XTREME COIL DRILLING CORP.

MANAGEMENT'S REPORT

To the Shareholders of Xtreme Coil Drilling Corp.

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

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

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

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

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

Rodney J. Uchytil
President and Chief Executive Officer

Vic Fitch
Chief Financial Officer

Calgary, Alberta
March 16, 2009

AUDITORS' REPORT

To the Shareholders of
Xtreme Coil Drilling Corp.

We have audited the consolidated balance sheets of Xtreme Coil Drilling Corp. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

March 16, 2009
Calgary, Alberta

XTREME COIL DRILLING CORP.

CONSOLIDATED BALANCE SHEETS

($ thousand)

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

Commitments and contingencies *(note 16)*

See accompanying notes to the consolidated financial statements

On behalf of the board of directors,

Marc Staniloff
Director

David Tuer
Director

XTREME COIL DRILLING CORP.

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

($ thousand except share and per share data)

	Year ended 2008 Dec 31	Year ended 2007 Dec 31
Revenue	**$ 78,114**	$ 32,195
Expenses		
Operating expenses	**55,221**	27,209
Selling, general and administrative *(note 4)*	**7,487**	4,111
Depreciation of capital assets	**7,896**	3,532
Amortization of intangibles	**271**	234
Stock-based compensation	**1,251**	556
Foreign exchange loss (gain)	**(875)**	576
Loss on sale of equipment	**46**	-
Interest on long-term debt and capital leases	**3,215**	685
Interest (income)	**(24)**	(654)
Net income (loss) before tax	**3,626**	(4,054)
Future tax expense (recovery) *(note 13)*		
Current	**1,354**	-
Future	**(469)**	(851)
	885	(851)
Net income (loss) for the year and comprehensive income (loss)	**2,741**	(3,203)
Deficit, beginning of year	**(8,379)**	(5,176)
Deficit, end of year	**$ (5,638)**	$ (8,379)
Net income (loss) per common share - basic	**$ 0.07**	$ (0.10)
Net income (loss) per common share - diluted	**$ 0.07**	$ (0.10)
Weighted average number of common shares - basic *(note 12e)*	**38,569,546**	33,018,531
Weighted average number of common shares - diluted *(note 12e)*	**38,569,546**	34,989,268

XTREME COIL DRILLING CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

($ thousand)

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

See accompanying notes to the consolidated financial statements

($ thousand except where otherwise noted)

1. NATURE OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of estimates

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

Principles of consolidation

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

Cash and cash equivalents

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

Inventory

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

Equipment

Xtreme Coil records equipment at cost. We provide for depreciation using the straight-line method over the estimated useful life to amortize the cost of the office and shop equipment, leaseholds, vehicles, trucking equipment and drilling equipment.

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

($ thousand except where otherwise noted)

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

Intangible assets

Xtreme Coil amortizes drilling and technology patents and pending patents on a straight-line basis over a period of 20 years which is the life of each patent. Xtreme Coil tests for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the intangible assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates the carrying amount of the asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds fair value. In assessing fair value, discounted cash flow calculations are considered.

Foreign currency translation

Xtreme Coil considers operations in the United States and México as integrated foreign operations and uses the temporal method to translate all foreign currency transactions at the rate in effect as at the transaction date. Monetary assets and liabilities are translated at the rate in effect as at the balance sheet date, non-monetary assets and liabilities are translated at their historical rate and gains and losses are recognized into the consolidated statements of operations in the period they arise. Revenues and expenses, other than amortization are translated at the exchange rate when incurred. Gains or losses arising on translation are included in income.

Stock-based compensation

Xtreme Coil has a Stock Option Plan as described in note 12(c). We use the fair value method of accounting for stock-based compensation. The fair value of options awarded to employees under the stock option plan is determined using the Black-Scholes option pricing model. The amount of the fair value is charged to earnings over the vesting period of the stock option and a corresponding credit is made to contributed surplus. Upon the exercise of the options, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event unvested options expire without being exercised, previously recognized compensation expense associated with such options is reversed.

Income tax

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

Per share amounts

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

($ thousand except where otherwise noted)

Impairment of long-lived assets

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

Revenue recognition

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

Financial instruments

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

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

Following is a summary of the accounting model Xtreme Coil has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	*Held for trading*
Accounts receivable and other receivables	*Loans and receivables*
Accounts payable, accrued liabilities, bank indebtedness, and long-term debt	*Other liabilities*

Financial instruments - recognition and measurement

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

Goodwill

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

($ thousand except where otherwise noted)

3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING STANDARD CHANGES

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

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of financial statements to evaluate the entity's objectives, policies and processes for managing capital as further discussed (see note 15 - Capital management). This standard had no impact on the classification or measurement of the Corporation's consolidated financial statements.

Sections 3862 and 3863, Financial Instruments - Disclosures and Presentation, revising and enhancing disclosure requirements, and carrying forward, unchanged, presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks as discussed further. These standards had no impact on the classification or measurement of Xtreme Coil's consolidated financial statements.

Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The new standard requires additional disclosures in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories. There was no impact on the valuation of inventory as at January 1, 2008 or on the net income for the current or prior periods (see note 6 - Inventory).

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

New Accounting Pronouncements

International financial reporting standards

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

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

($ thousand except where otherwise noted)

Future accounting standards

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

4. ACCOUNTS RECEIVABLE

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

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

5. OTHER RECEIVABLE

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

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

6. INVENTORY

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

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

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

7. EQUIPMENT

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

($ thousand except where otherwise noted)

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

8. INTANGIBLE ASSETS

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

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

9. OBLIGATIONS UNDER CAPITAL LEASES

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

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

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

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

($ thousand except where otherwise noted)

10. PURCHASE OF JOINT VENTURE

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

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

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

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

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

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

($ thousand except where otherwise noted)

11. CREDIT FACILITIES

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

a. Operating Facility

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

b. Long-term Debt, Net of Financing Cost

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

Xtreme Coil has a committed 364-day extendible revolving credit facility reduced as scheduled from $70,000 to $60,000 on December 31, 2008. The facility is due for renewal in May 2009, is extendible at the bank's discretion for a further period of 364 days and reverts to a term loan to be repaid quarterly over a period of three years if not extended. The extendible revolving facility bears interest at the bank's prime rate plus up to 1.50 percent. The weighted average interest rate during 2008 was approximately 6.0 percent (2007 - 6.9 percent). If not extended, the term loan bears interest at the bank's prime rate plus up to 1.50 percent. A standby fee of up to 0.50 percent per annum applies to the unutilized portion of the facility. The facility is secured by a general security agreement over all present and future assets, excluding Xtreme Coil's intellectual property.

At December 31, 2008, $17.0 million (2007 - nil) was denominated in United States dollars.

At December 31, 2008, $9,825 (2007 - $5,104) of the outstanding balance on this facility is included in the current portion of long-term debt, representing the portion that would become due within one year if the bank did not renew the facility. Interest expense on the revolving credit facility during 2008 was $2,504 (2007 - $464) (see note 14 - Financial instruments).

12. SHARE CAPITAL

Authorized and Issued Shares

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

($ thousand except where otherwise noted)

Following is a summary of issued and outstanding common shares.

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

a. Private Placements

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

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

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

b. Contributed Surplus

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

($ thousand except where otherwise noted)

c. Stock Options Outstanding

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

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

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

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

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

($ thousand except where otherwise noted)

	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
$ 1.68 - $ 4.50	1,339,000	1.8 yrs	$ 3.07	1,227,866	$ 3.08
$ 4.51 - $ 6.99	500,000	4.8 yrs	5.26	-	-
$ 7.00 - $10.50	1,001,500	4.2 yrs	8.93	177,977	8.82
$10.51 - $13.52	128,500	2.7 yrs	11.71	77,999	11.76
	2,969,000	3.2 yrs	$ 5.79	1,483,842	$ 4.23

d. Performance Warrants

As part of the private placement in June 2005, Xtreme Coil issued 1,000,000 Series 1 and 1,000,000 Series 2 Performance Warrants to one officer and two directors. Each performance warrant entitled the holder to purchase one common share at a defined strike price of $0.01 per common share. In 2008 a total of 333,333 Series 1 Performance Warrants and 333,333 Series 2 Performance Warrants were exercised (2007 - 666,667 Series 2), leaving no outstanding Series 1 or Series 2 Performance Warrants at December 31, 2008.

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

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

e. Diluted Earnings Per Share

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

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

($ thousand except where otherwise noted)

13. INCOME TAX

Net Future Income Tax Asset

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

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

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

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

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

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

($ thousand except where otherwise noted)

14. FINANCIAL INSTRUMENTS

Fair Value

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

Foreign Exchange Risk

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

Interest Rate Risk

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

Credit Risk

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

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

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

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

Liquidity Risk

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

($ thousand except where otherwise noted)

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

Contractual Obligations

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

Payments due by period

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

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

15. CAPITAL MANAGEMENT

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

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

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

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

($ thousand except where otherwise noted)

16. COMMITMENTS AND CONTINGENCIES

(a) Commitments

i. Operating leases

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

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

ii. Purchase commitments

Xtreme Coil has commitments to suppliers with respect to contracts for the construction of Coil Over Top Drive® drilling rigs in the amount of $3.4 million (2007 - $20.5 million) which are not reflected in these consolidated financial statements.

(b) Contingencies

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

17. SEGMENTED INFORMATION

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

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

($ thousand except where otherwise noted)

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

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

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

Goodwill has been allocated to operations in México.

18. CHANGES IN NON-CASH WORKING CAPITAL

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

Changes in non-cash working capital are categorized below.

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