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

FORWARD-LOOKING STATEMENTS

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

DESCRIPTION OF THE BUSINESS

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

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

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

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

EQUIPMENT UNDER CONSTRUCTION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

SELECTED ANNUAL INFORMATION

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

SALES

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

OPERATING EXPENSES

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

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

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

DEPRECIATION AND AMORTIZATION

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

STOCK-BASED COMPENSATION

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

FOREIGN EXCHANGE

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

INTEREST EXPENSE

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

INTEREST INCOME

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

INCOME TAXES

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

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

NET LOSS

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

SEGMENTED INFORMATION

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

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

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

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

PAYMENTS DUE BY PERIOD

($ thousands, unaudited)

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

OUTSTANDING COMMON SHARES

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

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

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

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

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

SUBSEQUENT EVENT

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

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

DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

Currently Xtreme has no off-balance sheet arrangements.

RELATED PARTIES TRANSACTIONS

During 2006 Xtreme had no transactions involving any related parties.

CRITICAL ACCOUNTING ESTIMATES

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

Depreciation

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

Stock-based compensation

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

Allowance for doubtful accounts receivable

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

ACCOUNTING POLICIES

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

Depreciation

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

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

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

Foreign currency translation

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

Inventory

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

Revenue recognition

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

Joint venture accounting

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

Financial instruments

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

BUSINESS RISKS AND UNCERTAINTIES

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

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

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

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

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

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

OUTLOOK

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

ADDITIONAL INFORMATION

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

2006 TRADING

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

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