MANAGEMENT'S REPORT

To the Shareholders of Xtreme Coil Drilling Corp.

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

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

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

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

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

T C Wood

Thomas D. Wood
Chief Executive Officer

Vic Fitch
Chief Financial Officer

Calgary, Alberta
March 13, 2008

AUDITORS' REPORT

To the Shareholders of
Xtreme Coil Drilling Corp.

We have audited the consolidated balance sheets of Xtreme Coil Drilling Corp. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

March 13, 2008
Calgary, Alberta

CONSOLIDATED BALANCE SHEET

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

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

See accompanying notes to the consolidated financial statements

On behalf of the board of directors,

Marc Staniloff
Director

David Tuer
Director

CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

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

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

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See accompanying notes to the financial statements

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

1. NATURE OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Amortization rates, allowance for doubtful accounts receivable, stock-based compensation, tax recoveries and the recoverable amounts for equipment and intangible assets are significant items subject to estimates in these consolidated financial statements.

Principles of consolidation

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

Cash and cash equivalents

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

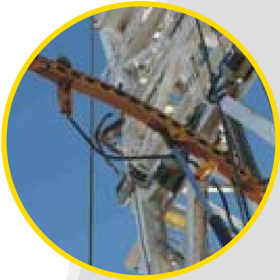
Inventory

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

Equipment

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

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



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

Drilling equipment under construction is depreciated once it commences operations. Xtreme Coil records equipment at cost and depreciates it using a unit of production method based on 5,000 drill days with an estimated residual value of 20 percent.

Intangible assets

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

Foreign currency translation

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

Stock-based compensation

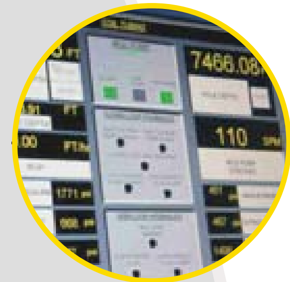
Xtreme Coil has a Stock Option Plan as described in note 8(c). We use the fair value method of accounting for stock-based compensation. The fair value of stock options awarded to employees under the stock option plan is determined using the Black-Scholes option pricing model. The amount of the fair value is charged to earnings over the vesting period of the stock option and a corresponding credit is made to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that options expire without being exercised, previously recognized compensation expense associated with such stock options is reversed.

Income taxes

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

Per share amounts

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



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

Impairment of long-lived assets

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

Revenue recognition

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

New accounting standards adopted

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

Comprehensive income

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

Financial instruments

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

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

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

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

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

Future accounting standard changes

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

Capital disclosures and financial instruments - presentation and disclosure

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

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

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

Inventories

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

3. EQUIPMENT

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

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

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

4. INTANGIBLE ASSETS

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

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

5. OBLIGATIONS UNDER CAPITAL LEASES

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

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

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

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

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

6. JOINT VENTURE

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

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

7. CREDIT FACILITIES

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

a. Operating Facility

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

b. Long-term Debt

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

Xtreme Coil has a $50 million committed 364-day extendible revolving credit facility. The facility is extendible at the bank's discretion for a further period of 364 days and reverts to a term loan to be repaid monthly over a period of 48 months if not extended. The extendible revolving facility bears interest at the bank's prime rate plus 0.75 percent. The weighted average interest rate during 2007 was approximately 6.9 percent (2006 - nil). If not extended, the term loan bears interest at the bank's prime rate plus 1.00 percent. A standby fee of 0.35 percent per annum applies to the unutilized portion of the facility. The facility is secured by a general security agreement over all present and future assets, excluding Xtreme Coil's intellectual property.

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

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

8. SHARE CAPITAL

Authorized and Issued Shares

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

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

a. Private placements

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

b. Contributed surplus

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

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

c. Stock options outstanding

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

During 2007, the board of directors approved granting of 187,000 options at various exercise prices ranging from $7.45 to $11.45. As at December 31, 2007, a total of 2,012,200 options (2006 - 2,079,000) were outstanding. During 2007, Xtreme Coil recorded compensation expense of $556 (2006 - $401) relating to these options as part of stock-based compensation expense and credited this amount to contributed surplus. For the year ended December 31, 2007, Xtreme Coil capitalized 2007 stock-based compensation of $97 (2006 - nil).

Xtreme Coil uses the fair value method of accounting for stock-based compensation. The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants assuming no dividends are paid on common shares, a risk-free interest rate ranging from 4.0 to 4.6 percent, an average life of 3.0 years and an expected volatility ranging from zero (when private) to 50 percent. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders. The amount of the fair value is charged to earnings over the period of vesting of the stock options with a corresponding credit to contributed surplus. This table summarizes Xtreme Coil's Stock Option Plan and agent options as at December 31, 2007.

	2007 Dec 31		2006 Dec 31	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	**2,085,316**	**$ 4.09**	1,610,000	$ 3.00
Granted	**187,000**	**9.91**	560,333	7.70
Exercised	**(215,115)**	**3.04**	(17,017)	4.50
Expired/cancelled	**(45,001)**	**10.09**	(68,000)	7.92
Outstanding, end of the period	**2,012,200**	**4.60**	2,085,316	4.09
Options exercisable, end of period	**1,020,866**	**$ 3.74**	542,979	$ 3.02

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$3.00 - $ 4.50	1,546,200	2.6 yrs	$ 3.10	912,864	$ 3.06
$7.00 - $10.50	314,500	3.9 yrs	8.60	69,168	8.18
$10.51 - $13.52	151,500	3.8 yrs	11.69	38,834	11.82
	2,012,200	2.9 yrs	$ 4.60	1,020,866	$ 3.74

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

d. Performance warrants

As part of the private placement in June 2005, Xtreme Coil issued 1,000,000 Series 1 and 1,000,000 Series 2 Performance Warrants to one officer and two directors. Each performance warrant entitles the holder to purchase one common share at a defined strike price of $0.01 per common share. As at December 31, 2007 there were 333,333 Series 1 Performance Warrants exercisable and outstanding. On March 9, 2007 a total of 666,667 Series 2 Performance Warrants were exercised, leaving 333,333 Series 2 Performance Warrants exercisable and outstanding. (See note 14)

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

e. Agent options issued upon amalgamation

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

f. Diluted earnings per share

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

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

9. INCOME TAXES

Net Future Income Tax Asset

Future income taxes arise from temporary differences, which are differences between the tax basis of an asset or liability and the carrying amount in the balance sheet.

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

The components of future income tax balances are as follows.

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

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

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

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

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

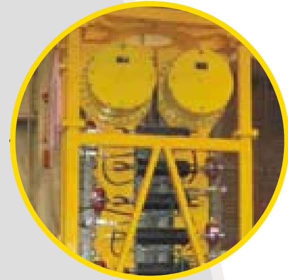
10. FINANCIAL INSTRUMENTS

Fair Value

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

Foreign Exchange Risk

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



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

Interest Rate Risk

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

Credit Risk

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

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

11. COMMITMENTS

a. Operating Leases

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

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

b. Purchase Commitments

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

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

12. SEGMENTED INFORMATION

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

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

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

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

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

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

14. SUBSEQUENT INFORMATION

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

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

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