

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

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



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

FORWARD-LOOKING STATEMENTS

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

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

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

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

You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Xtreme Coil disclaims any intention, and assumes no obligation, to update or revise any forward-looking statements to reflect actual results, whether as a result of new information, future events, changes in assumptions, changes in factors affecting such forward-looking statements or otherwise, except as required pursuant to applicable securities laws.



XTREME COIL DRILLING CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DESCRIPTION OF THE BUSINESS

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

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

We market the majority of Xtreme Coil's new drilling rigs in the United States and Canada with the objective of achieving long-term contracts. Xtreme Coil has signed long-term contracts for six rigs with two major E&P companies in the United States. Contract negotiations with other E&P companies are ongoing.

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

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

EQUIPMENT UNDER CONSTRUCTION

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

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

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

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

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SELECTED ANNUAL INFORMATION

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

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

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

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

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Revenue

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

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

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

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

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

Operating Expenses

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

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

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Gross Margin¹

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

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

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

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

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

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

Depreciation and Amortization

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

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

Stock-Based Compensation

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

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



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Foreign Exchange

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

Foreign exchange gains and losses result from a translation on Xtreme Coil's United States dollar net working capital. In particular, most of the loss in 2007 resulted from Xtreme Coil holding United States dollar net working capital while the exchange rate declined. As Xtreme Coil's operations grow and mature, we expect to generate the majority of our cash flow in United States funds, while the majority of cash requirements for the continuation of drilling rig construction could require settlement in Canadian funds.

Interest Expense

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

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

Interest Income

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

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

Income (Loss) Before Tax

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

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

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

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Income Taxes

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

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

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

Net Loss

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

Financial Condition, Liquidity and Capital Resources

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

Capital Expenditures and Commitments

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

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

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



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

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

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

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

Payments Due by Period

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

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

Segmented Information

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS



Outstanding Common Shares

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

On February 15, 2007 Xtreme Coil closed a private placement equity financing of 5,200,000 common shares at a price of \$10.50 per common share for aggregate gross proceeds of \$54.6 million (the "Offering"). In addition to the Offering, and pursuant to the terms of an agreement between Xtreme Coil and Shell Technology Ventures B.V. ("STV"), STV acquired 160,000 common shares at a price of \$10.50 per common share for gross proceeds of \$1.7 million. In total, these two transactions generated aggregate gross proceeds of \$56.3 million. We used the net proceeds of \$52.8 million to fund an increase in Xtreme Coil's 2007 capital expenditure program and for general working capital purposes.

On March 7, 2007, Xtreme Coil announced receipt of United States Patents No 7,182,140 and 7,185,708, both entitled "Coiled Tubing/Top Drive Rig and Method". These two initial patents relate to Xtreme Coil's unique tilting mast, a key design feature of our XTC 200 and 300 series of coiled tubing drilling rigs. The acquisition of Xtreme Coil's first patent triggered the vesting of one million previously issued Series 2 Performance Warrants and subsequent exercise of 666,667 performance warrants.

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

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

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



XTREME COIL DRILLING CORP.

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Subsequent Events

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

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

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") for the company. In accordance with the requirements of Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, evaluations of the design and operating effectiveness of DC&P and the design effectiveness of ICFR were carried out under their supervision as of December 31, 2007.

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

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

Off-Balance Sheet Arrangements

Currently Xtreme Coil has no off-balance sheet arrangements.

Related Parties Transactions

During 2007, Xtreme Coil had no transactions involving any related parties.

MANAGEMENT'S DISCUSSION AND ANALYSIS**Critical Accounting Estimates**

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

Recoverable amounts for equipment and intangible assets

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

Depreciation

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

Stock-based compensation

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

Allowance for doubtful accounts receivable

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

Future tax recovery

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



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Critical Accounting Policies

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

Depreciation

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

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

Foreign currency translation

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

Inventory

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

Revenue recognition

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

Joint venture accounting

Coil-X Drilling Systems Corporation ("Coil-X"), an entity established with Shell Technology Ventures B.V., is accounted for as a joint venture. Coil-X held cash and had not commenced drilling activity by December 31, 2007. This joint venture's expenses are included on a proportionate basis.

New accounting standards adopted

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

MANAGEMENT'S DISCUSSION AND ANALYSIS



Comprehensive income

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

Financial instruments

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

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

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

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

Future accounting pronouncements

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

Capital disclosures and financial instruments - presentation and disclosure

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

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

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



XTREME COIL DRILLING CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Seasonality of Operations

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

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

Business Risks and Uncertainties

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS



Outlook

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

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

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

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

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

Additional Information

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

2007 Trading

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