

Financial outlook information contained in this annual report about prospective results of operations, financial position or cash flow from operating activities is based on assumptions about future events, including economic conditions and proposed courses of action, and on management's assessment of relevant information currently available. Readers are cautioned such financial outlook information contained in this annual report is not appropriate for purposes other than for which it is disclosed here. Readers should not place undue importance on forward-looking information and should not rely on this information as of any other date. Except as required pursuant to applicable securities laws, 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.

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Thomas D. Wood
Executive Chairman



Rodney J. Uchtyl
President and
Chief Executive Officer

XTREME COIL DRILLING CORP.
MESSAGE TO SHAREHOLDERS

Xtreme Coil Drilling Corp. ("Xtreme Coil") welcomes this opportunity to report financial and operating results for 2008, a year of significant milestones, as we completed the initial phase of fleet construction and deployed our new Coil Over Top Drive® ("COTD™") drilling rigs to field operations in the United States, México and Canada.

2008 IN REVIEW

- increased revenue to \$78 million, up 143 percent;
- delivered positive earnings, up 186 percent;
- operating days increased 97 percent;
- exited 2008 with 68 percent rig utilization and a fleet of 16 drilling rigs;
- commissioned and deployed the new XTC 200DT^{plus} drilling rig;
- established an operations hub in México with six rigs drilling in the Chicontepec field;
- successfully tested rotary steerable tools with XTC 300 and XTC 400 rigs, and entered into an agreement with INTEQ to jointly market our combined new drilling technology;
- established an office in Houston, Texas to pursue a broader spectrum of United States and international drilling opportunities;
- suspended new rig construction in October to address weakening economies in North America and the subsequent downturn in oil and gas drilling markets;
- responded to interest from outside North America for projects suited to COTD™ drilling rigs.

In 2008, Xtreme Coil acquired our joint venture partner's interest in Coil-X. As part of the transaction, the two parties agreed to form a new joint venture entity, owned 51 percent by Xtreme Coil and 49 percent by our joint venture partner. This entity will retain the Coil-X branding and use Xtreme Coil's technology to pursue the design, manufacture, purchase and operation of COTD™ drilling rigs in certain types of unconventional resource exploration throughout North America.

Peter J. Sharpe was appointed to the board of directors in June 2008. Directors and management value Peter's technical expertise, particularly in the areas of health, safety and environment, as well as his diverse range of operations management experience in challenging international locations.

BUILDING ON 2008 DRILLING SUCCESS AND CONTINUING INNOVATION

As Xtreme Coil transitioned from almost three years of capital-intensive rig construction to full drilling operations in 2008, we focused on delivering results for our customers. Our rigs in the Rocky Mountain region of Colorado established higher standards for spud-to-spud drilling times. We achieved new benchmarks of efficiency and customer feedback ranks Xtreme Coil rigs as top performers.

Our XTC 400 rig drilled a record "S" curve depth of 7,500 feet in Colorado with continuous 3-1/2 inch coiled tubing using a rotary steerable tool. Then, our XTC 300 rig, drilling in the DJ Basin, successfully tested a third-party prototype rotary steerable tool in a 6-1/8 inch hole. Drilling with coiled tubing, this rig made total depth of 7,470 feet in 44.25 hours.

Throughout 2008, Xtreme Coil built on early technical success using 3-1/2 inch coil by drilling several "S" curve wells to depths of approximately 7,600 feet in Colorado. One "S" curve well drilled from 1,017 feet under surface casing to total depth of 7,507 feet in 38.5 hours. This was accomplished in cooperation with suppliers of a new rotary steerable tool designed specifically for coiled tubing.

Xtreme Coil's prototype XTC 200 DT^{plus} rig drilled the first well ever undertaken with coil in the Waddell Ranch field of west Texas. Drilling in a carbonate formation, the rig reached total depth in 10.5 days, approximately five days faster than projected by our customer.



XTREME COIL DRILLING CORP.
MESSAGE TO SHAREHOLDERS



In October 2008, Xtreme Coil and INTEQ, a division of the world-wide drilling services company, Baker Hughes Incorporated, agreed to jointly market innovative solutions to customers who use Xtreme Coil's COTD™ drilling rigs and Baker INTEQ's directional drilling tools. The initial focus will be field testing our coiled tubing drilling using the TruTrak™ rotary steerable tool and undertaking re-entry projects with the CoilTrak® bottom hole assembly system. Combining Xtreme Coil's COTD™ drilling rigs with Baker INTEQ tools can potentially deliver significant technical improvements to both companies' current and future customers.

Xtreme Coil remains focused on developing new technology and protecting our intellectual property. By the end of 2008, the United States Patent and Trademark office had issued four patents to Xtreme Coil. In January 2009, the Patent and Trademark office issued a fifth patent to Xtreme Coil. This patent relates to new rig designs which we expect will lead to step-change improvements for re-entry drilling applications frequently required in international locations and with potential for similar projects in the United States and Canada. Pressing forward with development of this application aligns with Xtreme Coil's joint marketing agreement and with other business relationships now in development.

One previous patent now has even broader scope after the Eurasian patent authority approved it for issuance in regions under its jurisdiction throughout Europe and Asia. We have more than 60 further patent applications pending in the United States, Canada and other jurisdictions. Xtreme Coil's issued patents and patent applications cover many aspects of coiled tubing drilling and transportation technology including equipment and methods for coiled tubing drilling to deeper horizons of 10,000 feet or more.

XTREME COIL MÉXICO

In 2008, Xtreme Coil contracted six COTD™ drilling rigs to Weatherford de México S.A. de C.V. and incorporated a new subsidiary, Xtreme Coil Drilling México, S.A. de C.V. To respond to the magnitude and complex logistics of this new project, we established an operations office outside of Poza Rica, México from which we now coordinate our contract drilling services. As well, we have a warehouse for inventory and employ almost 230 people, approximately 70 percent of whom are hired locally from communities near our operations.

As we deployed each rig to México, including two rigs relocated from Canada, and ramped up drilling operations in the Chicontepec region we are proud to report no lost time accidents. Collectively, the six rigs in México at the end of December 2008 had experienced almost no downtime during the logistically complex start-up phase of operations. This is a testament to the technical capability and commitment of everyone throughout our organization who contributed to establishing Xtreme Coil's operations in México.

OUTLOOK FOR 2009

Xtreme Coil continues to engage current and potential new customers in discussions focused on coiled tubing's applications to re-entry projects. A number of oil and gas exploration and production ("E&P") companies have expressed strong interest in evaluating the capability of our technology and in capturing the potential time and depth efficiencies. We expect this will uncover new opportunities for Xtreme Coil.

In the current United States drilling market, our customers have less appetite for long-term contracts and competition is intense for shorter term contracts. This situation will exert downward pressure on short term day rates for conventional drilling. Depressed oil and natural gas prices have created volatility in E&P capital programs. Xtreme Coil is committed to finding innovative approaches to assist our customers. We will adjust corporate structure to correspond to activity levels where we operate. It is possible the second half of 2009 will require readiness on the part of drilling contractors if the North American economy begins to show signs of recovery.



XTREME COIL DRILLING CORP.
MESSAGE TO SHAREHOLDERS



In 2009, we expect Mexico will continue as Xtreme Coil's largest center of operations. In addition to the initial six rigs under contract in México, we announced a further contract in February for two more rigs, bringing the total to eight rigs in that region. With the three rigs under contract in the United States, we currently have a total of 11 rigs contracted, representing 69 percent of our 16 COTD™ rig fleet.

We believe there are further opportunities to grow operations in México which has the potential to improve rig utilization. Having established critical mass, in terms of people and equipment, we are ready to use this infrastructure to deploy additional rigs. The six rigs drilling in México commenced operations using conventional drill pipe during start-up. After training new crews and moving up the learning curve for drilling in this region, we believe the next step is to begin using coiled tubing. We are working with our customer to plan for coiled tubing drilling with the objective of further enhancing drilling performance.

A key focus for Xtreme Coil in 2009 will be to reduce existing debt. Moving the first rigs into Mexico in 2008 required a substantial investment for permanent importation through up-front payment of approximately 15 percent of total rig value as Value Added Tax ("VAT"). We expect to recover the VAT before the end of 2009. Any improvement in EBITDA will assist in achieving our objective of debt reduction, especially if we are successful in deploying a larger proportion of our rig fleet.

Prior to 2008, drilling rigs which combine a top drive with a coiled tubing injector were utilized primarily for projects in Canada and the United States. Based on our strategic marketing and business development efforts, we believe Xtreme Coil is ready to respond to some unique opportunities outside North America. We are interested in deploying COTD™ rigs to other international markets and have made good progress with a number of potential customers who have expressed interest. To support moving outside of North America, we have strengthened certain strategic relationships which would assist Xtreme Coil in establishing operations in a new region.

Another arm of Xtreme Coil's business development focuses on the application of COTD™ rigs for re-entry drilling. Typically, re-entry programs are funded from E&P operating budgets rather than from capital programs which are more influenced by current market conditions. Currently, the main concentration for re-entry drilling is the Middle East and North Africa. To broaden our exposure to these areas, we signed two Memorandums of Understanding in late 2008. We will continue to pursue new strategic relationships in drilling markets which could benefit from Xtreme Coil's innovative technology.

To offset the current uncertainty in North American markets, we are committed to marketing our proprietary drilling technology to a broad range of global energy projects. For early 2009, Xtreme Coil continues to constrain capital expenditures as announced in 2008 3Q. Going forward, we are prepared to embark on the next phase of COTD™ rig construction concurrent with the negotiation of long-term contracts. Because we have a number of long lead items in stock for the 17th and 18th rigs, we have the capability to restart, and potentially fast track, construction of drilling rigs for a commercial project.

2009 will be a year of significant challenges. We will undertake strategic growth that capitalizes on Xtreme Coil's innovative drilling technology. Our board of directors, our management team and our entire workforce remain committed to delivering the top performance our customers deserve.

Thomas D. Wood
Executive Chairman

Rodney J. Uchytel
President and Chief Executive Officer

XTREME COIL DRILLING CORP.

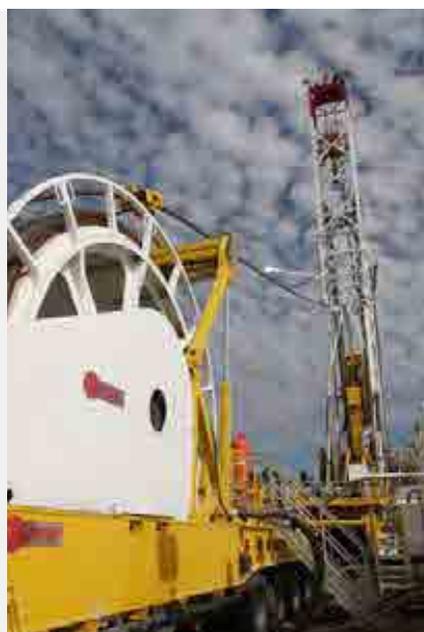
HIGHLIGHTS



(\$ thousands except where indicated)

	2008	2007	2006
Revenue	78,114	32,195	4,817
EBITDA 1	15,406	875	(3,072)
Net income (loss)	2,741	(3,203)	(1,812)
Net income (loss) per common share - basic and diluted (\$)	0.07	(0.10)	(0.07)
Weighted average common shares - basic (thousands)	38,570	33,019	24,997
Capital assets	238,345	188,913	88,511
Completed COTD™ drilling rigs	16	11	4
Operating days	2,948	1,492	216
Utilization (percentage)	69	69	79

¹ see Non-GAAP measures





XTREME COIL DRILLING CORP.

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") based this MD&A on the operating and financial results for the three and twelve months ended December 31, 2008. 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, 2008. Management has prepared these interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and expressed all amounts in Canadian dollars unless otherwise stated. Management's discussion and analysis is based on information available as at March 16, 2009.

FORWARD-LOOKING STATEMENTS

This MD&A, or documents incorporated herein, may include certain information, statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects constituting 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; operating expenses; rig building, completion or deployment; capital expenditures and other 2009 guidance provided throughout this MD&A.

These statements are based on certain factors and assumptions regarding, among others: assessment of current, and projections for future, operations; ongoing and future business negotiations and opportunities to enter new, continue or extend existing contracts; the availability and cost of financing; foreign currency exchange rates; timing and magnitude of capital expenditures; costs and other variables affecting rig operating and construction expenses; the ability of vendors to provide rig component equipment, services and supplies, including labour, in a cost-effective and timely manner; the issuance of applied-for patents; jurisdictional changes in taxation rates; and, government regulations. Although Xtreme Coil considers the assumptions reasonable, based on information available to management as of March 16, 2009, the assumptions may ultimately prove incorrect.

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

Management's assumptions included the following: continued operation of the existing fleet of drilling equipment without additional significant capital expenditures; renewal of the revolving credit facility; ongoing access to key supplies required to continue operating equipment, including fuel; continued successful performance of drilling and related equipment; expectations regarding gross margin; recruitment and retention of qualified personnel; continuation or extension of existing long-term contracts; revenue expectations related to shorter-term drilling activity; willingness and ability of customers to remit amounts owing to Xtreme Coil in accordance with normal industry practices; management of accounts receivable in direct relation to revenue generation.

Management considered the following risk factors when preparing the MD&A: fluctuations in crude oil and natural gas commodity prices, supply and demand; fluctuation in foreign exchange and interest rates; financial stability of Xtreme Coil's customers; current and future applications for Xtreme Coil's proprietary technology; competition from other drilling contractors; regulatory and economic conditions; environmental constraints; changes to government legislation; international trade barriers or restrictions; global political and military events.



Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flow from operating activities is based on assumptions about future events, including economic conditions and proposed courses of action, and on management's assessment of relevant information currently available. Readers are cautioned such financial outlook information contained in this MD&A is not appropriate for purposes other than for which it is disclosed herein. Readers should not place undue importance on forward-looking information and should not rely on this information as of any other date. Except as required pursuant to applicable securities laws, 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.

DESCRIPTION OF THE BUSINESS

Xtreme Coil is a drilling contractor designing, building and operating Coil Over Top Drive® ("COTD™") drilling rigs which employ new patented and patent-pending coil designs and technologies. In addition to their coil capability, these drilling rigs can drill with conventional jointed drill pipe. Xtreme Coil has built drilling rigs in Canada under contracts 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 currently conducts drilling operations in the United States and México and routinely pursues opportunities to provide contract drilling services within and beyond our current regions of operation.

Xtreme Coil's corporate and head office is in Calgary, Alberta, Canada. During 2008 3Q, Xtreme Coil established offices in Houston, Texas and near Poza Rica, in the state of Veracruz, México. Xtreme Coil also has United States operational offices in Casper, and Cheyenne, Wyoming.

At December 31, 2008 Xtreme Coil had three long-term drilling contracts with a major E&P company in the United States. We prepare project proposals and conduct ongoing contract negotiations with current and potential new customers. During 2008, Xtreme Coil signed contracts to deploy six rigs for drilling operations in México and entered into a separate letter of intent under which the same customer will contract a seventh drilling rig for delivery to México on a mutually agreed date in the future. Early in 2009, Xtreme Coil entered into a further long-term contract with this customer for two additional drilling rigs which are now being deployed for operations in the same oil development project. Xtreme Coil's now has eight rigs contracted in México. At March 16, 2009, Xtreme Coil had 11 rigs committed under long-term contracts.

At December 31, 2008, the United States Patent and Trademark office had issued four patents to Xtreme Coil. In January 2009, the United States Patent and Trademark office issued Xtreme Coil's fifth patent. An earlier patent received even broader issuance when it was approved by the Eurasian patent office for regions under its jurisdiction throughout Europe and Asia. Xtreme Coil has more than 60 further patent applications pending in the United States, Canada and other jurisdictions. Xtreme Coil's issued patents and patent applications cover 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".



XTREME COIL DRILLING CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EQUIPMENT UNDER CONSTRUCTION

Xtreme Coil has designed six models of COTD™ drilling rigs with five designs completed and deployed to field operations. At December 31, 2008, Xtreme Coil had 16 COTD™ rigs completed (2007 - 11 rigs). During 2008, we deployed several newly completed rigs to the United States and México. Since inception, we had anticipated 70 to 80 percent of Xtreme Coil's drilling rig fleet would work in the United States. The regional deployment of our drilling fleet changed during 2008. Of the sixteen rigs in the field at December 31, 2008, ten rigs were in the United States and six were in Mexico. At March 16, 2009, eight rigs were contracted to México and eight rigs remain in the United States.

During 2008 4Q, we completed and deployed one drilling rig, an XTC 400, to México. In February 2009, we announced redeployment of two XTC 400 rigs from the United States Rocky Mountain region to México. We had planned to build 18 drilling rigs during our first phase of construction. However, we have temporarily suspended drilling rig construction due to economic uncertainty and decreased demand in the United States drilling markets. In addition to 16 completed drilling rigs, we have a number of components in stock or on order for two further drilling rigs.

SELECTED ANNUAL INFORMATION

	31 Dec 2008	31 Dec 2007	31 Dec 2006
<i>(\$ thousand, except where indicated)</i>			
Revenue	78,114	32,195	4,817
Net income (loss)	2,741	(3,203)	(1,812)
Net income (loss) per share	0.07	(0.10)	(0.07)
Capital assets	238,345	188,913	88,511
Total assets	289,394	213,464	117,735
Total long-term financial liabilities	49,140	29,969	139
Operating days ¹	2,948	1,492	216

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Three months ended	31 Dec 2008	30 Sep 2008	30 Jun 2008	31 Mar 2008
<i>(\$ thousand, except where indicated)</i>				
Revenue	28,924	26,328	10,527	12,335
EBITDA ¹	6,539	5,899	715	2,253
Net income (loss)	2,508	1,278	(1,541)	496
Net income (loss) per share <i>(dollars)</i>	0.06	0.03	(0.04)	0.01
Capital assets	238,345	231,392	211,948	192,855
Total assets	289,394	279,457	249,043	219,049
Operating days ¹	949	947	473	579
Rig utilization <i>(percentage)</i>	68	83	52	74
Weighted average rigs in service	15.2	12.4	10.0	9.0
Completed rigs, end of quarter	16	15	12	11

¹ see Non-GAAP measures

MANAGEMENT'S DISCUSSION AND ANALYSIS



Three months ended	31 Dec 2007	30 Sep 2007	30 Jun 2007	31 Mar 2007
<i>(\$ thousand, except where indicated)</i>				
Revenue	12,416	9,574	5,416	4,789
EBITDA ¹	2,237	(342)	(564)	(456)
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

¹ see Non-GAAP measures

During the last eight quarters, Xtreme Coil's revenue, EBITDA, net income, assets and operating days have generally increased in relation to the increase in the size of our drilling rig fleet. In the near-term we expect the nine rigs in place and operating under long-term contracts at the end of 2008 4Q will be our primary source of revenue generation. During 2009 2Q, we expect the long-term contract signed for two additional drilling rigs for México will further supplement revenue. Until we obtain either short-term work for rigs not operating under long-term contracts or until we sign additional long-term contracts, we anticipate somewhat lower revenue than generated during 2008 4Q.

Xtreme Coil achieved a similar level of operating days in 2008 4Q as in 2008 3Q. During the final three months of 2008, our expanded fleet of drilling equipment generated approximately the same operating days as the previous quarter which resulted in a 2008 4Q utilization decrease to 68 percent (2008 3Q - 83 percent). At December 31, 2008, nine of the 16 rigs (58 percent) operated under long-term contracts. In late February 2009, we announced signing of a new contract for two additional rigs in México, bringing Xtreme Coil's rig fleet to 69 percent committed under long-term contracts.

By 2008 4Q, drilling operations in México were achieving maximum potential utilization while, in the United States, utilization dropped to approximately 54 percent (2008 3Q - approximately 91 percent) with the decrease primarily occurring in the latter part of the quarter.

RESULTS OF OPERATIONS

Revenue

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Total revenue	28,924	12,416	133	78,114	32,195	143
Operating days	949	579	64	2,948	1,492	98
Revenue per operating day	30.5	21.4	42	26.5	21.6	23
Rig utilization (percentage)	68	77	(12)	69	68	3

At December 31, 2008, Xtreme Coil had completed 16 rigs (2007 - 9 rigs). As we constructed, commissioned and deployed new drilling rigs during 2008, operating days and revenue increased. Due to a weak Canadian drilling market and the opportunity to deploy more equipment to México, Xtreme Coil moved two rigs from Canada to México in mid-2008.



XTREME COIL DRILLING CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS



For the three and twelve months ended December 31, 2008, total revenue and revenue per operating day increased over the previous periods. In 2008 4Q and 2008 3Q Xtreme Coil achieved the highest number of operating days in any period to date. This was a result of the increased number of drilling rigs in the fleet as well as the number of contracts in place. Rig utilization percentages for the year were similar for 2008 compared to 2007. In 2008 4Q utilization was down 12 percent due to downward trending activity levels throughout the United States. Compared to 2008 3Q, total operating days in 2008 4Q were similar as increased activity in México virtually offset decreasing activity in the United States.

Total revenue is generally related to operating days. Most of Xtreme Coil's revenue is denominated in United States dollars ("USD"). The USD increased relative to the Canadian dollar ("CAD") during 2008 4Q as compared to both 2008 3Q and 2007 4Q which contributed to the increase in revenue. Total revenue in 2008 4Q and 2008 3Q also included certain charges not related to operating days. The largest of these charges were for the mobilization of six drilling rigs to México, for early termination of certain contracts, for pricing increase provisions in certain contracts and for standby of rigs waiting to commence operations. We would not generally expect these items to recur at the same level in future periods although the result is an increase in both total revenue and revenue per operating day when compared to prior periods.

Throughout 2009, Xtreme Coil will continue to communicate frequently with our existing customers and to market our drilling rigs to a broader range of potential customers, in an effort to maximize utilization of our drilling rigs and related equipment. In addition, we are actively pursuing energy projects in international regions like the Middle East, northern Africa, eastern Europe and Asia Pacific where contracts involving several of our rigs would have the potential to achieve high utilization and strong revenue.

We anticipate the operation of eight drilling rigs in México, under term contracts, will contribute to revenue stability for 2009. Xtreme Coil believes demand for services in México during 2009 will remain strong as the country focuses on developing existing hydrocarbon reserves to replace historic declines in production rates.

In response to weaker drilling market conditions in the United States, management intends to continue to market the potential advantages of Xtreme Coil's newer and efficient fleet of COTD™ drilling rigs. Three of Xtreme Coil's rigs in the United States are operating under long-term contracts.

Operating Expenses

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Operating expenses	19,516	8,969	118	55,221	27,209	103
Operating expenses <i>(percentage of revenue)</i>	67	72	(7)	71	85	(16)
Operating expenses per operating day	20.6	15.5	33	18.7	18.2	3

Field operations continued to grow throughout 2008. For the three and twelve months ended December 31, 2008, operating costs, as a proportion of revenue, decreased as infrastructure expenses moderated in proportion to the expansion of Xtreme Coil's rig fleet.

The increase in operating expenses for the three and twelve months ended December 31 primarily reflects the increase in the number of drilling rigs in operation and the higher number of operating days generated. Specifically, for 2008 4Q, the weighted average number of drilling rigs in operation increased to 15.2 rigs (2007 4Q - 8.1 rigs). As a percentage of revenue, operating expenses were lower for several reasons. Our México operations produced higher margins than historically generated. In addition, revenue associated with early termination of contracts and price escalation revenue did not relate to operating days and did not have associated operating expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Compared to 2008 3Q, the increase in the value of the USD relative to the CAD during 2008 4Q resulted in higher operating expenses since a large portion of operating expenses are denominated in USD. Expenses associated with mobilization of drilling rigs to México were lower on a trailing quarter basis since more rigs were delivered to México during 2008 3Q.

Gross Margin¹

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Gross margin	9,408	3,447	173	22,893	4,986	359
Gross margin (percentage of revenue)	33	13	148	29	15	89
Gross margin per operating day	9.9	6.0	67	7.8	3.3	132

¹ see Non-GAAP measures

For the three and twelve months ended December 31, 2008, gross margin improved primarily as a result of the increased number of operating days. As revenues and operating days have increased, we have achieved economies of scale which improves gross margin.

Revenue items without directly associated operating expenses - primarily early termination of contracts and price escalation revenue - produce higher gross margin in terms of both total amount and percentage of revenue. Revenue items such as mobilization of rigs to México may increase the total gross margin. However, because the associated costs are generally close to the revenue charged, this decreases gross margin in terms of percentage of revenue.

Compared to 2008 3Q, the increase in the value of the USD relative to the CAD in 2008 4Q resulted in higher operating expenses since a large portion of operating expenses are denominated in USD.

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

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
SG&A	2,870	1,210	137	7,487	4,111	82
SG&A (percentage of revenue)	10	10	2	10	13	(25)

For the three and twelve months ended December 31, 2008, SG&A, increased primarily in relation to development of administrative infrastructure to support expanded international operations, including the establishment of an office in Houston, Texas. During 2008 4Q, we recorded a provision for potential bad debts of \$494 (2007 4Q - \$29).

Compared to 2008 3Q, SG&A in 2008 4Q was higher, primarily reflecting additional infrastructure to support expanded operations as well as a provision for potential bad debt.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")¹

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
EBITDA	6,539	2,237	192	15,406	875	1,661

¹ see Non-GAAP measures

For the three and twelve months ended December 31, 2008, EBITDA increased as a result of increased operations by our expanded drilling fleet. EBITDA for 2008 4Q was 11 percent higher than generated in 2008 3Q. During 2008, 4Q the higher gross margin amount was largely offset by higher SG&A.



XTREME COIL DRILLING CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS



Depreciation and Amortization

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Depreciation and amortization	2,555	1,583	61	8,167	3,766	117

Depreciation based on a unit-of-production increases in proportion to the increase in operating days. For the three and twelve months ended December 31, 2008, the increase in depreciation and amortization is proportionate to operating days and reflects the increase in equipment commencing active field operations.

Compared to 2008 3Q, operating days for 2008 4Q were similar and depreciation increased. This increase is primarily related to our larger, more expensive rigs comprising a larger proportion of operating days.

Stock-based Compensation

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Stock-based compensation	531	141	277	1,251	556	125

For the three and twelve months ended December 31, 2008, stock-based compensation increased from the prior periods as the board of directors responded to growth in Xtreme Coil's operations in the United States and México by granting options to purchase common shares to new employees.

Compared to 2008 3Q, stock-based compensation for 2008 4Q increased due to a larger volume of options granted.

Foreign Exchange

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Foreign exchange (gain) loss	(1,106)	73	1,615	(875)	576	252

Foreign exchange gain or loss results primarily from a translation of Xtreme Coil's net working capital balances denominated in USD or México pesos ("MXN") and from the portion of revolving debt denominated in USD. At December 31, 2008 the amount of USD denominated revolving debt was \$17 million USD.

During 2008 3Q, Xtreme Coil commenced operations in México, thereby introducing exposure to another foreign currency. A portion of revenue generated and expenses incurred by our operations in México is denominated in MXN. Overall, the majority of revenue generated by Xtreme Coil is denominated in USD.

Compared to 2008 3Q, in 2008 4Q the CAD decreased in value relative to the USD and increased in value relative to the MXN. All three currencies experienced significant volatility throughout 2008 3Q and 2008 4Q.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Interest Expense and Income

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Interest expense	1,212	457	165	3,215	685	369
Interest income	(2)	(20)	(90)	(24)	(654)	(96)
Net interest expense (income)	1,210	437	177	3,191	31	10,194

During 2008, Xtreme Coil continued to draw on its credit facilities. We used the facilities primarily to complete the construction of additional drilling rigs which totalled 16 at December 31, 2008, as well as to provide cash for ongoing operating requirements and to establish operations in México.

Throughout most of the first nine months of 2007, Xtreme Coil had a cash surplus which generated interest income. During 2007 3Q, the draw on credit facilities commenced, incurring larger interest expenses. In 2008, Xtreme Coil continued to use the credit facilities, supplemented with equity raised in 2008 2Q, to fund expansion of the drilling rig fleet.

Compared to 2008 3Q, net interest expense increased in 2008 4Q to \$1,210 from \$898 as a result of an increase in use of the credit facility. Other than the impact of interest rate changes, we anticipate net interest expenses in the near term to remain at a level similar to 2008 4Q.

Income (Loss) Before Tax

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Income (loss) before tax	3,341	3	n/a	3,626	(4,054)	189

For the three and twelve months ended December 31, 2008, income before tax grew primarily as a result of Xtreme Coil's transition from a building phase to an operating phase.

Compared to 2008 3Q, income before tax in 2008 4Q increased to \$3,341 (2008 3Q - \$1,873). The larger items strengthening income before tax were revenue for early termination of certain contracts and a gain on foreign exchange. Higher bad debt provision and interest expense reduced the increase in income before tax.

Income Tax

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Income tax expense (recovery)	832	207	302	885	(851)	204

As Xtreme Coil achieved profitability in 2008, the Company recorded a tax expense of \$885 (2007 - recovery \$851). The effective income tax rate for 2008 was 24.41 percent (2007 - recovery rate 20.99 percent).

Net Income (loss)

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Net income (loss)	2,508	(204)	1,329	2,741	(3,203)	186



XTREME COIL DRILLING CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Condition, Liquidity and Capital Resources

(\$ million)	Year ended Dec 31		
	2008	2007	2006
Long-term liabilities	49.1	30.0	0.1
Less: working capital (deficit)	6.2	(10.0)	10.6
Net debt ¹	42.9	40.0	(10.5)

¹ see Non-GAAP measures

Capital Expenditures and Commitments

	Three months ended Dec 31			Year ended Dec 31		
	2008	2007	% Change	2008	2007	% Change
Capital expenditures	8.1	22.6	(64)	56.0	103.8	(46)
Commitments	3.4	20.5	(83)	3.4	20.5	(83)

Since inception Xtreme Coil has invested heavily in its capital expansion program. By the end of 2008 4Q Xtreme Coil's fleet of drilling rigs grew to 16 (2007 4Q - 11). Following three years of significant growth, during which Xtreme Coil built and deployed the current fleet of drilling rigs, the company has transitioned to an operating phase. As at 2008 4Q, Xtreme Coil's working capital grew to approximately \$6 million (2007 3Q - deficit \$10 million).

For the year ended December 31, 2008, investment in fixed assets was primarily for continued construction of drilling rigs. In 2008 3Q, Xtreme Coil announced the temporary suspension of the drilling rig construction program. This has had minimal effect on contracts with third parties. Xtreme Coil is continuing to complete components for existing contractual commitments. However, there was no commitment under contract with third parties to complete all components of rigs after the 16th rig and there were no significant penalties to Xtreme Coil as a result of the announced pause in capital expenditures. Commitments remaining are primarily for long-lead components ordered before the suspension of the rig construction program.

Lower capital expenditure for 2008 4Q, compared to 2007 4Q, reflect the larger capital expenditures program during 2007 and the suspension of Xtreme Coil's rig construction program by 2008 4Q. Compared to 2008 3Q, capital expenditures in 2008 4Q decreased to \$8.1 million (2008 3Q - \$21.8 million) and commitments reduced to \$3.4 million (2008 3Q - \$4.5 million) as the rig expansion program was temporarily suspended. The decrease in working capital to \$6.2 million (2008 3Q - \$13.2 million) was notably affected by the classification of the revolving debt facility. During 2008 4Q, an additional \$5 million of revolving debt that had been recorded as long-term debt was classified in the current portion of long-term debt.

Under its current cost structure, Xtreme Coil can achieve positive cash flow from operating activities provided at least eight of the current 16 drilling rigs continue operations. Xtreme Coil currently has 11 rigs under existing contracts. Any additional shorter-term day work, undertaken by the remaining five rigs, would further strengthen future cash flow from operating activities.

Xtreme Coil has forecasted results for 2009 using our best estimates of conditions in the areas we are presently operating. These forecasts are based on maintaining existing contracts and what we anticipate is an achievable utilization of equipment. In this forecast, we expect to generate sufficient cash flow from operating activities to fund our operations and the limited capital expenditures for which we have commitments. Xtreme Coil currently expects to utilize any additional available cash flow to reduce debt or to fund future capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS



With the announced suspension of Xtreme Coil's capital expansion program, we expect future capital expenditures will be much lower than previous periods. Primarily, during 2009 1Q, we expect to incur some minor capital expenditures to prepare two additional rigs to move from the United States and prepare for operations in México. Management expects to fund these expenditures and other commitments using cash flow from operating activities and existing credit facilities. Xtreme Coil expects to reinvest remaining cash flow from operating activities to reduce debt or to fund future capital requirements.

Xtreme Coil will build no new rigs until there is a contract for the new rigs to commence operations on completion. The terms of each new contract will determine how Xtreme Coil will finance new rig construction.

During 2008 2Q, Xtreme Coil entered into an agreement for new credit facilities with our existing lender and another lender on a syndicated basis. The new credit facilities include a \$15 million revolving operating line and a revolving extendible facility, initially set at \$70 million and reduced to \$60 million by December 31, 2008 as scheduled. The credit facilities require Xtreme Coil to maintain certain financial covenants. At December 31, 2008, Xtreme Coil was not in compliance with two covenants. The two unfulfilled covenants were an EBIT to interest coverage ratio and a funded debt to EBITDA ratio. The syndicate provided a waiver in regards to covenant non-compliance.

From management's ongoing communication with Xtreme Coil's banking syndicate, we believe the institutions are in sound financial position. Xtreme Coil conducts ongoing communication to maintain its working relationship with the banking syndicate. These discussions, in light of the current credit crisis and economic downturn, lead management to believe Xtreme Coil's relationship with the banking syndicate will continue. Renewal of the revolving credit facility is scheduled for late May 2009 and Xtreme Coil has formally requested an extension of the facility.

This table summarizes Xtreme Coil's contractual obligations as at December 31, 2008.

Payments Due by Period

Contractual Obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years
Capital lease obligations	119	82	37	-
Operating leases	2,303	827	1,078	398
Revolving credit facility	58,930	9,822	39,286	9,822
Operating facility	7,878	7,878	-	-
Commitments	3,374	3,374	-	-
Total contractual obligations	72,604	21,983	40,401	10,220

In 2008, Xtreme Coil entered into an agreement for new credit facilities which extended the revolving facility to May 2009. Xtreme Coil has requested renewal of the facility and has been granted previous requests for renewal. The above table is prepared with a repayment schedule applicable only if the lender did not renew the facility. However, based on our discussions with the lenders we expect the facility to be renewed. We expect cash flow generated from operating activities and existing credit facilities will be sufficient to fund payments due in less than one year.



XTREME COIL DRILLING CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Segmented Information

This table summarizes the results of operations for Xtreme Coil's three geographic operating segments.

	Three months ended 2008 Dec 31				Three months ended 2007 Dec 31		
	Canada	United States	México	Total	Canada	United States	Total
Revenue	-	15,065	13,859	28,924	1,584	10,832	12,416
Operating days	-	492	457	949	76	503	579
Revenue per day	-	30.6	30.3	30.5	20.8	21.5	21.4

	2008				2007		
	Canada	United States	México	Total	Canada	United States	Total
Revenue	3,783	53,915	20,416	78,114	4,365	27,830	32,195
Operating days	200	2,236	512	2,948	219	1,273	1,492
Revenue per day	18.9	24.1	39.9	26.5	19.9	21.8	21.6

Operations commenced in México in 2008 3Q. For both quarters of operations in México, revenue includes amounts charged to fund the initial mobilization of the rigs to the region. These revenues will only recur to the extent that new rigs are deployed into the region. This additional revenue has increased revenue per day beyond what we would expect to generate from ongoing operations.

Revenue in the United States in 2008 4Q includes some one-time charges for cancellation of contracts. This revenue is not expected to recur and also increased revenue per day above what we would expect to generate from ongoing operations.

Outstanding Common Shares

(\$ million)	Year ended Dec 31		% Change
	2008	2007	
Common shares, beginning of period	33,965,407	27,723,625	23
Private placement	5,872,896	5,360,000	11
Warrants exercised	666,666	666,667	-
Agent options exercised	-	6,315	-
Options exercised	281,200	208,800	35
Options exercised under share buy-back and cancelled	(60,000)	-	-
Common shares issued	6,760,762	6,241,782	8
Common shares, end of period	40,726,169	33,965,407	20

As at December 31, 2008, Xtreme Coil had outstanding 2,969,000 (2007 - 2,012,200) options to purchase common shares at a weighted average exercise price of \$5.79 (2007 - \$4.60) per share.

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 remain outstanding.

On May 1, 2008 Xtreme Coil and our joint venture partner completed a private placement pursuant to which our joint venture partner subscribed for 4,780,000 common shares of Xtreme Coil at a price of \$7.32 per share for aggregate gross proceeds of \$34,990.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Xtreme Coil completed the acquisition of the 49 percent interest held by our joint venture partner in Coil-X, including their outstanding loan to Coil-X, by the issuance of 1,092,896 common shares of Xtreme Coil at a price of \$7.32 per common share, 1,000,000 purchase warrants and 700,000 performance warrants. Each whole warrant will entitle our joint venture partner (once vested, in the case of the performance warrants) to purchase one common share of Xtreme Coil for \$9.87 for a period of 24 months following the date of closing of the transaction.

Previously, the Coil-X joint venture partner held 2,092,574 warrants. The closing of the purchase of the joint venture partner's interest resulted in cancellation of these warrants.

Share capital on March 16, 2009 was \$207.5 million, and there were 40,726,169 common shares issued and outstanding, as well as 1,000,000 purchase warrants, 700,000 performance warrants, and 2,865,000 options to purchase common shares.

SUBSEQUENT EVENTS

In January 2009, the United States Patent and Trademark office issued a fifth patent to Xtreme Coil entitled "Coiled Tubing/Top Drive Rig and Method", which addresses multiple methods of deploying coiled tubing on a top drive equipped drilling rig also capable of utilizing jointed pipe for crude oil and natural gas drilling applications. One aspect of this complex patent includes the utilization of a vertically-travelling injector to accommodate longer bottom hole assemblies which can be deployed under pressure for re-entry drilling projects. Xtreme Coil also received notification regarding an earlier patent which received even broader issuance when it was approved by the Eurasian patent office for regions under its jurisdiction throughout Europe and Asia.

On February 27, Xtreme Coil announced preparations to deploy two more Coil Over Top Drive® ("COTD™") drilling rigs under a new long-term contract between Weatherford de México S.A. de C.V. and Xtreme Coil's wholly-owned subsidiary, Xtreme Coil Drilling México, S.A. de C.V. This new commitment in México required two XTC 400 drilling rigs to operate in the Chicontepec oil development project near Poza Rica. Two rigs from the Rocky Mountain region of the United States will fulfil this commitment.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer (the "certifying officers") 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*.

Xtreme Coil's certifying officers cannot guarantee the company's DC&P and ICFR will prevent all error and all fraud. A control system, no matter how well-designed and implemented, can provide only reasonable assurance of meeting the control system's objectives. Such controls must also consider the benefits of controls in relation to the cost of such controls. Due to the inherent limitations in any control systems, no evaluation of controls can absolutely assure detection of all control issues within a company. Inherent limitations include the potential for faulty judgments in decision-making, and the occurrence of breakdowns resulting from simple errors and mistakes. Individual acts by some persons, or collusion by two or more people, can circumvent controls and management can override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

DC&P are intended to provide reasonable assurance the company will disclose required information, in accordance with regulatory reporting requirements, within the time periods specified. As at December 31, 2008, the certifying officers have evaluated the design and effectiveness of the company's DC&P. Based on their evaluation, they have concluded Xtreme Coil's DC&P are designed and operating effectively to provide reasonable assurance material information relating to the company, including its consolidated subsidiaries, is made known to them by others within those entities in a timely manner. ICFR are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. As at December 31, 2008, the certifying officers have evaluated the design and effectiveness of the company's ICFR. Based on their evaluation, they have concluded Xtreme Coil's ICFR are effective, but there are control deficiencies discussed below.



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Xtreme Coil has a limited number of staff distributed among several geographically-dispersed locations. This has created situations where it is not feasible to achieve complete segregation of duties. Also, due to the limited number of staff in different locations, the company does not have a sufficient number of finance personnel with all of the technical accounting knowledge to address all non-routine accounting transactions that may arise, particularly where expertise in specific-country regulations, including taxation, is required.

Management works to mitigate the risk resulting from these deficiencies by emphasizing the oversight and diligence of the certifying officers and Corporate Controller to ensure minimization of the risk of a misstatement resulting from this deficiency. In addition, the Company has engaged the services of qualified taxation and other consultants, as necessary, to assist with certain complex and non-routine accounting transactions that may arise. Further, the Company is in the process of centralizing the accounting function for its United States and Canadian operations in the Casper, Wyoming office.

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.

NON-GAAP MEASURES

Xtreme Coil uses both GAAP and non-GAAP measures to assess performance and provides non-GAAP measures as supplemental information to investors. 'Operating days', 'utilization', 'gross margin' and 'EBITDA' do not have standardized meanings prescribed by GAAP. Xtreme Coil's method of calculating operating days, rig utilization, gross margin and EBITDA may differ from methods used by other companies and may not be comparable to measures used by others.

Operating days

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 which quantifies the revenue-generating activity of the fleet of drilling rigs.

Rig utilization

Xtreme Coil calculates rig utilization as operating days divided by total days after drilling rigs commence initial field operations.

Gross margin

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 activities are financed or taxed, as well as other expenses not closely associated with activity levels.

EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization, stock-based compensation, foreign exchange gains or losses and gains or losses on sale of equipment. Management believes that EBITDA is a useful supplemental measure of the financial performance of Xtreme Coil's principal business activities before considering how activities are financed or taxed, and before the impact of stock-based compensation, foreign exchange rate fluctuations or sales of equipment.

Net debt

Net debt is used by management and the investment community to analyze the amount of debt minus the working capital of the Company.



CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the results of operation and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on historical experience, trends in the industry and information available from outside sources. Management reviews these estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material effect, positive or negative, on Xtreme Coil's financial position and results of operations. 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 revenue 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 2008 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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets purchased. Goodwill is not subject to amortization, but is tested for impairment at least annually by applying a fair value based test. Any goodwill impairment will be recognized as an expense if the carrying amount of the goodwill exceeds its fair value. Xtreme Coil tested goodwill for impairment at December 31, 2008 and no impairment was determined. Goodwill is allocated to operations in México.

Stock-based compensation

Compensation expense associated with options to purchase common shares at their grant date is an estimate 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.



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New accounting standards adopted

The Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: section 1535, Capital Disclosures, sections 3862 and 3863, Financial Instruments - Disclosures and Presentation, and section 3031, Inventories. Xtreme Coil adopted these new standards effective January 1, 2008. Section 1535 establishes disclosure requirements about an entity's capital and how capital is managed. The purpose is to enable users of financial statements to evaluate the entity's objectives, policies and processes for managing capital as further discussed (see note 15 - Capital management). This standard had no impact on the classification or measurement of the Company's consolidated financial statements.

Sections 3862 and 3863, Financial Instruments - Disclosures and Presentation, revise and enhance disclosure requirements and carry forward, unchanged, 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 as discussed further. These standards had no impact on the classification or measurement of Xtreme Coil's consolidated financial statements.

Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. 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 inventory write downs. There was no impact on the valuation of inventory as at January 1, 2008 or on the net income for the current or prior periods (see note 6 - Inventory).

New accounting pronouncements

International financial reporting standards

The Canadian Accounting Standards Board confirmed in 2008 the requirement for publicly accountable enterprises to use International Financial Reporting Standards ("IFRS") in 2011. Xtreme Coil will begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP but could need to address significant differences in recognition, measurement and disclosures. Education sessions are being provided for employees, senior management and the Audit Committee to increase knowledge and awareness of IFRS and its impacts. The Company has also engaged an external expert advisor.

Xtreme Coil is also evaluating the potential impact of IFRS on financial covenants, business contracts and internal controls over financial reporting. Since a number of IFRS standards are changing, we will continue to assess the impact of the proposed standards on the consolidated financial statements and disclosure as additional information becomes available and cannot make a reasonable determination of financial impacts at this time. Based on initial assessments, we have identified property, plant and equipment and employee benefits as likely to have the greatest potential impact. Compliance with, and initial adoption of, IFRS requirements will require a significant amount of effort. In 2009, Xtreme Coil will complete a more detailed analysis and evaluation of the financial impact of the issues identified in the assessment and diagnostic phases as well as the impact on, and implementation of, financial reporting computer systems.

Future accounting standards

In February 2008, the CICA approved Handbook section 3064 Goodwill and Intangible Assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to the initial recognition. These recommendations are effective for Xtreme Coil beginning January 1, 2009. Goodwill and intangible assets which are not assets as defined by GAAP will be derecognized and charged to equity at that date. The adoption of these recommendations is not expected to have a material impact on earnings or assets.



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CRITICAL ACCOUNTING POLICIES

During 2008, Xtreme Coil made no changes to its accounting policies.

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 conventional jointed pipe, we believe our drill pipe may last longer than drill 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 and México operations are categorized as integrated foreign operations. As a result, we use the temporal method of translation under which we translate all foreign currency transactions at the rate in effect as at the transaction date. We translate monetary assets and liabilities at the rate in effect as at the balance sheet date, non-monetary assets and liabilities at their historical rate and recognize gains and losses in the consolidated statements of operations during the period in which they occur.

Inventory

Inventory is composed of coiled tubing and parts and is recorded at the lower of cost and net realizable value determined on a first-in, first-out basis.

Revenue recognition

Xtreme Coil generally provides services under contracts with customers that include a fixed or determinable price based on daily rates. We recognize revenue when services are rendered.

SEASONALITY AND OTHER OPERATIONAL CONSTRAINTS

Areas of the United States where Xtreme Coil has drilling operations are infrequently subject to weather constraints like hurricanes in the southern states but may experience operations restrictions for other reasons. Some areas are subject to environmental orders which include specific well leases and can prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protection. These restrictions may also affect activity levels and operating results.

In the region of México, where Xtreme Coil is currently active, drilling operations can be constrained by certain weather conditions, particularly hurricanes, and excessive heat or rain. These weather conditions may interrupt periods of activity which may affect operating results. On occasion, movement of drilling rigs, as well as goods and services, can experience delays while the authorities negotiate access or settle local disputes.

Currently, Xtreme Coil does not have field operations in Canada where seasonal weather conditions can restrict drilling operations. Particularly, movement heavy equipment in the north depends on ground freezing to support the equipment. Road bans prevent heavy equipment from moving until the ground is dry enough to support the loads. The timing and duration of freezing and spring can affect drilling activity levels and operating results.



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BUSINESS RISKS AND UNCERTAINTIES

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

Foreign exchange

Foreign exchange volatility may create gains or losses which have an effect on Xtreme Coil's financial results. Xtreme Coil reports all activities in CAD. Most of our contracts are denominated in USD or in México pesos and those currency rates of exchange to CAD fluctuate. Xtreme Coil is exposed to risk from fluctuations in foreign currency exchange rates in the United States and México where it operates rigs. The Company translates revenue and expenses denominated in USD and México pesos into CAD during the reporting period. Monetary assets and liabilities denominated in foreign currencies are translated at the current rate as at the balance sheet date and any foreign exchange gains or losses are included in income.

Interest rate

Xtreme Coil is exposed to interest rate risk to the extent changes in market interest rates can impact operating and revolving credit facilities which have a floating interest rate. At December 31, 2008, an increase or decrease of one percent in the effective interest rate would have changed net income by approximately \$422.

Credit risk

Xtreme Coil is exposed to credit risk in relation to its accounts receivable which includes balances owing from customers primarily operating in the oil and natural gas industry. Management assesses credit worthiness of customers on an ongoing basis, as well as their ability to remit amounts owing to Xtreme Coil in accordance with standard industry practices, and considers the credit risks on these amounts as normal for the industry. Xtreme Coil is exposed to significant concentration of credit risk because the majority of accounts receivable balances are with a small group of customers (see note 17 - Segmented information).

Xtreme Coil accounts receivable is recorded net of a provision of \$494 (2007 - \$29).

The following table summarizes the Xtreme Coil's accounts receivable amounts past due which management does not consider impaired.

Accounts receivable	2008 Dec 31	2007 Dec 31
Receivables less than 90 days	\$ 22,427	\$ 11,766
Receivables greater than 90 days (for which no provision is considered necessary)	4,864	1,273
	\$ 27,291	\$ 13,039

Liquidity risk

Liquidity risk relates to risks Xtreme Coil may encounter in meeting obligations associated with financial liabilities and commitments. Since inception, Xtreme Coil has entered into credit and equity financing arrangements sufficient to complete the committed rig construction program and to fund working capital requirements. Xtreme Coil anticipates the current level of financial capacity will be sufficient to fund commitments related to the committed rig build program and to fund working capital. While the company has, on occasion, not met certain covenants, it has obtained any necessary waivers regarding non-compliance from the lending syndicate of Canadian financial institutions. We anticipate modest future capital expenditures due to the temporary suspension of Xtreme Coil's rig expansion program. The Company anticipates generating positive cash flow from operating activities, management of accounts receivable in direct relation to revenue generation and the utilization of available cash to pay down debt.



Proprietary technologies

Integral to Xtreme Coil's equipment are certain technologies which require proving in actual field operations. We cannot assure the current and future applications for Xtreme Coil's proprietary technology nor 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.

Demand for contract drilling services

Demand for Xtreme Coil's COTD™ contract drilling services depends on the level of oil and natural gas industry activity which also influences the potential to extend or continue existing long-term contracts. Shorter-term drilling activity can result in revenue unpredictability. Numerous factors over which Xtreme Coil has no control influence industry activity including, but not limited to, fluctuations in crude oil and natural gas prices, changes in supply or demand for commodities, competition from other drilling contractors, government legislation, regulatory and economic conditions, global political and military events, international trade barriers, location access or labour disputes, as well as fuel and environmental conservation or incidents.

Vendor services and supplies

Xtreme Coil's contract drilling services may incur risk or interruption of ongoing access to key supplies, including fuel, which could impair the ability to continue to operate equipment. When significant assets were under construction and an aggressive rig and related equipment building program was underway, Xtreme Coil depended on suppliers to deliver equipment on schedule and to meet required quality standards. Issues of poor quality standards from suppliers or failure of suppliers in any aspect of an equipment building program has the potential to severely impact Xtreme Coil's operating activities, financial performance, reputation and retention of customers.

Performance of equipment and employees

Xtreme Coil's financial and operating results are dependent on continued successful performance of drilling rigs and related equipment and the continued operation of the existing fleet without additional significant capital expenditures. The Company's ability to expand contracted drilling and related services depends on successful recruitment and retention of qualified personnel, when needed. 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 financial performance.

OUTLOOK

During 2009, Xtreme Coil anticipates a sustained period of recession and general economic uncertainty coupled with tight North American credit and equity market conditions. Lower demand for crude oil and natural gas commodities has depressed commodity prices. Many of Xtreme Coil's customers utilize cash flow to fund drilling operations. Because periods of lower commodity prices reduce cash available to invest in drilling projects, we expect lower drilling activity, particularly in the United States. However, in some regions outside North America, drilling demand is stronger.

Throughout 2008 4Q, Xtreme Coil had active operations in the United States and México. We transferred equipment from Canada to México during 2008 3Q because the Canadian drilling market had begun to deteriorate. The current economic weakness in the United States suggests limitations for near-term prospects for new drilling activity in the regions where five rigs in our fleet not under long-term contract are located and available. Although we continue to market the advantages of our much newer fleet of COTD™ drilling rigs to current and future projects in the United States, we are simultaneously pursuing opportunities in regions like the Middle East, northern Africa, eastern Europe and Asia Pacific where contracts involving several of our rigs would have the potential to achieve high utilization and strong revenue.



XTREME COIL DRILLING CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS

To date in 2009, Xtreme Coil is operating nine rigs under existing long-term contracts. Currently, we have 11 of 16 rigs under long-term contract. We expect the next two rigs contracted to México will begin operations in 2009 2Q. A significant portion of our cost structure fluctuates in direct relation to drilling rig activity. Therefore, we anticipate 2009 1Q will reach gross margin levels similar to those generated during 2008 4Q.

For 2009 1Q, we expect to generate fewer operating days than in 2008 4Q. We expect the nine rigs under contract at the end of 2008 4Q will be the primary source of revenue.

Xtreme Coil expects drilling opportunities in México to remain robust. The historic decline in daily oil production requires aggressive expansion of onshore drilling operations, particularly in the Chicontepec area where our rigs operate and where we now have a team of operational and technical people. In response to México's projects focused on increasing oil production, we continue to discuss further opportunities to deploy Xtreme Coil's drilling rigs to ongoing and new projects in that country.

During 2009, Xtreme Coil will continue to pursue strategic projects and contracts outside North America and México in response to interest generated from discussions initiated during 2009 in several international drilling regions and for projects to which our COTD™ drilling rigs are well suited.

ADDITIONAL INFORMATION

Information relating to Xtreme Coil, including the Annual Information Form, 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 +1 403.262 9500), visit Xtreme Coil's website www.xtremecoildrilling.com or e-mail ir@xtremecoil.com.

2008 Trading

	Open	High	Low	Close	Volume
Quarter 1	\$ 7.75	\$ 8.75	\$ 6.50	\$ 7.50	1,452,120
Quarter 2	\$ 7.50	\$ 10.95	\$ 7.50	\$ 10.00	6,215,040
Quarter 3	\$ 9.25	\$ 10.00	\$ 5.75	\$ 7.00	3,343,936
Quarter 4	\$ 6.37	\$ 6.74	\$ 1.53	\$ 1.54	3,992,262
					15,003,358



XTREME COIL DRILLING CORP.
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 consolidated financial statements in accordance with Canadian generally accepted accounting principles as outlined in the notes to the consolidated financial statements. Consolidated 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 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 consolidated 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 consolidated financial statements are presented fairly.

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

Rodney J. Uchtyl
President and Chief Executive Officer

Vic Fitch
Chief Financial Officer

Calgary, Alberta
March 16, 2009



XTREME COIL DRILLING CORP.
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, 2008 and 2007 and the consolidated statements of operations, comprehensive income (loss) 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

March 16, 2009
Calgary, Alberta

XTREME COIL DRILLING CORP.
CONSOLIDATED BALANCE SHEETS

(\$ thousand)



	2008 Dec 31	2007 Dec 31
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,010	\$ 383
Accounts receivable (note 4 and 14)	27,291	13,039
Other receivables (note 5)	7,966	-
Prepaid expenses	1,218	1,311
Inventory (note 6)	1,045	335
	39,530	15,068
Future income tax (note 13)	4,966	4,530
Equipment (note 7)	238,345	188,913
Intangible assets (note 8)	4,923	4,953
Goodwill (note 10)	1,630	-
	\$ 289,394	\$ 213,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 11)	7,878	-
Accounts payable and accrued liabilities	14,215	19,877
Income tax payable	1,354	-
Current portion of obligations under capital leases (note 9)	75	78
Current portion of long-term debt (note 11)	9,825	5,104
	33,347	25,059
Long-term liabilities		
Obligations under capital leases (note 9)	35	73
Long-term debt (note 11)	49,105	29,896
	82,487	55,028
SHAREHOLDERS' EQUITY		
Share capital (note 12)	207,462	162,514
Warrants (note 12d)	1,630	1,235
Contributed surplus (note 12b)	3,453	3,066
Deficit	(5,638)	(8,379)
	206,907	158,436
	\$ 289,394	\$ 213,464
Commitments and contingencies (note 16)		

See accompanying notes to the consolidated financial statements

On behalf of the board of directors,

Marc Staniloff
Director

David Tuer
Director



XTREME COIL DRILLING CORP.

**CONSOLIDATED STATEMENT OF OPERATIONS,
COMPREHENSIVE INCOME (LOSS) AND DEFICIT**

(\$ thousand except share and per share data)



	Year ended 2008 Dec 31	Year ended 2007 Dec 31
Revenue	\$ 78,114	\$ 32,195
Expenses		
Operating expenses	55,221	27,209
Selling, general and administrative (note 4)	7,487	4,111
Depreciation of capital assets	7,896	3,532
Amortization of intangibles	271	234
Stock-based compensation	1,251	556
Foreign exchange loss (gain)	(875)	576
Loss on sale of equipment	46	-
Interest on long-term debt and capital leases	3,215	685
Interest (income)	(24)	(654)
Net income (loss) before tax	3,626	(4,054)
Future tax expense (recovery) (note 13)		
Current	1,354	-
Future	(469)	(851)
Net income (loss) for the year and comprehensive income (loss)	2,741	(3,203)
Deficit, beginning of year	(8,379)	(5,176)
Deficit, end of year	\$ (5,638)	\$ (8,379)
Net income (loss) per common share - basic	\$ 0.07	\$ (0.10)
Net income (loss) per common share - diluted	\$ 0.07	\$ (0.10)
Weighted average number of common shares - basic (note 12e)	38,569,546	33,018,531
Weighted average number of common shares - diluted (note 12e)	38,569,546	34,989,268

XTREME COIL DRILLING CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ thousand)



	Year ended 2008 Dec 31	Year ended 2007 Dec 31
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 2,741	\$ (3,203)
Items not affecting cash:		
Depreciation and amortization	8,167	3,766
Stock-based compensation	1,251	556
Loss on sale of equipment	46	-
Amortization of financing cost	360	-
Unrealized foreign exchange gain	(1,670)	(138)
Future income tax	(469)	(851)
	10,426	130
Changes in non-cash operating working capital <i>(note 18)</i>	(19,898)	(4,619)
	(9,472)	(4,489)
Financing activities		
Proceeds from common shares issued	34,990	56,942
Share issue costs	(890)	(3,440)
Proceeds from exercise of options and warrants	670	-
Proceeds from equity issuance re joint venture <i>(note 10)</i>	8,000	-
Proceeds from long-term debt	23,930	35,000
Proceeds from operating facility	7,878	-
Capital lease payments	(41)	(66)
	74,537	88,436
Investing activities		
Purchase of equipment	(55,994)	(103,823)
Proceeds from sale of equipment	42	-
Increase in intangibles	(241)	(216)
Changes in non-cash working capital relating to capital items	(7,245)	3,735
	(63,438)	(100,304)
Increase (decrease) in cash and cash equivalents		
During the year	1,627	(16,357)
Cash and cash equivalents, beginning of year	383	16,740
Cash and cash equivalents, end of year	\$ 2,010	\$ 383
Supplemental disclosure of cash flow information		
Interest received	\$ 24	\$ 666
Interest paid	2,844	685
Income tax paid	-	-
Non-cash transactions		
Purchase of patents in exchange for warrants	\$ -	\$ 2,990
Issuance of common shares for joint venture purchase <i>(note 10)</i>	3,920	-
Repayment of joint venture loan <i>(note 10)</i>	4,080	-

See accompanying notes to the consolidated financial statements



XTREME COIL DRILLING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousand except where otherwise noted)

1. NATURE OF OPERATIONS

Xtreme Coil Drilling Corp. ("Xtreme Coil", the "Corporation") was incorporated May 24, 2005 under the Business Corporations Act of Alberta. Xtreme Coil develops and operates Coil Over Top Drive® ("COTD™") drilling rigs using new patented and patent-pending rig designs and technology. On completion of the drilling rigs, Xtreme Coil contracts drilling services to oil and natural gas exploration and development companies in the United States and México. Xtreme Coil's head office is in Calgary, Alberta, Canada. The Corporation has established a corporate office in Houston, Texas, United States and has field offices in Casper and Cheyenne, Wyoming, United States, and near Poza Rica in the state of Veracruz, Mexico.

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 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 statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Amortization rates and the useful life of assets, allowance for doubtful accounts receivable, stock-based compensation, tax recoveries and the recoverable amounts for equipment, intangible assets and goodwill 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 fair value.

Inventory

Inventory is composed of coiled tubing and parts and is recorded at the lower of cost and net realizable value determined on a specific item basis.

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 office and shop equipment, leaseholds, vehicles, trucking equipment and drilling equipment.

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousand except where otherwise noted)



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 drilling 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. Xtreme Coil tests for impairment whenever events or changes in circumstances indicate 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 intangible assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates 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.

Foreign currency translation

Xtreme Coil considers operations in the United States and México 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 they arise. Revenues and expenses, other than amortization are translated at the exchange rate when incurred. Gains or losses arising on translation are included in income.

Stock-based compensation

Xtreme Coil has a Stock Option Plan as described in note 12(c). We use the fair value method of accounting for stock-based compensation. The fair value of 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 options, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event unvested options expire without being exercised, previously recognized compensation expense associated with such options is reversed.

Income tax

Xtreme Coil uses the asset and liability method of accounting for income tax. 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 which 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 options for the calculation of diluted per share amounts.



XTREME COIL DRILLING CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



(\$ thousand except where otherwise noted)

Impairment of long-lived assets

Xtreme Coil tests for impairment whenever events or changes in circumstances indicate 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 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 means of a contract with the customer and incorporate a fixed or determinable price based upon daily rates. Revenue is recognized when services are rendered or over equipment usage periods, and when collection is reasonably assured. Mobilization revenue is earned under certain contracts and is paid to Xtreme Coil upon successful initial utilization of the related equipment. For a contract that includes this element in addition to the normal fee for service element, revenue is allocated to each element of the contract based on the residual method and using the estimated fair value of the elements delivered. The value of the undelivered elements is deferred and recognized when earned. Xtreme Coil defers any prepaid mobilization revenues and recognizes them at the time the related services are performed using the percentage of completion method.

Financial instruments

All financial instruments are 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:

Cash and cash equivalents

Accounts receivable and other receivables

Accounts payable, accrued liabilities, bank indebtedness, and long-term debt

Held for trading

Loans and receivables

Other liabilities

Financial instruments - recognition and measurement

Long-term debt is initially recorded at fair value net of transaction costs directly attributable to the issuance of the debt. Transaction costs capitalized as a portion of long-term debt will be amortized using the effective interest method over the life of the debt.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets purchased. Goodwill is not subject to amortization, but is tested for impairment at least annually by applying a fair value based test. Any goodwill impairment will be recognized as an expense if the carrying amount of the goodwill exceeds its fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousand except where otherwise noted)



3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING STANDARD CHANGES

The Canadian Institute of Chartered Accountants (CICA) issued three new accounting standards: section 1535, Capital Disclosures, sections 3862 and 3863, Financial Instruments - Disclosures and Presentation, and section 3031, Inventories. Xtreme Coil adopted these new standards effective January 1, 2008.

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 as further discussed (see note 15 - Capital management). This standard had no impact on the classification or measurement of the Corporation's consolidated financial statements.

Sections 3862 and 3863, Financial Instruments - Disclosures and Presentation, revising and enhancing disclosure requirements, and carrying forward, unchanged, 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 as discussed further. These standards had no impact on the classification or measurement of Xtreme Coil's consolidated financial statements.

Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. 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. There was no impact on the valuation of inventory as at January 1, 2008 or on the net income for the current or prior periods (see note 6 - Inventory).

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

New Accounting Pronouncements

International financial reporting standards

The Canadian Accounting Standards Board confirmed in 2008 the requirement for publicly accountable enterprises to use International Financial Reporting Standards ("IFRS") in 2011. Xtreme Coil will begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP but could need to address significant differences in recognition, measurement and disclosures. Education sessions are being provided for employees, senior management and the Audit Committee to increase knowledge and awareness of IFRS and its impacts. The Company has also engaged an external expert advisor.

Xtreme Coil is also evaluating the potential impact of IFRS on financial covenants, business contracts and internal controls over financial reporting. Since a number of IFRS standards are changing, we will continue to assess the impact of the proposed standards on the consolidated financial statements and disclosure as additional information becomes available and cannot make a reasonable determination of financial impacts at this time. Based on initial assessments, we have identified property, plant and equipment and employee benefits as likely to have the greatest potential impact. Compliance with, and initial adoption of, IFRS requirements will require a significant amount of effort. In 2009, Xtreme Coil will complete a more detailed analysis and evaluation of the financial impact of the issues identified in the assessment and diagnostic phases as well as the impact on, and implementation of, financial reporting computer systems.



XTREME COIL DRILLING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousand except where otherwise noted)

Future accounting standards

In February 2008, the CICA approved Handbook section 3064 Goodwill and Intangible Assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to the initial recognition. These recommendations are effective for Xtreme Coil beginning January 1, 2009. Goodwill and intangible assets which are not assets as defined by GAAP will be derecognized and charged to equity at that date. The adoption of these recommendations is not expected to have a material impact on earnings or assets.

4. ACCOUNTS RECEIVABLE

	2008 Dec 31	2007 Dec 31
	\$ 27,291	\$ 13,039

Accounts receivable primarily include trade receivables recorded net of a provision for doubtful accounts of \$494 (2007 - \$29).

5. OTHER RECEIVABLE

	2008 Dec 31	2007 Dec 31
	\$ 7,966	\$ -

Other receivable represents net value added tax amounts receivable from the Government of México which the Corporation initially paid on the importation of Xtreme Coil's rigs into México during 2008 3Q and 2008 4Q. Xtreme Coil expects to receive a full recovery of this amount in 2009.

6. INVENTORY

	2008 Dec 31	2007 Dec 31
Coiled tubing and parts inventory	\$ 1,045	\$ 335

Coiled tubing and parts inventory is carried at the lower of cost or net realizable value and is determined on a specific item basis. Cost includes the purchase of cost-plus transportation and handling.

The amount of inventory recognized in operating expenses during 2008 was \$748 (2007 - \$236).

7. EQUIPMENT

	2008 Dec 31			2007 Dec 31	
	Cost	Accumulated amortization	Net book value	Net book value	
Office and shop equipment	\$ 4,025	\$ 599	\$ 3,426	\$ 1,366	
Leasehold improvements	66	35	31	42	
Vehicles	1,773	496	1,277	643	
Trucking equipment	3,368	765	2,603	2,999	
Drilling equipment	231,314	5,105	226,209	107,588	
Drilling equipment - construction in progress	4,799	-	4,799	76,275	
	\$ 245,345	\$ 7,000	\$ 238,345	\$ 188,913	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousand except where otherwise noted)



Xtreme Coil depreciates drilling rigs from the time the rigs commence operations. Although Xtreme Coil has a number of components in stock, or on order, for two further new drilling rigs, the next phase of the Corporation's drilling rig construction program remains suspended due to economic uncertainty and decreased demand in North American drilling markets.

8. INTANGIBLE ASSETS

	2008 Dec 31		2007 Dec 31
	Cost	Accumulated amortization	Net book value
Patents	\$ 5,582	\$ 659	\$ 4,923
			\$ 4,953

As at December 31, 2008, the United States Patent and Trademark office had issued four patents to Xtreme Coil and a fifth patent was issued in January 2009. The third and fourth patents were issued in June and July 2008, respectively, and the previous two patents were issued in 2007 1Q.

9. OBLIGATIONS UNDER CAPITAL LEASES

Xtreme Coil has field vehicles under capital leases. The table below outlines minimum lease payments under the capital leases.

Year ended December 31		2008 Dec 31	2007 Dec 31
	2008	\$ -	\$ 89
	2009	82	69
	2010	19	7
	2011	18	-
	2012	-	-
	2013	-	-
	Thereafter	-	-
Total minimum lease payments		119	165
Less: Amounts representing future interest at annual rates between 5 percent and 8 percent		9	14
Balance of obligation		110	151
Less: Current portion		75	78
		\$ 35	\$ 73

	2008 Dec 31	2007 Dec 31
Assets held under capital lease	\$ 307	\$ 266
Accumulated amortization	198	113
	\$ 109	\$ 153

Interest expense during 2008 was \$12 (2007 - \$16). Amortization of leased equipment is on a straight-line basis over 40 months. The amount of amortization charged to expense is \$85 (2007 - \$68).



XTREME COIL DRILLING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. PURCHASE OF 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 expected to utilize Xtreme Coil's technology to build and operate rigs for the third party and for deployment to international projects. Xtreme Coil initially owned 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.

	2008 Dec 31	2007 Dec 31
Current assets	\$ -	\$ 49
Current liabilities	-	268
Expenses	-	270
Cash provided by (used in)		
Operating activities	\$ -	(2)

On May 1, 2008, Xtreme Coil completed the acquisition of our joint venture partner's 49 percent interest in Coil-X, including the partner's outstanding loan to Coil-X, which was paid by the issuance of 1,092,896 common shares of Xtreme Coil at a price of \$7.32 per common share for gross proceeds of \$8 million, 1,000,000 purchase warrants and 700,000 performance warrants. Each whole warrant entitles the joint venture partner (once vested, in the case of the performance warrants) to purchase one common share of Xtreme Coil for \$9.87 for a period of 24 months following the date of closing of the transaction.

Allocation of the consideration paid for this acquisition made under the purchase method is shown in this table.

Current assets	\$ 47
Equipment	5,873
Future income tax	113
Inter company balances	(2,113)
Goodwill	1,630
Total purchase price	5,550
Financed as follows	
New equity issued	3,920
Warrants	1,630
	5,550

Gross proceeds from the equity issuance of \$8,000 were allocated to the purchase consideration above of \$3,920 and repayment of the loan to Coil-X amounting to \$4,080.

XTREME COIL DRILLING CORP.
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11. CREDIT FACILITIES

Xtreme Coil has credit facilities with a syndicate of Canadian financial institutions which require Xtreme Coil to maintain certain financial covenants. As at December 31, 2008, Xtreme Coil was not in compliance with the covenants. The syndicate provided a waiver in regards to the current period covenant non-compliance for the next twelve months. Funds drawn under the credit facilities may be denominated in either Canadian or United States funds, with the limits of the facilities being the Canadian funds equivalent.

a. Operating Facility

Xtreme Coil has a \$15,000 operating loan facility. The facility bears interest at the bank's prime rate plus 1.00 percent (2007 - bank's prime plus 0.25 percent) and is secured by accounts receivable. The effective average interest rate for 2008 was 5.9 percent (2007 - 6.2 percent).

b. Long-term Debt, Net of Financing Cost

	2008 Dec 31	2007 Dec 31
Revolving credit facility	\$ 59,206	\$ 35,000
Less: current portion of long-term debt	(9,825)	(5,104)
	49,381	29,896
Less: financing cost related to long-term debt	(276)	
	\$ 49,105	\$ 29,896

Xtreme Coil has a committed 364-day extendible revolving credit facility reduced as scheduled from \$70,000 to \$60,000 on December 31, 2008. The facility is due for renewal in May 2009, is extendible at the bank's discretion for a further period of 364 days and reverts to a term loan to be repaid quarterly over a period of three years if not extended. The extendible revolving facility bears interest at the bank's prime rate plus up to 1.50 percent. The weighted average interest rate during 2008 was approximately 6.0 percent (2007 - 6.9 percent). If not extended, the term loan bears interest at the bank's prime rate plus up to 1.50 percent. A standby fee of up to 0.50 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, 2008, \$17.0 million (2007 - nil) was denominated in United States dollars.

At December 31, 2008, \$9,825 (2007 - \$5,104) 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 2008 was \$2,504 (2007 - \$464) (see note 14 - Financial instruments).

12. 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.



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Following is a summary of issued and outstanding common shares.

	2008 Dec 31		2007 Dec 31	
	Number	Amount	Number	Amount
Balance before receivable from shareholder, beginning of year	33,965,407	\$ 162,814	27,723,625	\$ 106,213
Private placement for cash, net of issue costs	4,780,000	34,100	5,360,000	52,840
Private placement for purchase of joint venture	1,092,896	8,000	-	-
Performance warrants exercised	666,666	6	666,667	12
Agent options exercised	-	-	6,315	29
Employee options exercised	281,200	664	208,800	620
Exercised options purchased and cancelled	(60,000)	(389)	-	-
Transferred from contributed surplus on exercise of options and warrants	-	2,030	-	2,064
Future income tax effect of share issue cost at expected tax rates	-	237	-	1,036
	6,760,762	44,648	6,241,782	56,601
Balance before receivable from shareholder, end of year	40,726,169	207,462	33,965,407	162,814
Receivable from shareholder	-	-	-	(300)
Balance, end of year	40,726,169	\$ 207,462	33,965,407	\$ 162,514

a. Private Placements

On May 1, 2008, Xtreme Coil completed a private placement of 4,780,000 common shares at a price of \$7.32 per share for gross proceeds of \$34,990. Issue costs of \$890 resulted in net proceeds of \$34,100.

On May 1, 2008, Xtreme Coil issued 1,092,896 common shares at a price of \$7.32 per share for gross value of \$8,000. These shares were issued to settle the loan with the joint venture partner and to acquire the joint venture partner's 49 percent interest in Coil-X (see note 10 - Purchase of Joint Venture).

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

	2008 Dec 31	2007 Dec 31
Contributed surplus, opening balance	\$ 3,066	\$ 1,478
Stock-based compensation	1,319	662
Warrants cancelled on purchase of joint venture	1,098	-
Warrants vested upon patent issuance	-	2,990
Contributed surplus transferred on exercise of options and warrants	(2,030)	(2,064)
Contributed surplus, ending balance	\$ 3,453	\$ 3,066

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 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 2008, the board of directors approved granting of 1,392,000 (2007 - 187,000) options at various exercise prices ranging from \$1.68 to \$9.49. The weighted average of the fair value of the options granted was \$2.54. As at December 31, 2008, a total of 2,969,000 options (2007 - 2,012,200) were outstanding. During 2008, Xtreme Coil recorded compensation expense of \$1,251 (2007 - \$556) relating to these options as part of stock-based compensation expense and credited this amount to contributed surplus. For the year ended December 31, 2008, Xtreme Coil capitalized 2008 stock-based compensation of \$68 (2007 - \$97).

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 of up 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 options with a corresponding credit to contributed surplus.

This table summarizes Xtreme Coil's Stock Option Plan as at December 31, 2008.

	2008 Dec 31		2007 Dec 31	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	2,012,200	\$ 4.60	2,085,316	\$ 4.09
Granted	1,392,000	7.22	187,000	9.91
Exercised	(281,200)	3.00	(215,115)	3.04
Forfeited	(154,000)	8.40	(45,001)	10.09
Outstanding, end of the year	2,969,000	5.79	2,012,200	4.60
Options exercisable, end of year	1,488,842	\$ 4.22	1,020,866	\$ 3.74



XTREME COIL DRILLING CORP.

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Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 1.68 - \$ 4.50	1,339,000	1.8 yrs	\$ 3.07	1,227,866	\$ 3.08
\$ 4.51 - \$ 6.99	500,000	4.8 yrs	5.26	-	-
\$ 7.00 - \$10.50	1,001,500	4.2 yrs	8.93	177,977	8.82
\$10.51 - \$13.52	128,500	2.7 yrs	11.71	77,999	11.76
	2,969,000	3.2 yrs	\$ 5.79	1,483,842	\$ 4.23

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 entitled the holder to purchase one common share at a defined strike price of \$0.01 per common share. In 2008 a total of 333,333 Series 1 Performance Warrants and 333,333 Series 2 Performance Warrants were exercised (2007 - 666,667 Series 2), leaving no outstanding Series 1 or Series 2 Performance Warrants at December 31, 2008.

The joint venture partner held 2,092,574 warrants. Each warrant, once vested, entitled the holder to acquire one additional common share at an exercise price of \$16.00 per share. On closing of the purchase of the joint venture (see note 10 - Purchase of Joint Venture) these warrants were cancelled.

On May 1, 2008, the Corporation issued to our joint venture partner 1,000,000 purchase warrants and 700,000 performance warrants. Each warrant, once vested, entitled the holder to acquire one additional common share at an exercise price of \$9.87 per share. All unexercised warrants expire on May 1, 2010. The fair value allocated to the purchase warrants using the Black-Scholes option pricing model is \$1,630. The assumptions used in the model are, a risk-free interest rate of 2.75 percent, an average life of 2.0 years and an expected volatility of 40 percent. The performance warrant holder is required to contract a specified number of drilling rigs before the warrants are exercisable and, therefore, no value was allocated to the performance warrants.

e. Diluted Earnings Per Share

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

	2008 Dec 31	2007 Dec 31
Weighted average common shares outstanding - basic	38,569,546	33,018,531
Effect of options and warrants	-	1,970,737
Weighted average common shares outstanding - diluted	38,569,546	34,989,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. INCOME TAX

Net Future Income Tax Asset

Future income tax arises from temporary differences, which are differences between the tax basis of an asset or liability and the carrying amount in the balance sheet. The table below outlines components of future income tax assets and liabilities.

	2008 Dec 31	2007 Dec 31
Non-capital losses carried forward	16,294	4,455
Equipment: difference between net book value and undepreciated capital cost	(16,369)	(1,574)
Intangible assets: difference between net book value and cumulative eligible capital balance	(399)	(223)
Financing expenses	1,338	1,629
Accrued leases and other	3,990	-
Foreign tax credit available	243	243
Valuation allowance	(131)	-
Net future income tax asset	4,966	4,530

The non-capital losses carried forward expire primarily between 2015 and 2028.

The provision for income in the statement of operations and deficit varies from the amount that would be computed by applying the expected tax rates of 29.50 percent (2007 - 32.12 percent) to income before income tax.

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

	2008 Dec 31	2007 Dec 31
Income (loss) before tax	\$ 3,626	\$ (4,054)
Income tax rate (percentage)	29.50	32.12
Computed expected income tax expense (recovery)	\$ 1,070	\$ (1,302)
Increase (decrease) in income tax resulting from:		
Non-deductible expenses	87	20
Stock-based compensation	-	79
Rate change on future income tax	(767)	359
Higher effective tax rate on non-Canadian operations	470	(152)
Other	(106)	145
Valuation allowance	131	-
	\$ 885	\$ (851)
Effective income tax expense/recovery rate (percentage)	24.41	20.99



XTREME COIL DRILLING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousand except where otherwise noted)

14. FINANCIAL INSTRUMENTS

Fair Value

The carrying values of cash and cash equivalents, accounts receivable and other receivables, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. Long-term debt is initially recorded at fair value net of transaction costs directly attributable to the issuance of the debt. Transaction costs capitalized as a portion of long-term debt will be amortized using the effective interest method over the life of the debt.

Foreign Exchange Risk

Xtreme Coil is exposed to risk from fluctuations in foreign currency exchange rates in the United States and México where it operates rigs. The Corporation translates revenue and expenses denominated in USD and México pesos into CAD during the period. Monetary assets and liabilities denominated in foreign currencies are translated at the current rate at the balance sheet date and any foreign exchange gains or losses are included in income.

Interest Rate Risk

Xtreme Coil is exposed to interest rate risk to the extent changes in market interest rates can impact operating and revolving credit facilities which have a floating interest rate. At December 31, 2008, an increase or decrease of one percent in the effective interest rate would have changed net income by approximately \$422.

Credit Risk

Xtreme Coil is exposed to credit risk in relation to its accounts receivable which includes balances owing from customers primarily operating in the oil and natural 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. Xtreme Coil is exposed to significant concentration of credit risk because the majority of accounts receivable balances are with a small group of customers (see note 17 - Segmented information).

Xtreme Coil accounts receivable is recorded net of a provision of \$494 (2007 - \$29).

The following table summarizes the Corporation's accounts receivable amounts past due which management does not consider impaired.

Accounts receivable	2008 Dec 31	2007 Dec 31
Receivables less than 90 days	\$ 22,427	\$ 11,766
Receivables greater than 90 days (for which no provision is considered necessary)	4,864	1,273
	\$ 27,291	\$ 13,039

Liquidity Risk

Liquidity risk relates to risks Xtreme Coil may encounter in meeting obligations associated with financial liabilities and commitments. Since inception, Xtreme Coil has entered into credit and equity financing arrangements sufficient to complete the committed rig build program and to fund working capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Xtreme Coil anticipates the current level of financial capacity will be sufficient to fund commitments related to the committed rig build program and to fund working capital. While the Corporation has, on occasion, not met certain covenants, it has obtained any necessary waivers in regards to non-compliance from the lending syndicate of Canadian financial institutions. Future capital expenditures are being minimized as a result of the temporary suspension of Xtreme Coil's rig expansion program. The Corporation anticipates generating positive cash flow from operating activities and intends to utilize available cash to pay down debt.

Contractual Obligations

The table below illustrates various contractual obligations which Xtreme Coil expects to repay, including any interest payments required, according to this schedule.

Payments due by period

Contractual obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years
Accounts payable and accrued liabilities	14,215	14,215	-	-
Income tax payable	1,354	1,354	-	-
Capital lease obligations	119	82	37	-
Operating leases	2,303	827	1,078	398
Revolving credit facility	58,930	9,822	39,286	9,822
Operating facility Commitments	7,878 3,374	7,878 3,374	- -	- -
Total contractual obligations	88,173	37,552	40,401	10,220

The above table does not include interest repayments on revolving or credit facilities.

15. CAPITAL MANAGEMENT

Xtreme Coil defines capital as the aggregate of shareholders' equity and long-term debt less cash and cash equivalents. Xtreme Coil's capital management framework is designed to maintain a flexible capital structure that allows for optimization of the cost of capital at acceptable risk while balancing the interests of both equity and debt holders.

Xtreme Coil targets a net debt to equity ratio of less than 0.5 : 1.0, although there is a degree of variability associated with the timing of cash flows. If appropriate opportunities are identified, Xtreme Coil is prepared to increase this ratio as high as 1 : 1. This is unchanged from previous periods.

	2008 Dec 31	2007 Dec 31
Shareholders' equity	\$ 206,907	\$ 158,436
Long-term debt	58,930	35,000
Bank indebtedness, net of cash and cash equivalents	5,868	(383)
Capital under management	\$ 271,705	\$ 193,053
Net debt as a percentage of capital under management	24	18
Net debt to equity ratio	0.3 : 1	0.2 : 1

Xtreme Coil is subject to externally imposed minimum debt to equity capital requirements relating to existing lender credit facilities. As at December 31, 2008, Xtreme Coil was in compliance with these debt to equity capital requirements.



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16. COMMITMENTS AND CONTINGENCIES

(a) Commitments

i. Operating leases

Xtreme Coil is committed to operating leases for office and field facilities and the table below details approximate annual base rental payments. Lease terms also require Xtreme Coil to remit a proportionate share of realty taxes, operating costs and utilities.

2009	\$	827
2010		638
2011		440
2012		251
2013		147
	\$	2,303

ii. 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 \$3.4 million (2007 - \$20.5 million) which are not reflected in these consolidated financial statements.

(b) Contingencies

The Corporation is party to disputes and lawsuits in the normal course of business. The Corporation believes the ultimate liability arising from these matters will have no material impact on the consolidated financial statements or it has made adequate provision for such legal claims.

17. SEGMENTED INFORMATION

During 2008, Xtreme Coil provided contract drilling services in the United States, México and Canada. The table below segments information by geographic area.

Revenue	2008	2007
Canada	\$ 3,783	\$ 4,365
United States	53,915	27,830
México	20,416	-
Total	\$ 78,114	\$ 32,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



(\$ thousand except where otherwise noted)

In 2008, Xtreme Coil provided contract drilling services in the United States, México and Canada. The table below segments information by geographic area.

Equipment	2008	2007
Canada	\$ 1,163	\$ 95,460
United States	142,266	93,453
México	94,916	-
Total	\$ 238,345	\$ 188,913

Canadian property and equipment includes construction in progress. When completed, Xtreme Coil will transfer most of this equipment to operations in the United States and México. Three customers of Xtreme Coil's drilling operations represent total revenue of \$66.0 million (84 percent) as follows: \$30.6 million (39 percent), \$20.4 million (26 percent) and \$15.0 million (19 percent) (2007 - two customers \$21.3 million (66 percent), \$14.1 million (44 percent), \$7.2 million (22 percent)). As at December 31, 2008, a total of \$21.3 million (2007 - \$5.6 million) is outstanding with these customers and included in the accounts receivable balance.

Goodwill has been allocated to operations in México.

18. CHANGES IN NON-CASH WORKING CAPITAL

	2008 Dec 31	2007 Dec 31
Accounts receivable	\$ (22,218)	\$ (7,207)
Prepaid expenses	93	463
Inventory	(710)	53
Accounts payable and accrued liabilities	(5,662)	5,807
Income tax payable	1,354	-
Total	\$ (27,143)	\$ (884)

Changes in non-cash working capital are categorized below.

	2008 Dec 31	2007 Dec 31
Operating activities	\$ (19,898)	\$ (4,619)
Investing activities	(7,245)	3,735
Total	\$ (27,143)	\$ (884)

CORPORATE INFORMATION

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Thomas D. Wood¹
Executive Chairman
Xtreme Coil Drilling Corp.
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¹ *Chairman of the Board*

² *Audit Committee*

³ *Compensation Committee*

⁴ *Governance & Nominating Ctte*

⁵ *Health, Safety, Environment Ctte*

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Executive Chairman

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President and Chief Executive Officer

Vic Fitch
Chief Financial Officer

Richard D. Havinga
Chief Operating Officer

Carl Jon Benge
Vice President Sales and Marketing

Brian K. Wigington
Corporate Controller

L. Ann Beattie
Corporate Secretary
Corporate and Investor Communication

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



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