



**ANNUAL INFORMATION FORM**

**Year ended December 31, 2008**

**March 30, 2009**

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## **FORWARD LOOKING STATEMENTS**

This AIF contains certain statements that are not historical in nature and are forward-looking statements. Certain statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects 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; operating expenses; rig building, completion or deployment; capital expenditures and other 2009 guidance provided throughout this AIF.

Forward-looking statements are based on certain factors and assumptions regarding, among others: assessment of current, and projections for future, operations; ongoing and future business negotiations and opportunities to enter new, continue or extend existing contracts; the availability and cost of financing; foreign currency exchange rates; timing and magnitude of capital expenditures; costs and other variables affecting rig operating and construction expenses; the ability of vendors to provide rig component equipment, services and supplies, including labour, in a cost-effective and timely manner; the issuance of applied-for patents; jurisdictional changes in taxation rates; and, government regulations. Although Xtreme Coil considers the assumptions reasonable, based on information available to management as of March 16, 2009, the assumptions may ultimately prove incorrect.

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

Management's assumptions included the following: continued operation of the existing fleet of drilling equipment without additional significant capital expenditures; renewal of the revolving credit facility; ongoing access to key supplies required to continue operating equipment, including fuel; continued successful performance of drilling and related equipment; expectations regarding gross margin; recruitment and retention of qualified personnel; continuation or extension of existing long-term contracts; revenue expectations related to shorter-term drilling activity; willingness and ability of customers to remit amounts owing to Xtreme Coil in accordance with normal industry practices; management of accounts receivable in direct relation to revenue generation.

Management considered the following risk factors when preparing the AIF: fluctuations in crude oil and natural gas commodity prices, supply and demand; fluctuation in foreign exchange and interest rates; financial stability of Xtreme Coil's customers; current and future applications for Xtreme Coil's proprietary technology; competition from other drilling contractors; regulatory and economic conditions; environmental constraints; changes to government legislation; international trade barriers or restrictions; global political and military events.

Financial outlook information contained in this AIF about prospective results of operations, financial position or cash flow from operating activities is based on assumptions about future events, including economic conditions and proposed courses of action, and on management's assessment of relevant information currently available. Readers are cautioned such financial outlook information contained in this AIF is not appropriate for purposes other than for which it is disclosed herein. Readers should not place undue importance on forward-looking information and should not rely on this information as of any other date. Except as required pursuant to applicable securities laws, 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.

## **CERTAIN REFERENCES**

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

## **CERTAIN DEFINITIONS**

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

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

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

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

"**Amalgamation Agreement**" means the amended and restated amalgamation agreement dated March 20, 2006 between Xtreme Coil and Norquay relating to the amalgamation of the two companies to form "Xtreme Coil Drilling Corp.";

"**Coil-X**" means Coil-X Drilling Systems Corporation prior to May 1, 2008 and Coil-X Drilling Systems Limited after May 1, 2008;

"**Common Shares**" means common shares in the capital of the Corporation;

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

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

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

"**Subsidiary**" means, in relation to any person, any body corporate, partnership, joint venture, association or other entity of which more than 50 percent of the total voting power of shares or units of ownership or beneficial interest entitled to vote in the election of directors (or members of a comparable governing body) is owned or controlled, directly or indirectly, by such person;

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

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

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

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

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

## XTREME COIL DRILLING CORP.

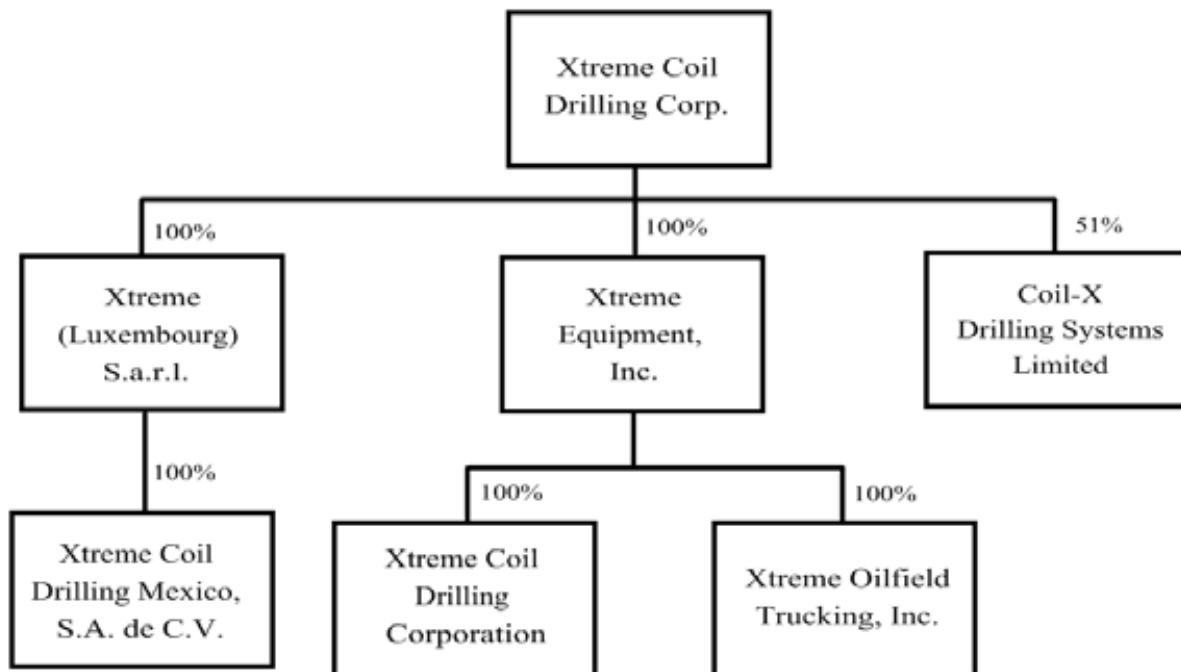
### General

Xtreme Coil Drilling Corp. was formed by the Amalgamation of Xtreme Coil Drilling Corp. and Norquay on May 1, 2006 pursuant to the provisions of the ABCA. The Amalgamation was carried out pursuant to the terms of the Amalgamation Agreement and was approved at meetings of the shareholders of each entity held on April 20, 2006.

Xtreme Coil's principal office is located at 1402, 500 Fourth Avenue SW, Calgary, Alberta, T2P 2V6 and its registered office is located at 4300, 888 Third Street SW, Calgary, Alberta, T2P 5C5.

### Intercorporate Relationships

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



#### Name

Xtreme Coil Drilling Corp.  
 Xtreme Coil Drilling Corporation  
 Xtreme Equipment, Inc.  
 Xtreme (Luxembourg) S.a.r.l.  
 Xtreme Oilfield Trucking, Inc.  
 Coil-X Drilling Systems Limited\*  
 Xtreme Coil Drilling Mexico, S.A. de C.V.

#### Place Incorporated

Alberta  
 Texas  
 Delaware  
 Luxembourg  
 Wyoming  
 Alberta  
 Mexico

\*Coil-X has not commenced active operations to date.

## GENERAL DEVELOPMENT OF THE BUSINESS

Xtreme Coil is a drilling contractor using Coil Over Top Drive<sup>®</sup> ("COTD<sup>™</sup>") drilling rigs, which employ new proprietary patented and patent-pending coiled tubing drilling designs and technologies. Xtreme Coil routinely undertakes patent applications to protect new drilling and related equipment designs and technologies in the United States, Canada and other international jurisdictions. In addition to their coil capabilities, COTD<sup>™</sup> drilling rigs can drill with conventional jointed drill pipe. Xtreme Coil hires third parties under contract to build coiled tubing drilling rigs. On completion of the coiled tubing drilling rigs, Xtreme Coil operates the rigs under contract to customers, including international integrated drilling services providers and crude oil and natural gas exploration and production ("E&P") companies. Xtreme Coil's first drilling rig commenced field operations in Alberta in July 2006. Xtreme Coil's operations focus on Mexico and the United States, with a larger proportion of active drilling operations occurring in Mexico at 2008 year-end. Xtreme Coil is exploring several business opportunities outside the United States and Mexico.

As at December 31, 2008, 16 COTD<sup>™</sup> rigs were completed and deployed, with ten rigs in the United States and six rigs in Mexico, and a number of components in inventory for two additional rigs.

### Three Year History

On May 1, 2006, Xtreme Coil completed the Amalgamation which constituted Norquay's "qualifying transaction" for the purposes of the TSXV Policies. The amalgamated entity continues operating as Xtreme Coil Drilling Corp. On May 4, 2006, the Common Shares commenced trading on the TSXV under the symbol "XDC". On September 5, 2006, the Common Shares began trading on the TSX under the symbol "XDC" and were de-listed from the TSXV.

In 2006, Xtreme Coil Drilling Corporation was established in the State of Texas as a wholly-owned subsidiary to facilitate management of drilling operations throughout the United States.

On February 6, 2006, Xtreme Coil entered into a credit agreement for provision of a committed 364-day extendible revolving loan facility of \$50 million and an operating line of credit of \$5 million which became effective March 16, 2006. In March 2007, the Corporation's revolving loan facility was extended for a further 364 days. In March 2008, the revolving facility was again extended for a further 364 days.

In May 2008, Xtreme Coil entered into an agreement for new credit facilities with our existing lender and another lender on a syndicated basis. The new credit facilities include a \$15 million revolving operating line and a revolving extendible facility, initially set at \$70 million and reduced to \$60 million on December 31, 2008 as scheduled. The credit facilities require Xtreme Coil to maintain certain financial covenants. At December 31, 2008, Xtreme Coil was not in compliance with two covenants. The two unfulfilled covenants were an EBIT to interest coverage ratio and a funded debt to EBITDA ratio. The syndicate provided a waiver in regards to covenant non-compliance.

From management's ongoing communication with Xtreme Coil's banking syndicate, we believe the institutions comprising the syndicate are in sound financial position. Xtreme Coil conducts ongoing communication to maintain its working relationship with the banking syndicate. These discussions, in light of the current credit crisis and economic downturn lead management to believe Xtreme Coil's relationship with the banking syndicate will continue. Renewal of the revolving credit facility is scheduled for late May 2009 and Xtreme Coil has formally requested an extension of the facility. As at December 31, 2008, Xtreme Coil had drawn approximately \$67 million on these facilities.

Xtreme Coil has made commitments to several vendors, primarily related to providing goods and services to modify existing drilling rigs for new contracts. As at December 31, 2008, the aggregate value of these commitments was \$3.4 million.

On December 19, 2006, the Corporation entered into a strategic corporate joint venture with Shell Technology Ventures B.V. ("STV") whereby the Corporation and STV formed a new corporate entity, Coil-X Drilling Systems Corporation, owned 51 percent by the Xtreme Coil and 49 percent by STV, to build and deploy several patent pending designs of coiled tubing drilling rigs for contracting to existing and potential E&P customers throughout the United States and Canada. Under this joint venture agreement, Coil-X could have also deployed Xtreme Coil drilling rigs to jurisdictions outside of North America.

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

On February 15, 2007, the Corporation completed a brokered private placement of 5,200,000 Common Shares at a price of \$10.50 per Common Share and a non-brokered private placement with STV for 160,000 Common Shares at a price of \$10.50 per Common Share.

On April 24, 2007, Xtreme Coil incorporated a wholly owned subsidiary, Xtreme Oilfield Trucking, Inc. in the state of Wyoming, USA. This Subsidiary's operations and truck fleet are based in Cheyenne, Wyoming.

On May 1, 2008, Xtreme Coil and Shell Technology Ventures Fund 1 B.V. ("**STVF1**") (a successor in the interest of the joint venture to STV) completed a private placement pursuant to which STVF1 subscribed for 4,780,000 Common Shares at a price of \$7.32 per Common Share for aggregate gross proceeds of \$34,989,000.

On May 1, 2008, Xtreme Coil completed the acquisition of the 49 percent interest held by STVF1 in Coil-X, including STVF1's outstanding loan to Coil-X, by the issuance of 1,092,896 Common Shares at a price of \$7.32 per Common Share, 1,000,000 purchase warrants and 700,000 performance warrants. Each whole purchase warrant and performance warrant will entitle STVF1 (once vested, in the case of the performance warrants) to purchase one Common Share for \$9.87 for a period of 24 months following the date of closing of the transaction. The closing of the purchase of STVF1's interest also resulted in cancellation of 2,092,574 warrants previously held by STVF1.

Following completion of the acquisition of STVF1's interest in Coil-X, Xtreme Coil and STVF1 formed a new joint venture entity, Coil-X Drilling Systems Limited, owned 51 percent by Xtreme Coil and 49 percent by STVF1. This new joint venture entity will use Xtreme Coil's technology to pursue the design, manufacture, purchase and operation of drilling rigs for use in certain types of unconventional resource exploration. As at March 16, 2009, this new joint venture had not commenced active operations.

In June 2008, Xtreme Coil established Xtreme Coil Drilling Mexico, S.A. de C.V., in Mexico as a wholly-owned subsidiary to enter into contracts for drilling operations which required transfer of drilling rigs and related equipment into that region. During the remainder of 2008, Xtreme Coil leased an office, deployed drilling rigs and related equipment, established a warehouse and engaged a range of employees to manage day-to-day operations in Mexico.

In October 2008, Xtreme Coil entered into a joint marketing agreement with INTEQ, a division of the world-wide drilling services company, Baker Hughes Incorporated. Under the agreement, the two parties will provide innovative solutions to customers who use Xtreme Coil's COTD™ drilling rigs and INTEQ's directional drilling tools. The initial focus will be field testing Xtreme Coil's coiled tubing using the TruTrak™ rotary steerable tool and undertaking re-entry drilling projects with the CoilTrak® bottom hole assembly system. The intended objective is to combine COTD™ drilling rigs with INTEQ tools to introduce significant technical drilling improvements to both parties' current and future customers.

At December 31, 2008, the United States Patent and Trademark office (the "**USPTO**") had issued four patents to Xtreme Coil. In January 2009, the USPTO issued Xtreme Coil's fifth patent. An earlier patent received even broader issuance when it was approved by the Eurasian Patent Organization (the "**EAPO**") for regions under its jurisdiction throughout Europe and Asia. Xtreme Coil has more than 60 further patent applications pending in the United States, Canada and other jurisdictions. Xtreme Coil's issued patents and patent applications cover 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 markets the majority of its new drilling rigs in Mexico and the United States with the objective of achieving maximum utilization, primarily under arrangements agreed to in long-term contracts. Xtreme Coil has signed long-term contracts for eleven rigs with customers in Mexico and the United States. Contract negotiations with other potential customers are ongoing.

## Significant Acquisitions and Dispositions

Xtreme Coil did not complete any significant dispositions or significant acquisitions, other than the acquisition of Coil-X, for which disclosure is required under Part 8 of National Instrument 51-102 *Continuous Disclosure Obligations* ("NI 51-102") within or since the end of the most recently completed financial year.

## DESCRIPTION OF THE BUSINESS AND OPERATIONS

### General

Xtreme Coil is a drilling services contractor utilizing proprietary COTD™ rigs intended for deeper crude oil and natural gas drilling with larger diameter coiled tubing. Xtreme Coil has developed new patented and patent-pending coiled tubing drilling technologies and designs. In addition to their larger coil capabilities, Xtreme Coil's drilling rigs feature rapid transition between drilling with 3-1/2 inch coiled tubing and drilling with conventional jointed drill pipe. These COTD™ rigs use larger injectors that can accommodate the heavier hook loads required for deeper drilling. One aspect of Xtreme Coil's new designs focuses on developing transportation technologies that mobilize drilling rig components into fewer loads to achieve faster rig-up and rig-out times. As Xtreme Coil builds and commissions new rigs, it negotiates contracts with customers for drilling rig deployment to field operations. Xtreme Coil currently focuses on the drilling market in Mexico, the United States and other regions outside North America. During 2008, Xtreme Coil continued discussions with parties regarding drilling opportunities in several international locations.

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. For the year ended December 31, 2008, most new drilling rig construction, assembly and commissioning took place in Nisku, Alberta, Canada.

### Operations

Xtreme Coil's core business focuses on the design, manufacture and operation of coiled tubing drilling rigs. Xtreme Coil has six rig designs of which five have been built. Xtreme Coil has three models of XTC 200, a single trailer ("ST") and a double trailer ("DT") and a DT<sup>Plus</sup> which incorporates the double trailer and a 200,000 pound injector. The ST design was developed originally for the Canadian market while the DT and the DT<sup>Plus</sup> were specifically developed for contract drilling operations in the United States. During 2007, Xtreme Coil designed and built the first XTC 200 DT<sup>Plus</sup>. During 2007 and 2008, Xtreme Coil built several XTC 300 and XTC 400 COTD™ rigs. These larger rigs were deployed to the United States and Mexico. Currently, Xtreme Coil operates the majority of its rigs in the Mexico and the United States markets because of strong day rates and the greater number of days the rigs can work. In the United States and Mexico, operating days can reach 365 days whereas, in Canada, drilling rigs can operate approximately 250 days (see "Seasonality" and "Cyclical and Seasonal Nature of Industry"). Currently Xtreme Coil has no rigs in Canada, ten rigs in the United States and six rigs in Mexico. In Mexico and the United States, Xtreme Coil contracts to drill in deeper formations from approximately 1,500 to 3,000 metres (approximately 5,000 to 10,000 feet). Xtreme Coil's XTC 300 and 400 rigs are designed for deeper zones and Xtreme Coil believes its competitive advantage lies in drilling with larger coiled tubing to reach deeper horizons.

### Operational Capacity

Xtreme Coil's current fleet of ten rigs in the United States represents about 0.5 percent of the peak number of rigs operating during 2008 in the United States. Given the size of the Mexico drilling market, the number of rigs operated by Xtreme Coil is not sufficient to calculate their impact.

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

Xtreme Coil's ability to compete and expand operations depends on having access, at a reasonable cost, to equipment and components utilized in the manufacture of its coiled tubing drilling rigs. From time to time, Xtreme Coil makes purchases of certain drilling equipment and components from various suppliers inside and outside the crude oil and natural gas services industry. Xtreme Coil has no assurance that sources for drilling equipment and components will remain available and any lack of access to such equipment and components could impair Xtreme Coil's ability to construct rigs and to expand drilling services. We source materials and components based on industry standard terms and pricing. If Xtreme Coil's suppliers are unable to provide the necessary materials and

components, or otherwise fail to deliver products of the quality or in the quantities required, resulting delays in the construction of new rigs could have a material adverse effect on Xtreme Coil's business, results of operations and financial condition. See "Risk Factors – Sources, Pricing and Availability of Equipment and Equipment Parts".

### **Business Climate and Market for Services**

In North America, and elsewhere, coiled tubing drilling technology may enable Xtreme Coil's customers to reduce their finding costs or capture cost savings by reducing average drilling times. Coil rigs are intrinsically safer than conventional rigs, a major focus for customers. Xtreme Coil provides new equipment built with leading edge technologies, primarily intended to reduce overall drilling time and costs. This new drilling and related equipment is efficient from an environmental perspective and incorporates some of the most fuel efficient engines currently available in the market. In North America, including the United States and Mexico, a large percentage of the existing drilling fleet is comprised of older rigs which, primarily because of their age, may be less efficient and less safe than Xtreme Coil's new fleet of coiled tubing drilling rigs. Generally, Xtreme Coil's rigs require a smaller footprint than conventional rigs because of fewer loads to move which minimizes surface disturbance. The XTC 300 and XTC 400 have integral skidding systems to move the rigs up to one hundred and twenty feet on the same well site to facilitate multi-well drilling from a single pad without moving ancillary equipment or facilities used during drilling operations. Xtreme Coil's business plan is based on the assumption that new COTD™ drilling rigs have the potential to displace a proportionate number of older conventional rigs in the markets where we operate or enter, including Mexico, the United States and other international regions.

In terms of the specific benefits of coiled tubing drilling versus conventional drilling, Xtreme Coil's management considers the primary benefits of coiled tubing drilling are: faster penetration rates and tripping than conventional rigs, reduced exposure to risks related to well-control and stuck-pipe; potentially safer and more efficient operations and environmentally-responsible operation and transportation. As an added benefit, COTD™ rigs can transition quickly between drilling with coiled tubing and drilling with conventional jointed drill pipe. In the past, Xtreme Coil drilling rigs have demonstrated their capability to drill deeper directional and "S" curve wells with coil. Xtreme Coil believes COTD™ rigs are particularly suited to re-entry drilling of existing wells since coiled tubing drilling provides additional efficiency in underbalanced operations and bottom hole assemblies required for re-entry drilling are readily available.

Xtreme Coil's business objective is to become one of the few companies in the world to successfully develop and operate larger coiled tubing drilling technology. Xtreme Coil's proprietary technologies have broad application to under-balanced side-track, directional and "S" curve, re-entry of existing wellbore drilling, coal bed methane, and Steam Assisted Gravity Drainage projects.

### **Revenues Generated by Categories of Principal Products**

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

<u>Provision of contract drilling services</u>	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>
United States	69 percent	86 percent
Mexico	26 percent	–
Canada	5 percent	14 percent

### **Specialized Skill and Knowledge**

Coiled tubing drilling technology has been developed, modified and refined over the past decade with improvements in technology, products and operating efficiency. Shallow drilling knowledge and expertise is well-established in Canada. However, Xtreme Coil focuses on developing new techniques for using larger coiled tubing to drill to deeper geological horizons. As we encounter and resolve challenges in drilling with coiled tubing to new depths, Xtreme Coil applies for patents to protect these new techniques and any newly developed equipment. Employee expertise is increasing as we learn more about coiled tubing drilling and overcome challenges at depths below 2,000 metres (6,500 feet).

## **Intangible Property**

At December 31, 2008, the USPTO had issued four patents to Xtreme Coil. In January 2009, the USPTO issued Xtreme Coil's fifth patent. An earlier patent received even broader issuance when it was approved by the EAPO for regions under its jurisdiction throughout Europe and Asia. Xtreme Coil has more than 60 further patent applications pending in the United States, Canada and other jurisdictions. Xtreme Coil's issued patents and patent applications cover 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. In some instances, Xtreme Coil relies on trade secrets and patent-applied-for expertise to maintain our competitive position. Xtreme Coil's strategy is to employ proprietary intellectual property to create barriers to entry by competitors. Xtreme Coil will continue to pursue a strategy of applying to patent all newly developed technologies and related equipment. We expect Coil-X could present opportunities to develop and access certain new technologies related to unconventional resource development.

## **Cyclical and Seasonal Nature of Industry**

Areas of the United States where Xtreme Coil conducts drilling operations are infrequently subject to weather constraints like hurricanes, especially in the southern states, but may experience operational restrictions for other reasons. Some areas are subject to environmental orders for specific well leases which can prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protection. These restrictions may also affect activity levels and operating results.

In the region of Mexico, where Xtreme Coil is currently active, drilling operations can be constrained by certain weather conditions, particularly hurricanes, as well as excessive heat or rain. These weather conditions may interrupt periods of activity which may affect operating results. On occasion, movement of drilling rigs, as well as goods and services, can experience delays while authorities negotiate access or settle local disputes.

Currently, Xtreme Coil does not have field operations in Canada where seasonal weather conditions can restrict drilling operations. Particularly, movement of heavy equipment in the north depends on ground freezing to support equipment. Road bans prevent heavy equipment from moving until the ground is dry enough to support the weight of loads. The timing and duration of freezing and thawing can affect drilling activity levels and operating results.

The drilling services business is affected by cycles in commodity prices for crude oil and natural gas. Commodity price affect Xtreme Coil's customer budgets resulting in changes in demand for drilling services and equipment. In the latter half of 2008, the United States and Canada experienced a significant downturn in drilling demand due to sharply lower commodity prices. Xtreme Coil expects drilling opportunities in Mexico will remain robust. The historic decline in daily oil production requires aggressive expansion of onshore drilling operations, particularly in the Chicontepec area where our rigs operate and where we now have a full complement of people with operational and technical expertise. In response to Mexico's projects focused on increasing oil production, we continue to discuss further opportunities to deploy Xtreme Coil's drilling rigs to ongoing and new projects in that country.

## **Economic Dependence**

Xtreme Coil has a number of major competitors in the coiled tubing segment of the drilling industry with significant market share and influence over pricing of services which could impact Xtreme Coil's future corporate performance. Demand for coiled tubing drilling rigs designed and manufactured by Xtreme Coil has depended, to a large degree, on drilling activity in the United States which has historically shown significant fluctuations from year to year. In 2008, three customers accounted for 84 percent of Xtreme Coil's revenue.

Traditionally, the market in Mexico features very large drilling projects which involve multi-well programs undertaken over several years. In Mexico, certain integrated service providers contract bundled services to the national oil company which is the primary customer. To date, Xtreme Coil has contracted drilling services to an integrated service provider and not directly to the primary customer.

## **Changes to Contracts**

Contracts in the drilling contract services industry are generally awarded on the basis of technical expertise, equipment requirements, price, equipment availability, and industry safety record. A competitive bid process is generally used to award drilling contracts. Bids are generally requested by customers on a day-work basis. Under a day-work contract, a fixed rate is charged for each day the equipment and crew are in operation. Weakened demand,

for drilling services, especially when commodity prices collapse, or rig performance issues could result in customers renegotiating or terminating contracts.

### **Competitive Conditions**

Xtreme Coil's business success is connected, in large part, to the general vibrance of companies who explore for, develop and/or produce crude oil and natural gas in México, the United States and, in the future, other international regions. Accordingly, in addition to the various federal, provincial, state and municipal regulations to which Xtreme Coil adheres in conducting ongoing operations, our operations are also sensitive to industry conditions that affect our customers, including land tenure, exploration, development, production, refining, transportation and marketing, imposed by legislation enacted by various levels of government and with respect to pricing and taxation of crude oil and natural gas by agreements among the jurisdictions in Mexico and the United States. All current legislation is a matter of public record and Xtreme Coil is unable to predict what additional legislation or amendments may be enacted.

Xtreme Coil provides contracted drilling services primarily to the field locations of customers located in Mexico and the United States. The drilling services sector in which the Corporation operates is highly competitive and, to be successful, Xtreme Coil must provide services that meet the specific needs of its customers at competitive prices. The principal competitive factors in the markets where Xtreme Coil operates are service quality, price and availability, reliability and performance of equipment used to perform drilling services, technical knowledge and experience and reputation for safety. Competitors, many of them larger than Xtreme Coil, offer similar services in all geographic regions where Xtreme Coil operates. Xtreme Coil's success depends on establishing sufficient critical mass by building and deploying enough new COTD™ drilling rigs to secure an adequate market share of drilling markets in Mexico, the United States and outside North America. See "Risk Factors – Competition".

### **Environmental Considerations**

Historically, environmental protection requirements have not had a significant financial or operational effect on Xtreme Coil's capital expenditures, earnings or competitive position. Subject to any changes in current environmental protection legislation, Xtreme Coil does not presently anticipate environmental protection requirements will have a significant effect on such matters in 2009. The Corporation is exposed to potential environmental liability in connection with its own business. See "Risk Factors - Environmental Liability Risks".

### **Employees**

As at December 31, 2008, Xtreme Coil employed approximately 185 full time, non-union employees. In 2009 Xtreme Coil may increase staffing primarily in proportion to any increase in the number of operating rigs. In Mexico, Xtreme Coil is committed to hiring and training local workers and enters contracts with third parties to provide recruitment and payroll services suitable for engaging local workers.

### **Risks of Foreign Operations**

Xtreme Coil currently conducts drilling operations primarily in Mexico and the United States. Since inception, and during 2008, we designed, constructed and commissioned our new COTD™ drilling rigs in Canada. We are subject to the risks associated with drilling markets of the regions where we operate. Such risks may include, and are not limited to, lack of access to materials and components and skilled workers, time delays associated with shipment of products and materials, particularly fuel, as well as uncertainties related to the existence and application of foreign laws. In addition, because we conduct business in international markets, we are exposed to risks caused by fluctuations in currency exchange rates. See "Risk Factors – Risks of Foreign Operations".

### **Bankruptcy and Similar Procedures**

There have been no proposed or actual bankruptcy, receivership or similar proceedings against the Corporation or any of our Subsidiaries, or any voluntary receivership, bankruptcy or similar proceeding by Xtreme Coil, or any of our Subsidiaries, since inception.

## **Social and Environmental Policies**

The Board of Directors of Xtreme Coil has established a Health, Safety and Environment Committee and has implemented policies and procedures relating to such matters for adherence by all directors, officers, employees and consultants of the Corporation.

## **Reorganizations**

Xtreme Coil was formed by the Amalgamation involving Xtreme Coil Drilling Corp. and Norquay on May 1, 2006. Pursuant to the Amalgamation Agreement: (i) each Xtreme Coil (pre-Amalgamation) shareholder received one Common Share for each one pre-Amalgamation Xtreme Coil share held; (ii) each Norquay shareholder received one Common Share for each thirty Norquay Shares held; (iii) each outstanding convertible security of Xtreme Coil (pre-Amalgamation) was exchanged for one comparable convertible security of Xtreme Coil (post-Amalgamation); (iv) each outstanding Norquay Agent Option was exchanged for a comparable convertible security of Xtreme Coil (post-Amalgamation), pursuant to the exchange ratio; and (v) other than the Norquay Agent Options, each outstanding convertible security of Norquay was cancelled.

## **RISK FACTORS**

### **Demand for Services**

Demand for Xtreme Coil's coiled tubing drilling technologies and related services depends largely on the level of customer capital budgets dedicated to crude oil and natural gas exploration, development and production activities in Mexico, the United States and regions outside North America. No assurance can be given that current crude oil and natural gas drilling activity will be maintained or increase or that demand for Xtreme Coil's drilling technology and services will reflect the level of drilling activity.

As well, exploration and development drilling activities depend, in large measure, on crude oil and natural gas prices, which may be affected by local or international factors or by government regulation, and cannot be accurately predicted. Changes in levels of drilling activity by our customers are directly affected by fluctuations in world commodity prices which, in turn, directly affect Xtreme Coil's business. A decline in drilling activities could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

### **Volatility of Industry Conditions**

Demand, pricing and terms for contract drilling services largely depend on the level of E&P activity in Mexico, the United States and, in the future, other regions outside North America. Industry conditions are influenced by numerous factors over which Xtreme Coil has no control, including: the level of crude oil and natural gas prices; expectations about future crude oil and natural gas prices; the cost of exploring for, producing and delivering crude oil and natural gas; the expected rates of decline of customers' current production; the discovery and production rates of new crude oil and natural gas reserves; available pipeline and other crude oil and natural gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of Xtreme Coil's customers to access equity capital or debt financing.

Xtreme Coil's business and operational activities are directly affected by fluctuations in the levels of E&P activity carried on by our customers. Drilling activity in the United States and Canada is driven by supply and demand for crude oil and natural gas. In the United States and Canada, the current economic downturn has reduced demand overall. Mexico and other regions where the primary producer is a national entity with economic and social policy responsibilities generally experience lower volatility in drilling activity.

No assurance can be given that expected trends in E&P activity will continue or that demand for contract drilling services will reflect the level of activity in the E&P sector. Any prolonged substantial reduction in crude oil and natural gas prices would likely affect crude oil and natural gas production levels and, therefore, affect the demand for contract drilling services. A material decline in crude oil or natural gas prices or industry activity in Mexico or United States could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

## **Capital Markets**

The impact on capital markets resulting from investor uncertainty in the North American economy is currently constraining access to capital for Xtreme Coil's customers in the crude oil and natural gas exploration, development and production sector, and, subsequently, the contract drilling services sector.

As a result of weakened global economies, the Corporation, along with all other oilfield services companies, may experience restricted access to capital, credit facilities and equity, and may face increased borrowing costs. Although Xtreme Coil's business has not changed, financial institutions' lending capacities may have diminished and risk premiums may have increased.

For the year ended December 31, 2008, capital expenditures were primarily for continued construction of new drilling rigs. In 2008 third quarter, Xtreme Coil announced the temporary suspension of the drilling rig construction program. Capital expenditures in early 2009, and until demand for our services increases, are limited to capital required to meet previous commitments for long-lead time rig components and to maintain or adapt drilling equipment to service committed contracts. When new contracts are negotiated, the Corporation expects to finance future capital expenditures from funds generated from operating activities, from borrowings and possible future equity financings. Xtreme Coil's ability to source new capital is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in oilfield services companies and, in particular, the Corporation's securities. To the extent external sources of capital become limited or unavailable, or available on unacceptable terms, the Corporation's ability to make capital investments and to maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and, as a consequence, results of operations may be materially and adversely affected.

If funds generated from operating activities are lower than expected or capital costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses related to maintenance of the existing drilling fleet, it will be required to source additional capital to maintain capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in delays in expanding Xtreme Coil's drilling fleet.

## **Access to Additional Financing**

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

## **Leverage and Restrictive Covenants**

Xtreme Coil's ability to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions in the instruments governing any indebtedness of those entities. The degree to which Xtreme Coil is leveraged could have important consequences for the shareholders of Xtreme Coil including, but not limited to: (i) Xtreme Coil's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) all or part of Xtreme Coil's cash flow from operating activities may be dedicated to the payment of the principal of and interest on Xtreme Coil's indebtedness, thereby reducing funds available for future operations or for payment of dividends to shareholders; (iii) certain of Xtreme Coil's borrowings will be at variable rates of interest, which exposes Xtreme Coil to the risk of increased interest rates; and (iv) Xtreme Coil may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors could have a material adverse affect Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

**Seasonality**

Areas of the United States where Xtreme Coil has drilling operations are infrequently subject to weather constraints such as hurricanes in the southern states but may experience operations restrictions for other reasons. Some areas are subject to environmental orders which include specific well leases and can prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protection. These restrictions may also affect activity levels and operating results.

In the region of Mexico, where Xtreme Coil is currently active, drilling operations can be constrained by certain weather conditions, particularly hurricanes, as well as excessive heat or rain. These weather conditions may interrupt periods of activity which may affect operating results. On occasion, movement of drilling rigs, as well as goods and services, can experience delays while the authorities negotiate access or settle local disputes.

Currently, Xtreme Coil does not have field operations in Canada where seasonal weather conditions can restrict drilling operations. Particularly, movement heavy equipment in the north depends on ground freezing to support the equipment. Road bans prevent heavy equipment from moving until the ground is dry enough to support the loads. The timing and duration of freezing and spring can affect drilling activity levels and operating results.

**Alternatives to and Changing Demand for Petroleum Products**

Xtreme Coil's management cannot predict the impact of changing demand for crude oil and natural gas products. Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to crude oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. Any major changes in demand for crude oil and natural gas products may result in a reduction in the demand for drilling services and could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and therefore on the trading price of the Common Shares.

**Sources, Pricing and Availability of Equipment and Equipment Parts**

Xtreme Coil sources equipment and equipment parts from a variety of suppliers, most of whom are located in Canada and the United States. Xtreme Coil's contract drilling services may incur risk or interruption of ongoing access to key supplies, including fuel, which could impair the ability to continue to operate equipment. When significant assets were under construction and an aggressive rig and related equipment building program was underway, Xtreme Coil depended on suppliers to deliver equipment on schedule and to meet required quality standards. If any of Xtreme Coil's suppliers are unable to provide the necessary equipment or parts or otherwise fail to deliver products that meet the Corporation's quality standards or the quantities required, any resulting delays in the provision of services, or in the time required to source and enter agreements with new suppliers, could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

**Technology**

Certain proprietary technologies are integral to Xtreme Coil's equipment and require proving in actual field operations or have only been operating in the field for a limited period of time. We cannot assure the current and future applications for Xtreme Coil's proprietary technology nor 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. There could also be alleged infringements on proprietary technologies levelled by Xtreme Coil against third parties or against Xtreme Coil by third parties. Any of the foregoing could result in lost revenues, significant legal costs, and other damages and costs which could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

**Government Regulation**

Xtreme Coil's operations are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in drilling operations and the transportation of materials and equipment provided to clients. Compliance with, breaches of, or changes to such laws, regulations and guidelines

could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

### **Operating Risks and Insurance**

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

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

### **Key Personnel**

The successful operation of Xtreme Coil's business will depend on the abilities, expertise, judgment, discretion, integrity and good faith of Xtreme Coil's executive officers, general managers, employees and consultants. In addition, the ability of management to expand Xtreme Coil's services will depend on our ability to attract qualified personnel as needed. Demand for skilled oilfield employees can be constrained by supply in periods of high industry activity. The unexpected loss of Xtreme Coil's key personnel, or the inability to retain or recruit skilled personnel, could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

### **Competition**

Xtreme Coil provides contract oilfield drilling and related services primarily to field operations of companies located in Mexico and the United States. The oilfield services business in which Xtreme Coil operates is highly competitive in most regions. To be successful, the Corporation must provide services that meet specific needs of customers at competitive prices. The principal competitive factors in the markets where Xtreme Coil operates are service quality and availability, reliability and performance of equipment used to provide its services, technical knowledge and experience and reputation for safety and price. Xtreme Coil competes with several regional competitors that are both smaller and larger. These competitors offer similar services in all geographic regions where Xtreme Coil operates. As a result of competition, Xtreme Coil may be unable to continue to provide its present services or to acquire additional business opportunities which could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

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

### **Credit Risk**

Xtreme Coil's accounts receivable are, and will be, with customers involved in the crude oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. In addition, Xtreme Coil's accounts receivable is heavily concentrated with a small number of customers. Collection of these receivables could be influenced by economic factors affecting the crude oil and natural gas industry. Any inability of Xtreme Coil to

collect these accounts receivable could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

### **Conflicts of Interest**

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

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

### **Changes in Legislation**

There can be no assurance that legislative changes relating to the crude oil and natural gas industry and any related effect on demand for services industry will not adversely affect the holders of Common Shares.

### **Service Agreements and Contracts**

The business operations of the Corporation depend on successful execution of drilling contracts, primarily written agreements that are cancellable at any time, most of which are subject to termination costs. The key factors which determine whether a client continues to use Xtreme Coil are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, reputation for safety and competitive price. There can be no assurance that Xtreme Coil's relationships with its customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

### **Risks of Foreign Operations**

Xtreme Coil currently conducts its contract drilling and related services business primarily in Mexico and the United States and is pursuing additional opportunities in other international markets. As such, the Corporation is subject to political, economic, and other uncertainties, including, but not limited to, changes in energy policies, currency exchange rate fluctuations, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which Xtreme Coil conducts operations, as well as risks of loss due threats to security or terrorism. Our operations may also be adversely affected by laws and policies affecting foreign trade, taxation and investment and by lack of access to materials, components and skilled workers and time delays associated with shipment of products and materials or interruptions to address local access matters. In the event of a dispute arising in connection with Xtreme Coil's operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Xtreme Coil's preference or enforcing judgments of one jurisdiction in other jurisdictions. Accordingly, Xtreme Coil's contract drilling and related activities could be substantially affected by factors beyond the Corporation's control, any of which could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

In addition, because Xtreme Coil conducts business outside of Canada, we are exposed to risks caused by fluctuations in currency exchange rates. In particular, international contracts in the contract drilling services industry are often denominated in United States dollars and, accordingly, a material decrease in the value of the United States dollar may negatively impact revenues, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and, therefore, on the value of the Common Shares.

## Environmental Liability Risks

The Corporation is exposed to potential environmental liability in connection with its business. Certain of Xtreme Coil's operations activities involve the handling, processing and storage of oil and chemical-based products. Xtreme Coil maintains insurance consistent with industry practice to protect against losses due to sudden and accidental environmental contamination, accidental destruction of assets, and other operating accidents or disruptions and liability to third parties. The occurrence of any of the foregoing, any other spill or event resulting in environmental contamination or a breach of environmental rules or regulations to which Xtreme Coil is subject could have a material adverse effect on Xtreme Coil's business, financial condition, results of operations and cash flows and, therefore, on the trading price of the Common Shares.

## DIVIDENDS

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

## DESCRIPTION OF CAPITAL STRUCTURE

### General

Xtreme Coil is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to vote at all meetings of our shareholders, to receive dividends as declared by Xtreme Coil and to receive, on liquidation, dissolution or winding-up, our remaining property and assets. As at March 16, 2009, 40,726,169 Common Shares were issued and outstanding.

We have filed documents affecting the rights of securityholders, including the Corporation's articles and by-laws, in accordance with NI 51-102 and they are available electronically on Xtreme Coil's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares are listed and posted for trading on the TSX under the symbol "XDC". The following table sets out the monthly high and low closing prices and the total monthly trading volumes for the indicated periods.

2008 Trading Price and Volume			
<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
January	\$8.75	\$6.71	257,206
February	\$7.95	\$6.50	989,730
March	\$8.25	\$7.16	205,184
April	\$9.55	\$7.50	2,826,177
May	\$10.56	\$8.75	1,778,251
June	\$10.95	\$9.40	1,610,612
July	\$10.00	\$8.50	261,723
August	\$9.25	\$8.26	287,223
September	\$8.99	\$5.75	2,794,990
October	\$6.74	\$3.51	573,029
November	\$3.99	\$1.99	750,841
December	\$3.00	\$1.53	2,668,392

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holdings

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

Name and Place of Residence	Position Held	Director and/or Officer Since	Principal Occupation during past five years
Thomas Wood <sup>(5)</sup> Calgary, Alberta Canada	Founder, Chairman of the Board and Chief Executive Officer,	June 2005	Since 2007, Chief Executive Officer of Xtreme Coil Drilling Corp.; presently and since 2005, Chairman of the Board of Xtreme Coil Drilling; presently Chief Executive Officer of Round Up Resource Services Ltd., a private investment company; since 2001, Director of Wrangler West Energy Corp., a public oil and gas producer. Prior thereto, from 2001 to 2005, founder and Chairman of Savanna Energy Services, an oilfield services company.
Rodney Uchytel <sup>(6)</sup> Houston, Texas USA	President	May 2008	Since 2008, President of Xtreme Coil Drilling Corp.; previously since September 2007, Chief Operating Officer of Coil-X Drilling Systems Corporation, a joint venture between Xtreme Coil and Shell Technology Ventures B.V.; from 2003 to 2007 various senior management positions with Schlumberger Integrated Project Management, an international drilling and oilfield services company.
David Tuer <sup>(1)(2)(3)</sup> Calgary, Alberta Canada	Director	May 2006	From 2005 to 2006, a Director of Norquay prior to the Amalgamation. Director, Canadian Phoenix Resources Corp, since September 2008; from 2005 until its acquisition by Value Creation Inc. in 2008, Executive Vice Chairman, BA Energy Inc., a private developer of Alberta's oil sands; since 2006 a director of Daylight Resources Trust (merged with Sequoia Oil & Gas Trust); since 2001, Chairman of the Calgary Health Region from 2001 until 2008; from 2003 until its sale in 2006, a Director of Rockwater Capital Corporation; since 2002, a Director of Canadian Natural Resources Limited, a senior crude oil and natural gas producer; and, since 2002, Chairman of AltaLink Management Ltd. a private electrical transmission company. From 2003 to 2005, a Director and Officer of Hawker Resources Inc. (a public oil and gas corporation); from 1994 to 2001 President and Chief Executive Officer of PanCanadian Petroleum Limited (a public oil and gas corporation). Mr. Tuer is a professional engineer and an independent businessman.
Kyle Swingle <sup>(4)(7)</sup> Long Tree, Colorado USA	Founder, Director and Chief Operating Officer	June 2005	Since 2007, Chief Operating Officer of Xtreme Coil Drilling Corp.; from 2005 to 2007 Chief Operating Officer, Canadian Operations, Xtreme Coil Drilling Corp; from 2004 to 2005, Vice President, Grey Wolf Inc., a United States drilling services company; from 2002 to 2004, founder, Director, President and Chief Executive Officer, New Patriot Drilling Corp., a United States drilling services company.
Marc Staniloff <sup>(1)(2)(3)</sup> Calgary, Alberta Canada	Director	August, 2006	Since 2007, Trustee of Holloway Lodging REIT. Since 2005, Chairman and Chief Executive Officer; from 2001 to 2005, President and Chief Executive Officer of Superior Lodging Corp., a hotel development, ownership and franchising company.
Peter Sharpe <sup>(4)</sup> Rijswijk, The Netherlands	Director	June 2008	Since 2006, Vice President, Technical Wells of Shell International Exploration and Production B.V., The Hague, The Netherlands; from 2004 to 2006, Regional Wells Manager of Shell Asia Pacific.

<b>Name and Place of Residence</b>	<b>Position Held</b>	<b>Director and/or Officer Since</b>	<b>Principal Occupation during past five years</b>
Daniel Remenda <sup>(1)(3)(4)</sup> Calgary, Alberta Canada	Director	June 2005	President of Danich Investments Limited, a private investment firm. From 2002 to 2005, a Director of Argo Energy Ltd. Mr. Remenda is principally an independent businessman involved in oil and gas producing companies, oil and gas service companies, real estate and agriculture.
Randolph Charron <sup>(2)(4)</sup> Calgary, Alberta Canada	Founder and Director	June 2005	President of Characo Corporation, a private oil and gas investment and consulting firm; since 2001, a director of Phoenix Energy Trust and its predecessors. Mr. Charron is principally an independent businessman involved in oil and gas services, oil and gas producing companies and other industry sectors.
Richard Havinga <sup>(8)</sup> Calgary, Alberta Canada	Vice President, Engineering and Design	July 2005	Since 2005, Vice President, Engineering and Design of Xtreme Coil Drilling Corp.; from 1999 to 2005, Vice President, Operations of Foremost Industries Inc., a Canadian company involved in design, manufacture, sale and service of drilling equipment and heavy all-terrain vehicles.
Vic Fitch Calgary, Alberta Canada	Chief Financial Officer	May, 2006	Since 2006, Chief Financial Officer of Xtreme Coil Drilling Corp.; during 2006, consultant to Norquay prior to the Amalgamation; from 2001 to 2006, Controller of Savanna Energy Services Corp., an oilfield services company.

## Notes:

- (1) Member of the Audit Committee
- (2) Member of the Corporate Governance and Nomination Committee
- (3) Member of the Compensation Committee
- (4) Member of the Health, Safety and Environment Committee
- (5) On January 12, 2009, Mr. Wood relinquished his responsibilities as Chief Executive Officer and became Executive Chairman of the Corporation. He remains Chairman of the Board and a director.
- (6) On January 12, 2009, Mr. Uchytel was appointed President and Chief Executive Officer of the Corporation.
- (7) On January 12, 2009, Mr. Swingle relinquished his responsibilities as Chief Operating Officer and became Senior Technical and Project Advisor to the Corporation. He remains a director.
- (8) On January 12, 2009, Mr. Havinga relinquished his position as Vice President, Engineering and Design and was appointed Chief Operating Officer of the Corporation.

As at March 16, 2009, Xtreme Coil's directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 8,894,901 Common Shares, or approximately 22 percent of the issued and outstanding Common Shares. The information as to Common shares beneficially owned, directly or indirectly, or over which control or direction is exercised, is based on information furnished to Xtreme Coil by the directors and officers. Each of Xtreme Coil's directors is scheduled to hold office until the next annual meeting of Xtreme Coil's shareholders.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No current director or executive officer of the Corporation is, or was within the last ten years prior to the date hereof a director, chief executive officer or chief financial officer of any issuer: (i) that while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemption for a period of more than thirty (30) consecutive days; (ii) that was subject to a cease trade or similar order or an order that denied the issuer access to any statutory exemption for a period of more than thirty (30) consecutive days that was issued after the director or executive officer ceased to act in that capacity of such issuer and which order resulted from an event that occurred while that director or executive officer was acting in that capacity of such issuer; or (iii) that while such director or executive officer was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement for compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets in any jurisdiction.

### **Personal Bankruptcies**

No current director or executive officer or security-holder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, executive officer or security-holder.

### **Penalties or Sanctions**

No current director or executive officer or security-holder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to: (i) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by any other securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body in any jurisdiction that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

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

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

## **MATERIAL CONTRACTS**

Xtreme Coil has not entered into a material contract in the last financial year or prior thereto which is still in effect other than the following

Xtreme Coil has contracts for three drilling rigs with Kerr-McGee Oil & Gas Onshore LP ("**Kerr-McGee**") for drilling of wells in the Rocky Mountain region of the United States. These contracts expire between 2010 and 2011. In 2006, after Xtreme Coil entered into these contracts, Anadarko Petroleum Corporation ("**Anadarko**") acquired Kerr-McGee, which resulted in Xtreme Coil having contracts with Anadarko.

In 2008, Xtreme Coil's wholly-owned subsidiary, Xtreme Coil Drilling Mexico, S.A. de C.V., contracted six COTD™ drilling rigs to Weatherford de Mexico S.A. de C.V. ("**Weatherford**"). This long-term commitment in Mexico resulted in deployment of two XTC 300, two XTC 400 and two XTC 200ST drilling rigs to commence operations between August 2008 and December 2008 in the Chicontepec region of the state of Veracruz, Mexico. Between August and October 2009, the each of the six contracts will have a renewal extension option period of at least one year.

Early in 2009, Xtreme Coil entered into a new long-term day rate contract with Weatherford for two further XTC 400 drilling rigs. During 2009 first quarter, these two rigs were being equipped and readied for transportation and drilling operations were anticipated to begin in 2009 second quarter. Once these rigs are in operation, Xtreme Coil will have eight drilling rigs operating in the Chicontepec oil development project near Poza Rica.

Subsequent to the initial contracts in Mexico, Xtreme Coil signed a letter of intent with Weatherford to contract a further XTC 300 drilling rig for delivery to the same project on a mutually agreed future date.

Xtreme Coil conducts ongoing discussions with E&P companies and other potential customers in the United States, Mexico and other international regions with the objective of securing additional long-term drilling services contract.

In May 2008, Xtreme Coil entered into an agreement for new credit facilities with our existing lender and another lender on a syndicated basis. The new credit facilities include a \$15 million revolving operating line and a revolving extendible facility, initially set at \$70 million and reduced to \$60 million by December 31, 2008 as scheduled. The credit facilities require Xtreme Coil to maintain certain financial covenants. At December 31, 2008, Xtreme Coil

was not in compliance with two covenants. The two unfulfilled covenants were an EBIT to interest coverage ratio and a funded debt to EBITDA ratio. The syndicate provided a waiver in regards to covenant non-compliance.

From management's ongoing communication with Xtreme Coil's banking syndicate, we believe the institutions comprising the syndicate are in sound financial position. Xtreme Coil conducts ongoing communication to maintain its working relationship with the banking syndicate. These discussions, in light of the current credit crisis and economic downturn lead management to believe Xtreme Coil's relationship with the banking syndicate will continue. Renewal of the revolving credit facility is scheduled for late May 2009 and Xtreme Coil has formally requested an extension of the facility. As at December 31, 2008, Xtreme Coil had drawn approximately \$67 million on these facilities.

### **TRANSFER AGENT AND REGISTRAR**

Our transfer agent is Valiant Trust Company, at their offices in Calgary and through the offices of their agent, BNY Trust Company of Canada, in Toronto.

### **AUDIT COMMITTEE INFORMATION**

#### **Audit Committee Charter**

The Audit Committee Charter is attached as Appendix "A" to this AIF.

#### **Composition of the Audit Committee**

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

<b>Name and Place of Residence</b>	<b>Independent</b>	<b>Financially literate</b>	<b>Relevant Education and Experience</b>
David Tuer Calgary, Alberta	Yes	Yes	Currently Vice Chairman and Chief Executive Officer, Marble Point Energy Ltd. (a private oil and gas company) and a director of Canadian Phoenix Resources Corp. (a publicly traded junior oil and gas E&P company). From 2005 until its acquisition by Value Creation Inc. in 2008, Executive Vice Chairman, BA Energy Inc., a private developer of Alberta's oil sands; since 2006 a director of Daylight Resources Trust (and its predecessors); from 2005 to 2008, a Director of Norquay prior to the Amalgamation; from 2001-2008, Chairman of the Calgary Health Region; from 2003 until its sale in 2006, a Director of Rockwater Capital Corporation; since 2002, a Director of Canadian Natural Resources Limited, a senior crude oil and natural gas producer; and, since 2002, Chairman of AltaLink Management Ltd. a private electrical transmission company. From 2003 to 2005, a Director and Officer of Hawker Resources Inc. (a public oil and gas corporation); from 1994 to 2001 President and Chief Executive Officer of PanCanadian Petroleum Limited (a public oil and gas corporation). Mr. Tuer is a professional engineer and an independent businessman.

<u>Name and Place of Residence</u>	<u>Independent</u>	<u>Financially literate</u>	<u>Relevant Education and Experience</u>
Marc Staniloff	Yes	Yes	Currently, Chairman and Chief Executive Officer of Superior Lodging Corp. In 2007, appointed a Trustee of Holloway Lodging REIT. Mr. Staniloff was President of Royop Hospitality Corporation and a director of Royop Properties Corporation, a TSX listed company, from July 1997 until October 2000. He earned his Bachelor of Commerce degree from the University of Calgary and is an active member of the Young President's Organization. Mr. Staniloff is also a member of the Super 8 Motels Franchisee Advisory Board and was the winner of the Super 8 Dennis Brown Memorial award.
Daniel Remenda Calgary, Alberta	Yes	Yes	Currently, President of Danich Investments Limited, a private investment company. From October 2002 to April 2005 Director of Argo Energy Ltd. (a public oil & gas corporation). From May 2001 to August 2002, a Director of High Plains Energy (a public oil and gas corporation). From May 1996 to July 2000, President and Director of Plains Perforating Ltd. (a private oil and gas service corporation and a division of Plains Energy Ltd. (a public oil and gas corporation)). Mr. Remenda is principally an independent businessman involved in oil and gas producing companies, oil and gas service companies, real estate and agriculture.

### **Fees Paid to PricewaterhouseCoopers LLP**

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

<u>Type of Fees</u>	<u>Fiscal Year Ended December 31</u>	<u>Aggregate Fees Billed</u>	<u>Nature of Services Performed</u>
Audit fees	2008	\$194,000	Year-end audit
	2007	\$100,000	Year-end audit
Audit – Related fees	2008	\$77,252	Quarterly reviews
	2007	\$37,500	Quarterly reviews
Tax Fees	2008	\$166,691	Canadian, United States tax review, tax return
	2007	\$51,350	Canadian, United States tax review, tax return
All other fees	2008	\$30,000	Internal controls, IFRS and other
	2007	\$53,000	Internal controls and other

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

#### **Legal Proceedings**

There are no material legal proceedings to which the Corporation is a party, or to which any of its property is, or was subjected, during the most recently completed financial year.

#### **Regulatory Actions**

During the year ended December 31, 2008 there were: (i) no penalties or sanctions imposed against Xtreme Coil or by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against Xtreme Coil that would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements Xtreme Coil entered into with a court relating to a securities legislation or with a securities regulatory authority.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

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

## **INTERESTS OF EXPERTS**

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

PricewaterhouseCoopers LLP, Chartered Accountants, have performed the external audit of financial statements of Xtreme Coil for the year ended December 31, 2008, as set forth in Xtreme Coil's financial statements. PricewaterhouseCoopers LLP has advised Xtreme Coil that they are independent with respect to Xtreme Coil within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, neither the aforementioned person, nor any director, officer or employee thereof, is or is expected to be elected, appointed or employed as a director, officer or employee of Xtreme Coil or of any associate or affiliate thereof.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Xtreme Coil securities and securities authorized for issuance under our equity compensation plans, as applicable, will be contained in our information circular for our 2009 meeting of shareholders that involves the election of directors. The Corporation provides additional financial information in the consolidated financial statements and management's discussion and analysis for the year ended December 31, 2008, which are set forth in the 2008 Annual Report. Documents affecting the rights of securityholders, along with additional information relating to Xtreme Coil, are filed on SEDAR at [www.sedar.com](http://www.sedar.com) and available by request to the Corporate Secretary [ir@xtremecoil.com](mailto:ir@xtremecoil.com) or by telephone +1 403 262 9500.

## APPENDIX A

### XTREME COIL DRILLING CORP.

#### AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

#### CHARTER

#### **Audit Committee Mandate And Terms Of Reference For Audit Committee Chair**

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

#### **General Functions, Authority and Role**

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

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

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

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

#### **Membership**

The membership of the Audit Committee will be as follows:

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

## Responsibilities

The responsibilities of the Audit Committee shall be as follows:

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

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

#### **Audit and Review Process and Results**

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

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

#### **Securities Regulatory Filings**

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

#### **Risk Assessment**

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

#### **Amendments to Audit Committee Charter**

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