



ANNUAL INFORMATION FORM

Year ended December 31, 2006

March 15, 2007

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CERTAIN REFERENCES

In this annual information form, unless the context otherwise requires, references to "we", "us", "our" or similar terms, or to "Xtreme" or the "Corporation" refer to Xtreme Coil Drilling Corp. (either alone or together with its subsidiaries).

FORWARD LOOKING STATEMENTS

This annual information form, and in certain documents incorporated by reference into this annual information form, contain certain statements that are not historical in nature and are forward-looking statements. These forward-looking statements include statements relating to our plans, strategies, objectives, expectations, intentions and resources which are not guarantees as to our future results since there are inherent difficulties in predicting future results. The use of any of the words: "anticipate", "expect", "project", "may", "will", "should", "believe", "estimate", "forecast", "intends", and similar expressions identify forward-looking statements, which include statements relating to pending and proposed projects and business activities. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, weather and economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers. Accordingly, actual results could differ materially from those in forward-looking statements. These statements speak only as of the date of this annual information form or as of the date specified in the documents incorporated by reference into this annual information form, as the case may be.

In particular, this annual information form, and the documents incorporated by reference contain forward-looking statements pertaining to the following:

- capital expenditure programs;
- projections of market prices and costs;
- expectations regarding the ability to raise capital;
- the level and timing of future cash distribution payments; and
- treatment under governmental regulatory regimes.

Actual results could differ materially from those expressed or implied in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this annual information form:

- liabilities inherent in our operations;
- uncertainties associated with estimating oil and natural gas reserves and prices and sector activity levels;
- competition for, among other things, capital, acquisitions and skilled personnel;
- incorrect assessments of the value of acquisitions;
- technical and processing problems;
- increased competition;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- the other factors discussed under "Risk Factors".

These factors should not be construed as exhaustive. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required pursuant to applicable securities laws.

CERTAIN DEFINITIONS

In this annual information form, the following words and phrases have the following meanings, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AEPEA**" means the *Environmental Protection and Enhancement Act* (Alberta), R.S.A. 2000, c. E-12, as amended, including the regulations promulgated thereunder;

"**Affiliate**" has the meaning set forth in the *Securities Act* (Alberta), R.S.A. 2000, c. S-4, as amended, including the regulations promulgated thereunder;

"**AIF**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to this annual information form of the Corporation;

"**Amalgamation**" means the amalgamation of Norquay and Xtreme pursuant to sections 181 through 183 of the ABCA and in accordance with TSXV Policies in respect of "qualifying transactions" on the terms and conditions set forth in the Amalgamation Agreement;

"**Amalgamation Agreement**" means the amended and restated amalgamation agreement dated March 20, 2006 amending the Original Amalgamation Agreement dated January 24, 2006, including all the recitals and exhibits thereto, between Xtreme and Norquay relating to the amalgamation of the two companies to form "Xtreme Coil Drilling Corp.", as amended or supplemented from time to time;

"**Business Day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the City of Calgary, in the Province of Alberta, for the transaction of banking business;

"**Corporation**" means Xtreme Coil Drilling Corp., a corporation governed by the laws of Alberta;

"**Income Tax Act**" or "**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1. (5th Supp), as amended, including the regulations promulgated thereunder;

"**Norquay**" means Norquay Capital Ltd., a company incorporated under the laws of the Province of Alberta and subsequently amalgamated on May 1, 2006 with Xtreme to form "Xtreme Coil Drilling Corp.";

"**Norquay Agent Option**" means the agent options to purchase common shares of Norquay, issued to Canaccord Capital Corporation pursuant to Norquay's initial public offering;

"**Norquay Shareholder**" means a holder of Norquay Shares;

"**Norquay Shares**" means the common shares of Norquay;

"**Original Amalgamation Agreement**" means the amalgamation agreement dated January 24, 2006, including all the recitals and exhibits thereto, between Xtreme and Norquay relating to the amalgamation of the two companies to form "Xtreme Coil Drilling Corp.", as amended or supplemented from time to time;

"**Peters & Co.**" means Peters & Co. Limited;

"**Qualifying Transaction**" means the amalgamation between Xtreme and Norquay which qualified as a "Qualifying Transaction" pursuant to TSXV Policies;

"**Subsidiary**" means, in relation to any person, any body corporate, partnership, joint venture, association or other entity of which more than 50 percent of the total voting power of shares or units of ownership or beneficial interest

entitled to vote in the election of directors (or members of a comparable governing body) is owned or controlled, directly or indirectly, by such person;

"**Transfer Agent**" means Valiant Trust Company;

"**TSX**" means the Toronto Stock Exchange;

"**TSXV**" means the TSX Venture Exchange;

"**TSXV Policies**" means the rules, regulations and policies of the Exchange in effect as of the date hereof; and

"**Xtreme**" or the "**Corporation**" means Xtreme Coil Drilling Corp., a company amalgamated under the laws of the Province of Alberta.

XTREME COIL DRILLING CORP.

General

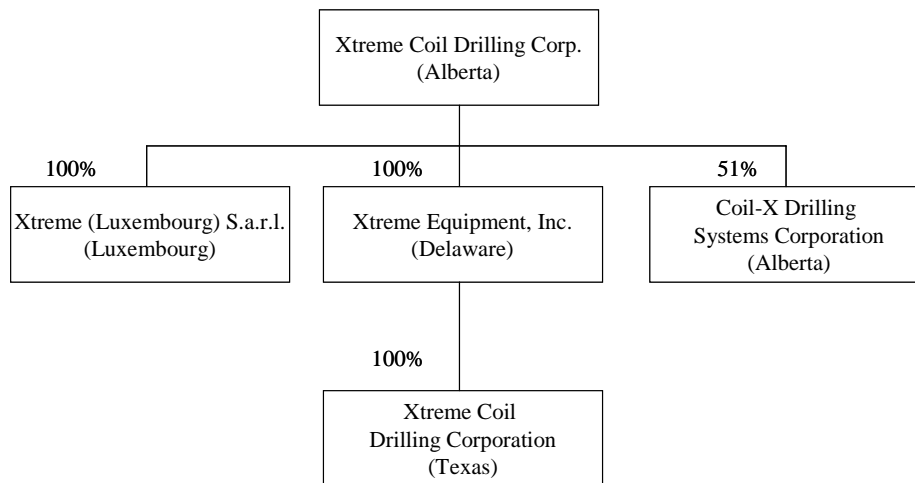
Xtreme was formed on the amalgamation (the "**Amalgamation**") of Xtreme Coil Drilling Corp. and Norquay on May 1, 2006 pursuant to the provisions of the *Business Corporations Act* (Alberta). The Amalgamation was carried out pursuant to the terms of an amended and restated amalgamation agreement (the "**Amalgamation Agreement**") dated March 20, 2006. Xtreme shareholders and Norquay shareholders approved the Amalgamation at meetings of the shareholders of each entity held on April 20, 2006.

On the Amalgamation becoming effective, Xtreme and Norquay continued as one corporation which owned all of the assets, properties, rights, privileges and franchises and was subject to all of the liabilities, contracts and obligations of each of the amalgamated corporations.

Xtreme's principal office is located at 1402, 500 – Fourth Avenue SW, Calgary, Alberta, T2P 2V6 and its registered office is located at Suite 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

Intercorporate Relationships

The following diagram sets out the current organizational structure of the Corporation, as well as the name, the percentage of voting securities owned, directly or indirectly, by the Corporation and the jurisdiction of incorporation, continuance or formation of the Corporation's subsidiaries either, direct and indirect, as at the date hereof.



GENERAL DEVELOPMENT OF THE BUSINESS

Xtreme is in the business of operating as a public drilling contractor using coiled tubing drilling rigs, which employ new proprietary patented and patent pending coiled tubing drilling designs and technology. Xtreme has hired third parties under contract to build these units. Xtreme's first drilling rig commenced field operations on July 28, 2006. Xtreme's patents and pending patents are for the designs and technologies in the United States and other international jurisdictions. On completion of the coiled tubing drilling rigs, Xtreme contracts the rigs to oil and natural gas exploration and development ("**E&P**") companies in both Canada and the United States. As at December 31, 2006, three rigs were completed and deployed in the United States, one rig was completed and available for operations in Canada, six rigs were in various stages of construction and four more rigs were on order.

Three Year History

On May 1, 2006, Xtreme amalgamated with Norquay, a capital pool company. The transaction constituted Norquay's "qualifying transaction" for the purposes of Policy 2.4 of the TSXV. The amalgamated entity continues operating as Xtreme Coil Drilling Corp. On May 4, 2006, Xtreme's common shares commenced trading on the

TSXV under the symbol "XDC". On September 5, 2006, Xtreme's common shares graduated to trading on the TSX under the same symbol.

Prior to the Amalgamation, Xtreme entered into a number of contracts for the manufacture of equipment to be used in Xtreme's continuing business. Xtreme entered into a contract with Foremost Industries Limited Partnership ("**Foremost**") dated July 6, 2005 whereby Foremost agreed to build five coiled tubing drilling rig components.

Prior to the Amalgamation, on September 13, 2005, Xtreme entered into a manufacturing agreement with Mayco Electric Ltd. ("**Mayco**") whereby Mayco agreed to build certain electrical systems for equipment being manufactured for Xtreme.

Prior to the Amalgamation, on November 30, 2005, Xtreme entered into a purchase and supply agreement with Joseph Loepp, D.B.A. Loepp Welding Service, First Ratio Investments Inc. and David Steward for the manufacture of high horsepower pumps and ancillary equipment.

Prior to the Amalgamation, on January 3, 2006, Xtreme entered into an agreement with Foremost whereby Foremost agreed to build four new coiled tubing drilling rigs.

On February 6, 2006, Xtreme entered into a credit facilities agreement with HSBC Bank Canada (the "**Credit Agreement**") to establish a revolving loan facility for \$50 million and an operating line of credit for \$5 million. The Credit Agreement became effective March 16, 2006. As at the date hereof, Xtreme has not drawn down under the Credit Agreement.

On May 30, 2006, the Corporation entered into an agreement (the "**Foremost Equipment Sales Agreement #2**") with Foremost whereby Foremost agreed to build eight new coiled tubing drilling rigs and to develop certain new technologies on behalf of the Corporation. The Foremost Equipment Sales Agreement #2 was amended by an agreement dated November 6, 2006 to reduce the number of new coiled tubing drilling rigs from eight to four and to identify the application of a cancellation penalty, together with provisions whereby Xtreme can eliminate the cancellation penalty resulting in amended delivery dates and an amended payment schedule. Xtreme does not anticipate being liable for a penalty since we expect to order enough additional equipment to meet the conditions to eliminate the penalty.

On September 5, 2006, the Corporation's common shares began trading on the TSX under the symbol "XDC". On commencement of trading on the TSX, the Corporation's common shares were de-listed from the TSXV.

On November 10, 2006, the Corporation entered into an agreement with Foremost whereby Foremost agreed to build four FOREMOST F150 T A/C Top Drives.

On November 10, 2006, the Corporation entered into an agreement (the "**Foremost Equipment Sales Agreement #4**") with Foremost whereby Foremost agreed to build two FOREMOST F100T A/C Top Drives. The Foremost Equipment Sales Agreement #4 was amended by agreement dated November 30, 2006 to increase the number of FOREMOST F100T A/C Top Drives from two to five and amend the aggregate consideration payable.

On December 19, 2006, the Corporation entered into a strategic corporate joint venture with Shell Technology Ventures B.V. ("**STV**") whereby the Corporation and STV formed a new corporate entity, Coil-X Drilling Systems Corporation ("**Coil-X**"), owned 51 percent by the Corporation and 49 percent by STV, to build and deploy several patent pending designs of coiled tubing drilling rigs for contracting to existing and potential oil and natural gas E&P customers throughout the United States and Canada. Coil-X may also deploy Xtreme drilling rigs to jurisdictions outside of North America under this joint venture partnership, which is expected to introduce and deploy Xtreme's technology to markets outside of North America.

On December 19, 2006, the Corporation undertook a private placement financing with STV whereby STV subscribed for 942,705 common shares of the Corporation at a price of \$10.90 per common share and 2,092,574 common share purchase warrants exercisable for 2,092,574 common shares at a price of \$16.00 per common share. The warrants issued to STV under the private placement are exercisable at any time after the occurrence of certain vesting events tied to Coil-X operational milestones which include building five coiled tubing drilling rigs prior to December 19, 2009. Under the private placement, STV was granted the right to maintain its equity interest by participating in the Corporation's future financings.

Effective January 3, 2007, the Corporation entered into an agreement with SURE Northern Energy for the provision of drilling services to SURE in northern Alberta.

On February 15, 2007, the Corporation completed a brokered private placement of 5,200,000 common shares at a price of \$10.50 per common share. Peters & Co. acted as broker under the private placement pursuant to an underwriting agreement between the Corporation and Peters & Co. dated effective January 30, 2007. In addition, also on February 15, 2007, the Corporation completed a non-brokered private placement with STV for 160,000 common shares at a price of \$10.50 per common share.

On March 7, 2007 Xtreme announced receipt of United States Patents No 7,182,140 and 7,185,708, both entitled "Coil Tubing/Top Drive Rig Method". These two initial patents relate to Xtreme's unique titling mast, a key design feature of our XTC 200 series of coiled tubing drilling rigs. The acquisition of Xtreme's first patents triggered the vesting of one million previously issued Series 2 Performance Warrants and subsequent exercise of 666,667 performance warrants at a price of \$0.01 per warrant.

Xtreme entered into several drilling contracts which commenced during 2006. The first contract is between Xtreme and EnCana Oil & Gas (USA) Inc. ("**EnCana**") dated December 14, 2005 (the "**EnCana Drilling Contract #1**") whereby Xtreme agreed to provide a drilling rig to EnCana commencing on September 1, 2006 for a period of three years in locations as designated by EnCana. The second contract is also between Xtreme and EnCana and is also dated December 14, 2005 (the "**EnCana Drilling Contract #2**") whereby Xtreme agreed to provide a drilling rig commencing on October 1, 2006 for a period of three years in locations as designated by EnCana. Due to construction and delivery delays, the rigs for EnCana Drilling Contract #1 and EnCana Drilling Contract #2 have not yet been completed. For further information, see "Description of Business and Operations – Sources, Pricing and Availability of Raw Materials, Component Parts and Finished Products".

All of the drilling contracts entered into since completion of the Amalgamation are between Xtreme, Kerr-McGee Oil & Gas Onshore LP ("**Kerr-McGee**") and Anadarko Petroleum Corporation ("**Anadarko**"). The first contract entered into with Kerr-McGee is dated May 17, 2006, whereby Xtreme will provide a drilling rig commencing on October 6, 2006 for a period of three years. The second contract between the Corporation and Kerr-McGee is dated May 24, 2006 and provides that drilling will commence on January 31, 2007, and the term of the contract will be for three years. Xtreme and Kerr-McGee also entered into another contract on May 24, 2006, which provides that drilling will commence on July 9, 2007 and will continue for a term of three years. All the Kerr-McGee contracts provide for drilling of wells in Colorado, Utah or Wyoming, as designated by Kerr-McGee. The fourth contract is between Xtreme and Anadarko and is dated May 31, 2006, whereby Xtreme agreed to provide a drilling rig to Anadarko commencing on September 1, 2006 for a period of three years in locations as designated by Anadarko. Xtreme conducts ongoing discussions with major United States and Canadian E&P companies to secure additional long-term contracts.

Significant Acquisitions and Dispositions

Xtreme did not complete any significant dispositions or significant acquisitions for which disclosure is required under Part 8 of National Instrument 51-102 *Continuous Disclosure Obligations* within or since the end of the most recently completed financial year.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

General

Xtreme is a drilling contractor utilizing proprietary Coil Over Top Drive™ ("**COTD™**") rigs that drill deeper with larger coil. Xtreme has developed new patented and patent-pending coiled tubing technologies and designs. In addition to their larger coil capabilities, Xtreme's drilling rigs feature rapid transition between drilling with coil and drilling with conventional jointed drill pipe. These COTD™ rigs use larger injectors that can accommodate the heavier hook loads for deeper drilling. One aspect of Xtreme's new designs focuses on transporting drilling rig components in fewer loads which results in faster rig-up and rig-out times. Xtreme is currently building drilling rigs under contract with several third parties. Once the rigs are built and commissioned, Xtreme contracts the new drilling rigs to E&P companies. Xtreme currently focuses on the drilling market in both the United States and western Canada, with the majority of operations planned for the United States.

Xtreme's corporate and head office is in Calgary, Alberta and most of our drilling rig construction and assembly takes place in Nisku, Alberta. Xtreme's United States field office is in Casper, Wyoming and we plan to establish a sales office in Denver, Colorado in April 2007.

Operations

Xtreme's core business has focused on the design, manufacture and provision of coiled tubing drilling rigs. Xtreme has five rig designs of which four are being built currently. Xtreme has two models of XTC 200, a single trailer ("ST") and a double trailer ("DT"). The ST design was developed originally for the Canadian market while the DT was specially developed for the United States. Xtreme has also developed an XTC 300 and XTC 400. These rigs will be deployed into the United States for major E&P companies. Currently, we deploy the majority of Xtreme's rigs to the United States market because of higher day rates and the greater number of days rigs can work. Rigs can operate approximately 250 days in Canada whereas, in the United States, operating days can reach 365 days. Currently Xtreme has one rig operating in Canada. In the event United States drilling activity declines, we can redeploy Xtreme's fleet to Canada or internationally. In the United States, Xtreme contracts to drill in deeper formations from between 1,500 metres to 3,000 metres. Xtreme's XTC 300 and 400 rigs are designed for deeper zones and Xtreme believes its competitive advantage is using larger coiled tubing to achieve these depths.

Operational Capacity

Xtreme has the capacity to provide services in Canada or the United States for up to approximately 1,000 wells annually with its current fleet. Xtreme's operating fleet and ongoing rig build program includes 18 coiled tubing drilling rigs: four are completed, six are in various stages of construction and four rigs are on order. Xtreme plans to build a further four XTC 400 rigs during 2007 which will expand operational capacity to 18 rigs in early 2008. Thereafter, Xtreme plans to expand the fleet by 12 rigs annually, as long as markets remain reasonably robust and demand continues to grow for Xtreme's services. Once our XTC 400 model is operating in the United States, we anticipate it will begin to displace conventional rigs as operators recognize the advantages of utilizing Xtreme's COTD™ rigs.

Sources, Pricing and Availability of Raw Materials, Component Parts and Finished Products

Since inception, Xtreme planned to build 10 rigs in 2006 and 14 rigs in 2007. Unforeseen delays in key components constrained the pace of this build-out. In 2006, all rig construction experienced delays due to lack, or late delivery, of components and limitations in manufacturing capacity. An overheated market for components and manufacturing capacity resulted in rig build costs being higher than budgeted in 2006. We anticipate some costs may normalize as the manufacturing sector is now experiencing some moderation in activity. In addition, during 2006, we made specification changes to certain rigs which increased their build cost.

Xtreme has designed five different models of coiled tubing drilling rigs. As at December 31, 2006, three rigs were completed and deployed in the United States, one rig was completed and available for operations in Canada, six rigs were in various stages of construction and four more rigs were on order. Since 2006 year end, we have ordered the critical components for four more XTC 400 rigs for which we are currently tendering construction bid requests to several manufacturers.

Xtreme's ability to compete and expand operations depends on having access, at a reasonable cost, to equipment and components utilized in the manufacture of its coiled tubing drilling rigs. From time to time, Xtreme makes purchases of certain drilling equipment and components from various suppliers inside and outside the oil and natural gas services industry. Xtreme has no assurance that sources for drilling equipment and components will remain available and any lack of access to such equipment and components could impair Xtreme's ability to offer certain drilling services. We source materials and components based on industry standard terms and pricing. If Xtreme's current suppliers are unable to provide the necessary materials and components, or otherwise fail to deliver products in the quantities required, resulting delays in the construction of new rigs or the completion of rigs currently in production could have a material adverse effect on Xtreme's business, results of operations and financial condition.

Business Climate and Market for Services

In North America, and elsewhere, coiled tubing drilling technology may enable E&P companies to reduce their finding costs by reducing average drilling times. Coil rigs are intrinsically safer than conventional rigs, a major focus for E&P companies. Xtreme has all new equipment built with leading edge technologies, many intended to reduce overall drilling costs. This new equipment is efficient from an environmental perspective and uses some of the most fuel efficient engines currently available in the market. In North America, particularly in the United States, a large percentage of the entire existing drilling fleet is comprised of older rigs which are less efficient and less safe than Xtreme's new fleet of coiled tubing drilling rigs. Generally, Xtreme's rigs require a smaller footprint than

conventional rigs because of fewer loads to move which minimizes surface disturbance. Xtreme believes its fleet has the potential to displace a large portion of the existing fleet of older conventional rigs in the United States.

In terms of the specific benefits of coiled tubing drilling versus conventional drilling, Xtreme's management considers the primary benefits of coiled tubing drilling are: faster penetration rates and tripping than conventional rigs, safer and more efficient operations and more environmentally responsible operation and transportation. As an added benefit, COTD™ rigs can transition quickly between drilling with coiled tubing or with conventional jointed drill pipe.

Xtreme is one of a few companies that have successfully developed coiled tubing drilling technology. In underbalanced drilling applications, coal bed methane and Steam Assisted Gravity Drainage ("SAGD") projects, Xtreme's proprietary technologies have broad application.

Revenues Generated by Categories of Principal Products

The following regions accounted for more than 15 percent of our total consolidated revenues from third parties for the applicable period.

Provision of contract drilling services	Year Ended December 31, 2006	Year Ended December 31, 2005
United States	72 percent	-
Canada	28 percent	-

Xtreme expects E&P companies will increasingly demand our new coiled tubing drilling technologies and services as they seek new opportunities to enhance recovery of crude oil and natural gas from existing hydrocarbon reservoirs in the United States and Canada.

Specialized Skill and Knowledge

Coiled tubing drilling technology has been developed, modified and refined over the past ten years with improvements in technology, products and operating efficiently. Shallow drilling knowledge and expertise is well established in Canada. However, Xtreme focuses on developing new techniques that use larger coiled tubing to drill to deeper horizons. As we encounter and resolve challenges in drilling with coiled tubing at new depths, Xtreme applies for patents to cover new techniques and newly developed equipment. Employee expertise is increasing as we learn more about coiled tubing drilling and overcome challenges at depths below 2,000 metres.

Intangible Property

Xtreme currently been issued two patents in the United States and has 37 patent applications filed in the United States, Canada and abroad for our coiled tubing drilling technology, rig designs, transportation systems and equipment and drilling methodologies. In some instances we rely primarily on trade secrets and unpatented expertise to maintain our competitive position. Xtreme's strategy is to use its intellectual property to create barriers to entry by our competition. Xtreme will continue to pursue this strategy by patenting all newly developed technologies as our coiled tubing rigs drill deeper. We expect Coil-X, the corporate joint venture entity with STV, will present opportunities to develop and access certain new technology through STV and its affiliates.

Cyclical and Seasonal Nature of Industry

In western Canada, drilling activity is seasonal in nature. Normally, drilling activity peaks in the first and fourth quarters of the calendar year. The second quarter traditionally includes a period called "spring break-up", where drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land. In the United States, drilling is possible most of the year in most regions unless weather or environmental protection matters constrain access to well sites. Thus, the United States offers more drilling days than Canada. Xtreme is focused in the United States market to take advantage of the additional operational days.

The drilling contracting business is affected by cycles in commodity prices for crude oil and natural gas. Price affects E&P budgets resulting in changes in demand for drilling services and equipment. In the past year, Canada has experienced a downturn in demand due to lower commodity prices. Natural gas prices, in particular, declined throughout 2006 resulting in a substantial decrease in drilling activity, especially for shallow natural gas. The United States market was slower to react to these lower commodity prices and we believe that market is still strong. It is, however, showing signs of reduced activity in 2007. This could affect day rates especially for older drilling

equipment. Xtreme realizes any slow down could affect our day rates but current indications are that older equipment will bear the greatest impact.

Economic Dependence

Xtreme has a number of major competitors in the coiled tubing segment of the drilling industry with significant market share and influence over product pricing which could impact Xtreme's future corporate performance. Demand for coiled tubing drilling rigs designed and manufactured by Xtreme directly depends on drilling activity in the United States and Canada which has historically shown significant fluctuations from year to year.

Changes to Contracts

Contracts in the industry are generally awarded on the basis of technical expertise, equipment requirements, price, equipment availability, and industry safety record. A competitive bid process is generally used to award drilling contracts. Bids are generally requested by the E&P company on a day-work basis. Under a day-work contract, a fixed rate is charged for each day the equipment and crew are in operation. We believe Xtreme can compete favourably with respect to all these factors.

Total revenue from these arrangements is currently expected to be material to Xtreme's operations.

Competitive Conditions

Xtreme's business success is connected, in large part, to the general health of the oil and natural gas industry in the United States and western Canada. Accordingly, in addition to the various federal, provincial, state and municipal regulations to which Xtreme adheres in ongoing operations, our operations are also sensitive to industry conditions relating to the oil and natural gas industry, including land tenure, exploration, development, production, refining, transportation and marketing imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, Saskatchewan, British Columbia and jurisdictions in the United States. All current legislation is a matter of public record and Xtreme is unable to predict what additional legislation or amendments may be enacted.

Environmental Considerations

Generally

Historically, environmental protection requirements have not had a significant financial or operational effect on Xtreme's capital expenditures, earnings or competitive position. Subject to any changes in current environmental protection legislation, Xtreme does not presently anticipate environmental protection requirements will have a significant effect on such matters in 2007. For further information on the environmental, health and safety laws and regulations that may affect our business, see "Risk Factors".

Kyoto Accord

In December 2002, the Parliament of Canada voted to ratify the United Nations Kyoto Treaty on Climate Change and the Government of Canada stated its intention to implement broad economic and regulatory measures to bring about compliance with Canada's commitment to reduce emissions of so-called greenhouse gases. This has introduced a measure of uncertainty for E&P companies, as there has been no final confirmation as to what legal and regulatory measures will be imposed. We expect the impact on environmental costs to remain high as a result of the ratification of this agreement. However, Xtreme cannot presently determine the overall financial impact on our capital projects and ongoing operations.

The Kyoto Protocol (the "**Protocol**") became a legally binding international accord on February 16, 2005. Although it is unclear how Canada will meet its commitments and how the program will be administered, there is some indication from the federal government that the provinces will have some authority to implement programs and regulate compliance within their respective jurisdictions. There is also some acknowledgment that emissions trading may be allowed because domestic measures may be insufficient to meet the minimum terms of the Kyoto Treaty.

The federal government's fiscal and program initiatives regarding climate change policy were introduced in the February 23, 2005 federal budget. The six elements introduced as part of the program included market mechanisms, targeted incentives, tax measures, public infrastructure investment, investment in innovation and regulatory/voluntary actions. A program including targets for Large Final Emitters ("**LFES**") was expected to be finalized in the second and third quarters of 2005. Overall the federal government plans to invest approximately

\$1.3 billion towards meeting the terms of the Protocol. For further information on the environmental, health and safety laws and regulations that may affect our business, see "Risk Factors".

Employees

As at December 31, 2006, Xtreme employed approximately 120 full time, non-union employees. Xtreme expects to add approximately 20 new employees for each new drilling rig deployed to the United States, as well as incremental additional support staff as we add rigs to Xtreme's fleet. In Canada, we expect to add approximately 15 new employees for each new rig deployed.

Risks of Foreign Operations

Xtreme currently conducts business primarily in the United States. We are subject to the risks associated with international markets differing from those markets known to us in Canada. Such risks may include, and are not limited to, lack of access to materials and components and skilled workers, time delays associated with shipment of products and materials, and uncertainties related to the existence and application of foreign laws. In addition, because we conduct business in international markets, we are exposed to risks caused by fluctuations in currency exchange rates. International contracts historically are paid in United States dollars ("USD") and, accordingly, a material decrease in the value of the USD may negatively impact revenues from international operations.

Bankruptcy and Similar Procedures

There have been no bankruptcy, receivership or similar proceedings against the Corporation or any of our subsidiaries, or any voluntary receivership, bankruptcy or similar proceeding by Xtreme, or any of our subsidiaries, since inception, during or proposed for the current financial year.

Social and Environmental Policies

Xtreme has established a Health Safety and Environment function in Canada and the United States and has policies and procedures for adherence by all directors, officers, employees and consultants. Xtreme's drilling rigs incorporate leading edge technologies to achieve environmentally responsible and highly efficient drilling.

Reorganizations

Xtreme was formed on the Amalgamation of Xtreme Coil Drilling Corp. and Norquay on May 1, 2006 pursuant to the provisions of the *Business Corporations Act* (Alberta). Xtreme shareholders and Norquay shareholders approved the Amalgamation at meetings of the shareholders of each entity held on April 20, 2006. Pursuant to the Amalgamation Agreement on completion of the Amalgamation: (i) each Xtreme (pre-Amalgamation) shareholder received one (1) Xtreme (post-Amalgamation) share for each one (1) Xtreme (pre-Amalgamation) share held by such Xtreme (pre-Amalgamation) shareholder; (ii) each Norquay shareholder received one (1) Xtreme (post-Amalgamation) share for each thirty (30) Norquay shares held by such Norquay shareholder; (iii) each outstanding convertible security of Xtreme (pre-Amalgamation) was exchanged for one (1) comparable convertible security of Xtreme (post-Amalgamation); (iv) each outstanding Norquay agent option was exchanged for a comparable convertible security of Xtreme (post-Amalgamation), pursuant to the exchange ratio; and (v) other than the Norquay agent options, each outstanding convertible security of Norquay was cancelled.

Risk Factors

Demand for Services

Demand for Xtreme's coiled tubing drilling technologies and services will depend largely on the level of spending by E&P companies for exploration, development and production activities in the United States and western Canada. No assurance can be given that current oil and natural gas drilling activity will be maintained or increase or that demand for Xtreme's technology and services will reflect the level of drilling activity.

As well, exploration and development drilling activities depend, in large measure, on oil and natural gas prices, which may be affected by local or international factors or by government regulation, and cannot be accurately predicted. Changes levels of drilling activity by our customers are directly affected by fluctuations in world energy prices which, in turn, directly affect Xtreme's business.

Volatility of Industry Conditions

Demand, pricing and terms for oilfield services largely depend on the level of industry activity for Canadian and United States natural gas and, to a lesser extent, oil exploration and development. Industry conditions are influenced

by numerous factors over which Xtreme will have no control, including: the level of oil and natural gas prices; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of decline for current production; the discovery rates of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of E&P companies to raise equity capital or debt financing.

The level of activity in the United States and Canadian E&P industry is volatile. No assurance can be given that expected trends in E&P activity will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and, therefore, affect the demand for services to E&P customers. A material decline in oil or natural gas prices or Canadian or the United States industry activity could have a material adverse effect on Xtreme's business, financial condition, results of operations and cash flows and, therefore, on the value of Xtreme's common shares. Xtreme's business and activities are directly affected by fluctuations in the levels of exploration, development and production activity carried on by our customers.

The impact on capital markets caused by investor uncertainty in the North American economy is currently affecting the oil and natural gas industry. Capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact of the Protocol on the sector and, in more recent times, by the October 31, 2006 proposals of the Government of Canada (the "**October 31, 2006 Proposals**") relating to income trusts (the "**Trusts**") and other "specified investment flow-through" entities. Pursuant to the existing provisions of the *Income Tax Act* (Canada), to the extent that a Trust has any income for a taxation year after certain inclusions and deductions, the Trust will be permitted to deduct all amounts of income which are paid or become payable by it to unitholders in the year. Under the October 31, 2006 Proposals, Trusts will be liable for tax at a rate consistent with the taxes currently imposed on corporations commencing in January 2011, provided that the Trust experiences only "normal growth" and no "undue expansion" before then, in which case the tax could be imposed prior to the January 2011 deadline. Although the October 31, 2006 Proposals do not affect the method by which Xtreme is taxed, they may have an impact on the ability of a Trust to purchase assets from companies such as Xtreme (as well as impacting the price that a Trust is willing to pay for such an acquisition) thereby affecting the Corporation's ability to be sold to a Trust.

Generally during the past year, economic recovery combined with increased commodity prices has caused an increase in new equity financings in the oil and natural gas industry. Xtreme must compete with numerous new companies and their new management teams and development plans to access capital. The competitive nature of the oil and natural gas industry will cause Xtreme to compete for opportunities to undertake equity financings.

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. The duration of this period has a direct impact on the level of the Corporation's activities. Spring break-up occurs earlier in the year in southeastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring break-up depend on weather patterns but generally occur in April and May. Certain oil and natural gas producing areas are located in areas that are inaccessible except during winter months, because of the swampy terrain surrounding drillings sites in these areas. Additionally, if an unseasonably warm winter prevents sufficient freezing, Xtreme may not be able to access well sites and its operating results and financial condition may, therefore, be adversely affected. The demand for oilfield services may also be affected by the severity of Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. Volatility in weather and temperature can create unpredictability in activity and utilization rates which can have a material adverse effect Xtreme's business, financial condition, results of operations and cash flows. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of E&P companies and corresponding declines in the demand for Xtreme's goods and services.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for

crude oil and other liquid hydrocarbons. Xtreme's management cannot predict the impact of changing demand for oil and natural gas products. Any major changes may have a material adverse effect on Xtreme's business, financial condition, results of operations and cash flows.

Sources, Pricing and Availability of Equipment and Equipment Parts

Xtreme's management will source equipment and equipment parts from a variety of suppliers, most of whom are located in Canada and the United States. Suppliers unable to provide the necessary equipment or parts or otherwise failing to deliver products in the quantities required, as well as any resulting delays in the provision of services or in the time required to find new suppliers, could have a material adverse effect on Xtreme's business, financial condition, results of operations and cash flows.

Technology

Xtreme's equipment includes some technologies which have not been proven in an actual field service environment. The effectiveness of these technologies in field operations cannot be assured. Competing technologies could prove more effective than those used by Xtreme. In addition, certain patents applied for may not be issued. There could also be alleged infringements on proprietary technologies levelled by Xtreme against third parties or against Xtreme by third parties, which could result in lost revenues, significant legal costs, and other damages and costs.

Government Regulation

Xtreme's operations are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in operations and the transportation of materials and equipment provided to clients. Management believes that Xtreme is in material compliance with such laws and regulations. Xtreme intends to invest financial and managerial resources to ensure such compliance and will continue in the future. Although such expenditures are not expected to be material, such laws or regulations are subject to change. Accordingly, it is impossible for management to predict the cost or impact of such laws and regulations on Xtreme's future operations.

Operating Risks and Insurance

Xtreme's operations will be subject to hazards inherent in the oil and natural gas industry, such as equipment defects, malfunction and failures, and natural disasters which result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to oil and natural gas formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These risks could expose Xtreme to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

Much of Xtreme's equipment is still under construction and, as such, has not established a history of field operations.

Management will continuously monitor Xtreme's activities for quality control and safety. However, there are no assurances that Xtreme's safety procedures will always prevent such damages. Although Xtreme will maintain insurance coverage that management believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover Xtreme's liabilities. In addition, there can be no assurance that Xtreme will be able to maintain adequate insurance in the future at reasonable and commercially justifiable rates. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by Xtreme, or a claim at a time when the Corporation is unable to obtain liability insurance, could have a material adverse effect on Xtreme's ability to conduct normal business operations and on its financial condition, results of operations and cash flows and therefore on the value of Xtreme's common shares.

Key Personnel

The successful operation of Xtreme's business will depend on the abilities, expertise, judgment, discretion, integrity and good faith of Xtreme's executive officers, general managers, employees and consultants. In addition, the ability of management to expand Xtreme's services will depend on the ability to attract qualified personnel as needed. Demand for skilled oilfield employees is high, and supply is limited. The unexpected loss of Xtreme's key personnel, or the inability to retain or recruit skilled personnel, could have a material adverse effect on Xtreme's business, financial condition, results of operations and cash flows.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Protocol established thereunder to set legally binding targets to reduce nation wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and natural gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those which may be established under Alberta's Climate Change and Emissions Management Act, may require the reduction of emissions or emissions intensity from the oil and natural gas industry. Mandatory emissions reductions may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for Xtreme's services. Management is unable to predict the impact of the Kyoto Protocol and greenhouse natural gas emission legislation on Xtreme and it is possible that it will adversely affect Xtreme's business, financial condition, results of operations and cash flows and therefore on the value of Xtreme's common shares.

Competition

Xtreme provides oilfield services primarily to field operations of E&P companies located in the United States and western Canada. The oilfield services business in which Xtreme operates is highly competitive. To be successful, we must provide services that meet specific needs of clients at competitive prices. The principal competitive factors in the markets where Xtreme operates are service quality and availability, reliability and performance of equipment used to provide its services, technical knowledge and experience and reputation for safety and price. Xtreme competes with several regional competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic regions where Xtreme operates. As a result of competition, Xtreme may be unable to continue to provide its present services or to acquire additional business opportunities, which may affect Xtreme's business, financial condition, results of operations and cash flows and, therefore, the value of Xtreme's common shares.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to Xtreme. Variations in E&P company budgets, which are directly affected by fluctuations in commodity prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an affect on Xtreme's ability to generate revenue and earnings.

Credit Risk

A substantial portion of Xtreme's accounts receivable are, and will be, with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. In addition, Xtreme's accounts receivable is heavily concentrated on a small number of customers. Collection of these receivables could be influenced by economic factors affecting the oil and natural gas industry. Any inability of Xtreme to collect on these accounts receivable may affect Xtreme's business, financial condition, results of operations and cash flows.

Conflicts of Interest

Certain of the directors and officers of Xtreme are also directors and officers of other E&P and oil and natural gas service companies, and conflicts of interest may arise between their duties as officers and directors of Xtreme and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to, such other procedures and remedies as apply under the ABCA.

There may be situations in which the interests of the directors and management of, and consultants to, Xtreme may conflict with those of Xtreme. Certain members of management will not be engaged by Xtreme on a full-time basis and are currently involved, and will continue to be involved, in other entities, businesses and activities, some of which are described herein and all of which will place varying and conflicting demands on their time and attention. Furthermore, some such conflicts may result in the individual being in a direct conflict of interest position in relation to Xtreme. Any conflicts will be resolved in accordance with the provisions of the ABCA and other applicable laws.

Changes in Legislation

There can be no assurance that governmental programs relating to the oil and natural gas industry and the related services industry will not be changed in a manner which adversely affects shareholders.

Access to Additional Financing

Xtreme may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to Xtreme when needed or on terms acceptable to Xtreme. Xtreme's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit Xtreme's growth and may have a material adverse effect on Xtreme. Where additional financing is raised by the issuance of the common shares or securities convertible into the common shares, control of Xtreme may change and shareholders may suffer dilution to their investment. Xtreme's activities may also be financed, partially or wholly, with debt which may increase Xtreme's debt levels above industry standards.

Leverage and Restrictive Covenants

The ability of Xtreme, to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions in the instruments governing any indebtedness of those entities. The degree to which Xtreme is leveraged could have important consequences for the shareholders of Xtreme including: (i) Xtreme's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) all or part of Xtreme's cash flow from operations may be dedicated to the payment of the principal of and interest on Xtreme's indebtedness, thereby reducing funds available for future operations or for payment of dividends to shareholders; (iii) certain of Xtreme's borrowings will be at variable rates of interest, which exposes Xtreme to the risk of increased interest rates; and (iv) Xtreme may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may adversely impact Xtreme's cash flow and, as a result, the value of Xtreme's common shares.

DIVIDENDS

We have not paid any dividends to date on our common shares. Xtreme's board of directors will determine the timing, payment and amount of dividends, if any, that may be paid from time to time based on, among other things, our cash flow, results of operations and financial condition, the need for funds to finance ongoing operations and other relevant considerations.

DESCRIPTION OF CAPITAL STRUCTURE**General**

Xtreme is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to vote at all meetings of our shareholders, to receive dividends as declared by Xtreme and to receive, on liquidation, dissolution or winding-up, our remaining property and assets. As at March 15, 2007, 33,750,292 common shares were issued and outstanding.

We have filed documents affecting the rights of securityholders, including our articles and by-laws, in accordance with National Instrument 51-102 and they are available electronically on Xtreme's SEDAR profile at www.sedar.com.

Constraints

There are no constraints imposed on the ownership of securities of Xtreme to ensure the Corporation has a required level of Canadian ownership.

MARKET FOR SECURITIES**Trading Price and Volume**

Xtreme's common shares are listed and posted for trading on the TSX under the symbol "XDC". Trading commenced on May 4, 2006 on the TSXV. Xtreme's common shares were listed and posted for trading on the TSX on September 5, 2006 and delisted from the TSXV on that date. The following table sets out the monthly high and low closing prices and the total monthly trading volumes for the indicated periods.

2006			
Month	High	Low	Volume
May ⁽¹⁾	15.25	13.51	4,155,946
June	14.00	10.25	1,882,869
July	11.50	9.59	768,696
August	13.30	11.00	1,018,659
September	13.00	12.78	25,000
September ⁽²⁾	13.00	9.51	470,051
October	11.50	9.00	361,615
November	10.95	10.05	479,866
December	12.97	10.25	840,407
2007			
Month	High	Low	Volume
January	12.25	10.00	703,899
February	11.48	10.81	352,924

Notes:

- (1) From May 4, 2006, the listing date of Xtreme's common shares on the TSXV.
(2) Xtreme's common shares were listed on the TSX on September 5, 2006 and delisted from the TSXV.

ESCROWED SECURITIES

As at the date hereof, the following number of securities are subject to escrow.

<u>Designation of Class</u>	<u>Number of Securities Held in Escrow</u>	<u>Percentage of Class</u>
Common Share	4,043,731	12.0

DIRECTORS AND OFFICERS

Name, Occupation and Security Holdings

The names and municipalities of residence of the directors and executive officers of Xtreme, their positions with Xtreme, the period served as a director or officer, and their principal occupations, are set forth below.

<u>Name and Place of Residence</u>	<u>Position Held</u>	<u>Director and/or Officer Since</u>	<u>Principal Occupation during past five years</u>	<u>Common Shares Beneficially Owned or Controlled</u>
Richard Charron ⁽⁶⁾ Calgary, Alberta Canada	Chief Executive Officer and Director	May 2005	President of Arron Consulting Inc.; prior thereto from 2003 to 2005, Chief Financial Officer of Itres Research Inc. a private instrument and service company; from 2000 to 2003, President and Chief Financial Officer of Wrangler West Capital Corp.	342,735 (1.02 percent)
Vic Fitch ⁽⁵⁾⁽⁷⁾ Calgary, Alberta Canada	Chief Financial Officer	May, 2006	Provided consulting services to Norquay prior to the Amalgamation; from 2001 to 2006, Controller of Savanna Energy Services Corp., an oilfield services company.	33,768 (0.10 percent)
Thomas Wood ⁽³⁾⁽⁸⁾ Calgary, Alberta Canada	Chairman, Managing Director, US & International Operations, Founder and Director	June 2005	Presently, Chief Executive Officer of Round Up Resource Services Ltd., a private investment company; since 2001, Director of Wrangler West Energy Corp., a public oil and gas producer. Prior thereto, from 2001 to 2005, founder and Chairman of Savanna Energy Services, an oilfield services company.	3,429,902 (10.16 percent)

Name and Place of Residence	Position Held	Director and/or Officer Since	Principal Occupation during past five years	Common Shares Beneficially Owned or Controlled
Kyle Swingle ⁽⁴⁾⁽⁹⁾ Denver, Colorado USA	Chief Operating Officer, Canadian Operations, Founder and Director	June 2005	From 2004 to 2005, Vice President, Grey Wolf Inc., a United States drilling services company; from 2002 to 2004, founder, Director, President and Chief Executive Officer, New Patriot Drilling Corp., a United States drilling services company.	975,548 (2.89 percent)
Richard Havinga ⁽¹⁰⁾ Calgary, Alberta Canada	Vice President, Engineering & Design	July 2005	From 1999 to 2005, Vice President, Operations of Foremost Industries Inc., a Canadian company involved in design, manufacture, sale and service of drilling equipment and heavy all-terrain vehicles.	223,669 (0.66 percent)
Randolph Charron ⁽²⁾⁽⁴⁾⁽¹¹⁾ Calgary, Alberta Canada	Founder and Director	June 2005	Currently, since 1997, President of Characo Corporation ("Characo"), a private oil and gas investment and consulting firm. During 2001, Chief Executive Officer and Secretary of Nevis Energy Services Ltd. - the company merged with Phoenix Technology Services Inc., now Phoenix Energy Trust of which Mr. Charron is a director.	2,463,999 (7.30 percent)
Daniel Remenda ⁽¹⁾⁽³⁾⁽⁴⁾⁽¹²⁾ Calgary, Alberta Canada	Director	June 2005	Currently, President of Danich Investments Limited. From 2002 to 2005, a Director of Argo Energy Ltd..	384,889 (1.14 percent)
David Tuer ⁽¹⁾⁽²⁾⁽³⁾⁽¹³⁾ Calgary, Alberta Canada	Director	May 2006	From 2005 to 2006, a Director of Norquay prior to the Amalgamation. Currently, since 2005, Executive Vice Chairman, BA Energy Inc., a private developer of Alberta's oil sands; since 2006, a director of Daylight Energy Trust (merged with Sequoia Oil & Gas Trust); since 2001, Chairman of the Calgary Health Region; since 2003, a Director of Rockwater Capital Corporation; since 2002, a Director of Canadian Natural Resources Limited, a senior oil and natural gas producer; and, since 2002, Chairman of AltaLink Management Ltd. a private electrical transmission company. From 2003 to 2005, a Director and Officer of Hawker Resources Inc. (a private oil and gas corporation).	106,000 (0.31 percent)
Marc Staniloff ⁽¹⁾⁽²⁾⁽¹⁴⁾ Calgary, Alberta Canada	Director	August, 2006	Since 2005 Chairman and Chief Executive Officer, from 2001 to 2005, President and Chief Executive Officer of Superior Lodging Corp., a hotel development, ownership and franchising company. Prior thereto, from 1997 to 2001, Founder and President of Royop Hospitality Corporation, a hotel and retail development and franchising company.	522,483 (1.55 percent)

Notes:

- (1) Member of the Audit Committee
- (2) Member of the Nomination and Corporate Governance Committee
- (3) Member of the Compensation Committee
- (4) Member of the Health, Safety and Environmental Committee
- (5) Corporate Secretary
- (6) Richard Charron also holds 300,000 options, each option entitling the holder to acquire one (1) common share at \$3.00 per share at any time prior to July 21, 2010.

- (7) Vic Fitch also owns 50,000 options, each option entitling the holder to acquire one (1) common share at an exercise price of \$3.00 per share at any time on or prior to December 5, 2010.
- (8) Thomas Wood also owns 275,000 options, each option entitling the holder to acquire one (1) common share at an exercise price of \$3.00 per share at any time prior to July 21, 2010.
- (9) Kyle Swingle also owns 666,666 performance warrants, each performance warrant entitling the holder to acquire one (1) common share at an exercise price of \$0.01 per share at any time on or prior to July 21, 2008, and 300,000 options, each option entitling the holder to acquire one (1) common share at an exercise price of \$3.00 per share at any time on or prior to July 21, 2010.
- (10) Richard Havinga also owns 200,000 options and 25,000 options, each option entitling the holder to acquire one (1) common share at an exercise price of \$3.00 and \$10.24 per share at any time on or prior to July 21, 2010 and October 27, 2011.
- (11) Randolph Charron also owns 175,000 options, each option entitling the holder to acquire one (1) common share at an exercise price of \$3.00 per share at any time on or prior to July 21, 2010.
- (12) Daniel Remenda also owns 150,000 options, each option entitling the holder to acquire one (1) common share at \$3.00 per share at any time on or prior to July 21, 2010.
- (13) David Tuer also owns 50,000 options, each option entitling the holder to acquire one (1) common share at an exercise price \$3.00 per share at any time on or prior to December 5, 2010.
- (14) Marc Staniloff also owns 30,000 options, each option entitling the holder to acquire one (1) common share at an exercise price of \$11.94 per share at any time on or prior to August 23, 2011.

As at March 15, 2007, Xtreme's directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 8,482,993 common shares, or approximately 25.1 percent of the issued and outstanding common shares. The information as to common shares beneficially owned, directly or indirectly, or over which control or direction is exercised, is based on information furnished to Xtreme by the respective nominees.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed below, no director or officer of Xtreme, or a shareholder holding a sufficient number of securities of Xtreme to affect materially the control of Xtreme is, or within the last ten years has been, a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied us access to any statutory exemption for a period of more than 30 consecutive days or, within a year of such person ceasing to act in that capacity or within the 10 years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

No director or officer of Xtreme, or a shareholder holding a sufficient number of securities of Xtreme to affect materially the control of Xtreme, has been subject to any penalties or sanctions under securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors and officers of the Corporation may, from time to time, be involved in the business and operations of other issuers, in which case a conflict may arise.

The ABCA provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interests arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

MATERIAL CONTRACTS

Except for contracts entered into by Xtreme in the ordinary course of business or otherwise disclosed herein, we had entered into no other material contracts.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are PricewaterhouseCoopers LLP, at their offices in Calgary, Alberta. Our transfer agent is Valiant Trust Company, at their offices in Calgary.

AUDIT COMMITTEE INFORMATION

Composition of the Audit Committee

Audit Committee Charter

The Audit Committee Charter is attached as Schedule A to this Annual Information Form.

Composition of the Audit Committee

The Audit Committee is comprised of Messrs. Marc Staniloff, David Tuer and Daniel Remenda. The following chart sets out the assessment of each Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name and Place of Residence	Independent	Financially literate	Relevant Education and Experience
Marc Staniloff	Yes	Yes	Currently is Chairman and Chief Executive Officer of Superior Lodging Corp. Mr. Staniloff was President of Royop Hospitality Corporation and a director of Royop Properties Corporation, a TSX listed company, from July 1997 until October 2000. He earned his Bachelor of Commerce degree from the University of Calgary and is an active member of the Young President's Organization. Mr. Staniloff is also a member of the Super 8 Motels Franchisee Advisory Board and was the winner of the Super 8 Dennis Brown Memorial award.
David Tuer Calgary, Alberta	Yes	Yes	From 2005 to 2006, a Director of Norquay prior to the Amalgamation. Currently, since 2005, Executive Vice Chairman, BA Energy Inc., a private developer of Alberta's oil sands; since 2006 a director of Daylight Energy Trust (merged with Sequoia Oil & Gas Trust); since 2001, Chairman of the Calgary Health Region; since 2003, a Director of Rockwater Capital Corporation; since 2002, a Director of Canadian Natural Resources Limited, a senior oil and natural gas producer; and, since 2002, Chairman of AltaLink Management Ltd. a private electrical transmission company. From 2003 to 2005, a Director and Officer of Hawker Resources Inc. (a private oil and gas corporation); from 1994 to 2001 President and Chief Executive Officer of PanCanadian Petroleum Limited (a public oil and gas corporation). Mr. Tuer is a professional engineer and an independent businessman.
Daniel Remenda Calgary, Alberta	Yes	Yes	Currently President of Danich Investments Limited. From October 2002 to April 2005 Director of Argo Energy Ltd. (a public oil & gas corporation). From May 2001 to August 2002, a Director of High Plains Energy (a public oil and gas corporation). From May 1996 to July 2000, President and Director of Plains Perforating Ltd. (a private oil and gas service corporation and a division of Plains Energy Ltd. (a public oil and gas corporation)). Mr. Remenda is principally an independent businessman involved in oil and gas producing companies, oil and gas service companies, real estate and agriculture.

Fees Paid to PricewaterhouseCoopers LLP

The following table sets forth the audit service fees paid by Xtreme to PricewaterhouseCoopers LLP for the periods indicated.

Type of Fees	Fiscal Year Ended December 31	Aggregate Fees Billed	Nature of Services Performed
Audit fees	2006	\$70,000	Year-end audit
	2005	\$32,500	Year-end audit
Audit – Related fees	2006	\$23,280	Quarterly reviews
	2005	\$Nil	Quarterly reviews
Tax Fees	2006	\$18,388	Canadian, United States tax review, tax return
	2005	\$7,000	Canadian, United States tax review, tax return
All other fees	2006	\$31,800	Amalgamation, internal control and other

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

There are no legal proceedings material to Xtreme to which we are a party or to which any of our interests are subject, nor are any such proceedings known to be contemplated.

Regulatory Actions

During the year ended December 31, 2006 there were (i) no penalties or sanctions imposed against Xtreme or by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against Xtreme that would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements Xtreme entered into with a court relating to a securities legislation or with a securities regulatory authority.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, there were no material interests, direct or indirect, of any director or executive officer, any shareholder who beneficially owns, or exercises control or direction over, more than 10 percent of our outstanding common shares, or any associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect us or any of our subsidiaries.

INTERESTS OF EXPERTS

Names of Experts

To the knowledge of Xtreme's management, as of the date hereof, set forth below is the name of each person or company who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Xtreme during, or relating to, Xtreme's most recently completed financial year, and whose profession or business gives authority to the statement, report or valuation made by the person or the company.

Interest of Experts

PricewaterhouseCoopers LLP, Chartered Accountants, have performed the external audit of financial statements of Xtreme for the year ended December 31, 2006, as set forth in Xtreme's financial statements. PricewaterhouseCoopers LLP has advised Xtreme that they are independent with respect to Xtreme within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Xtreme or of any associate or affiliates thereof.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under our equity compensation plans, as applicable, will be contained in our information circular for our 2006 meeting of shareholders that involves the election of directors. Additional financial information is provided in our financial statements and management's discussion and analysis for the year ended December 31, 2006, which are set forth in our 2006 Annual Report. Documents affecting the rights of securityholders, along with additional information relating to Xtreme, is filed on SEDAR at www.sedar.com.

APPENDIX A

XTREME COIL DRILLING CORP.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

Audit Committee Mandate And Terms Of Reference For Audit Committee Chair

Xtreme's Audit Committee Charter outlines the specific roles and duties of the Committee members.

General Functions, Authority and Role

The Audit Committee is a Committee of the Board of Directors appointed to assist the Board in monitoring (1) the integrity of the financial statements of the Corporation, (2) compliance by the Corporation with legal and regulatory requirements related to financial reporting, (3) qualifications, independence and performance of the Corporation's independent auditors, and (4) performance of the Corporation's internal controls and financial reporting process.

The Audit Committee has the power to conduct or authorize investigations into any matters within its scope of responsibilities, with full access to all books, records, facilities and personnel of the Corporation, its auditors and its legal advisors. In connection with such investigations or otherwise in the course of fulfilling its responsibilities under this charter, the Audit Committee has the authority to independently retain special legal, accounting, or other consultants to advise it, and may request any Officer or employee of the Corporation, its independent legal counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee also has the power to create specific sub-committees with all of the investigative powers described above.

The Corporation's independent auditor is ultimately accountable to the Board of Directors and to the Audit Committee; and the Board of Directors and Audit Committee, as representatives of the Corporation's shareholders, have the ultimate authority and responsibility to evaluate the independent auditor, and to nominate annually the independent auditor to be proposed for shareholder approval, and to determine appropriate compensation for the independent auditor. In the course of fulfilling its specific responsibilities hereunder, the Audit Committee must maintain free and open communication between the Corporation's independent auditors, Board of Directors and management. The responsibilities of a member of the Audit Committee are in addition to such member's duties as a member of the Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete, accurate, and in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor (other than disagreements regarding financial reporting), or to assure compliance with laws and regulations or the Corporation's own policies.

Membership

The membership of the Audit Committee will be as follows:

1. The Committee will consist of a minimum of three members of the Board of Directors, appointed annually, each of whom is affirmatively confirmed as independent by the Board of Directors, with such affirmation disclosed in the Corporation's annual securityholder materials.
 - (a) The Board will elect, by a majority vote, one member as chairperson
 - (b) A member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Board Committee, accept any consulting, advisory, or other compensatory fee from the Corporation, and may not be an affiliated person of the Corporation or any subsidiary thereof.

Responsibilities

The responsibilities of the Audit Committee shall be as follows:

1. Frequency of Meetings
 - (a) Meet quarterly or as often as may be deemed necessary or appropriate in its judgment, either in person or telephonically.
 - (b) Meet with the independent auditor at least quarterly, either in person or telephonically.
2. Reporting Responsibilities
 - (a) Provide to the Board of Directors proper Committee minutes.
 - (b) Report Committee actions to the Board of Directors with such recommendations, as the Committee may deem appropriate.
 - (c) Provide a report for the Corporation's Annual Information Circular.
3. Charter Evaluation
 - (a) Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of Directors for approval.
4. Whistleblower Mechanisms
 - (a) Adopt and review annually a mechanism through which employees and others can directly and anonymously contact the Audit Committee with concerns about accounting and auditing matters. The mechanism must include procedures for responding to, and keeping of records of, any such expressions of concern.
5. Independent Auditor
 - (a) Nominate annually the independent auditor to be proposed for shareholder approval.
 - (b) Approve the compensation of the independent auditor, and evaluate the performance of the independent auditor.
 - (c) Establish policies and procedures for the engagement of the independent auditor to provide non-audit services.
 - (d) Ensure that the independent auditor is not engaged for any activities not allowed by any of the Canadian provincial securities commissions, the SEC or any securities exchange on which the Corporation's shares are traded.
 - (e) Ensure that the auditors are not engaged for any of the following nine types of non-audit services contemporaneous with the audit:
 - (i) bookkeeping or other services related to accounting records or financial statements of the Corporation;
 - (ii) financial information systems design and implementation;
 - (iii) appraisal or valuation services, fairness opinions, or contributions-in-kind reports;
 - (iv) actuarial services;
 - (v) internal audit outsourcing services;
 - (vi) any management or human resources function;
 - (vii) broker, dealer, investment advisor, or investment banking services;
 - (viii) legal services; and
 - (ix) expert services related to the auditing service.

6. Hiring Practices
 - (a) Ensure that no senior officer who is, or in the past full year has been, affiliated with or employed by a present or former auditor of the Corporation or an affiliate, is hired by the Corporation until at least one full year after the end of either the affiliation or the auditing relationship.
7. Independence Test
 - (a) Take reasonable steps to confirm the independence of the independent auditor, which shall include:
 - (i) insuring receipt from the independent auditor of a formal written statement delineating all relationships between the independent auditor and the Corporation, consistent with the Independence Standards Board Standard No. 1 and related Canadian regulatory body standards;
 - (ii) considering and discussing with the independent auditor any relationships or services, including non-audit services, that may impact the objectivity and independence of the independent auditor; and
 - (iii) as necessary, taking, or recommending that the Board of Directors take, appropriate action to oversee the independence of the independent auditor.
8. Audit Committee Meetings
 - (a) At the request of the independent auditor, convene a meeting of the Audit Committee to consider matters the auditor believes should be brought to the attention of the Directors or shareholders.
 - (b) Keep minutes of its meetings and report to the Board for approval of any actions taken or recommendations made.
9. Restrictions
 - (a) Ensure no restrictions are placed by management on the scope of the auditors' review and examination of the Corporation's accounts.
 - (b) Ensure that no Officer or Director attempts to fraudulently influence, coerce, manipulate or mislead any accountant engaged in auditing of the Corporation's financial statements.

Audit and Review Process and Results

10. Scope
 - (a) Consider, in consultation with the independent auditor, the audit scope and plan of the independent auditor.
11. Review Process and Results
 - (a) Consider and review with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as the same may be modified or supplemented from time to time.
 - (b) Review and discuss with management and the independent auditor at the completion of the annual examination:
 - (i) the Corporation's audited financial statements and related notes;
 - (ii) the Corporation's MD&A and news releases related to financial results;
 - (iii) the independent auditor's audit of the financial statements and its report thereon;
 - (iv) any significant changes required in the independent auditor's audit plan;
 - (v) any non-GAAP related financial information;
 - (vi) any serious difficulties or disputes with management encountered during the course of the audit; and

- (vii) other matters related to the conduct of the audit, which are to be communicated to the Audit Committee under generally accepted auditing standards.
- (c) Review, discuss with management and approve annual and interim quarterly financial statements prior to public disclosure.
- (d) Review and discuss with management and the independent auditor the adequacy of the Corporation's internal controls that management and the Board of Directors have established and the effectiveness of those systems, and inquire of management and the independent auditor about significant financial risks or exposures and the steps management has taken to minimize such risks to the Corporation.
- (e) Meet separately with the independent auditor and management, as necessary or appropriate, to discuss any matters that the Audit Committee or any of these groups believe should be discussed privately with the Audit Committee.
- (f) Review and discuss with management and the independent auditor the accounting policies which may be viewed as critical, including all alternative treatments for financial information within generally accepted accounting principles that have been discussed with management, and review and discuss any significant changes in the accounting policies of the Corporation and industry accounting and regulatory financial reporting proposals that may have a significant impact on the Corporation's financial reports.
- (g) Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures, if any, on the Corporation's financial statements.
- (h) Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies.
- (i) Review with the Corporation's General Counsel legal matters that may have a material impact on the financial statements, the Corporation's financial compliance policies and any material reports or inquiries received from regulators or governmental agencies related to financial matters.

Securities Regulatory Filings

1. Review filings with the Canadian provincial securities commissions and the SEC and other published documents containing the Corporation's financial statements.
2. Review, with management and the independent auditor, prior to filing with regulatory bodies, the interim quarterly financial reports (including related notes and MD&A) at the completion of any review engagement or other examination. The designated financial expert of the Audit Committee may represent the entire Audit Committee for purposes of this review.

Risk Assessment

3. Meet periodically with management to review the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
4. Assess risk areas and policies to manage risk including, without limitation, environmental risk, insurance coverage and other areas as determined by the Board of Directors from time to time.

Amendments to Audit Committee Charter

Annually review this Charter and propose amendments to be ratified by a simple majority of the Board of Directors.