

Management's Report

To the Shareholders of Xtreme Coil Drilling Corp.

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

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

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

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

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

signed by:

"Rodney J. Uchytel"
President and Chief Executive Officer

"Elizabeth T. Wilkinson"
Chief Financial Officer

Calgary, Alberta
March 12, 2010

Auditors' Report

To the Shareholders of Xtreme Coil Drilling Corp.

We have audited the consolidated balance sheets of Xtreme Coil Drilling Corp. as at December 31, 2009 and 2008 and the consolidated statements of income and retained earnings (deficit), comprehensive income (loss), accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

March 12, 2010

Xtreme Coil Drilling Corp.
Consolidated Balance Sheets

(in thousands)

	2009 Dec 31	2008 Dec 31
Assets		
Current assets		
Cash and cash equivalents	\$ 21,864	\$ 2,010
Accounts receivable, net (Notes 4 and 12)	28,807	27,291
Other receivables (Note 5)	7,568	7,966
Prepaid expenses	2,120	1,218
Inventory (Note 6)	4,592	1,045
	64,951	39,530
Future income tax (Note 11)	7,280	4,966
Equipment (Note 7)	239,098	238,345
Intangible assets (Note 8)	4,909	4,923
Goodwill	1,630	1,630
	\$ 317,868	\$ 289,394
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness (Note 9)	–	7,878
Accounts payable and accrued liabilities (Note 12)	14,139	14,215
Income tax payable	2,222	1,354
Current portion of obligations under capital leases	–	75
Current portion of long-term debt (Notes 9 and 17)	12,332	9,825
	28,693	33,347
Long-term liabilities		
Obligations under capital leases	–	35
Long-term debt (Notes 9 and 17)	31,344	49,105
	31,344	49,140
Shareholders' equity		
Share capital (Note 10)	252,797	207,462
Warrants (Note 10b)	1,630	1,630
Contributed surplus (Note 10c)	4,753	3,453
Retained earnings (deficit)	4,449	(5,638)
Accumulated other comprehensive loss	(5,798)	–
	257,831	206,907
	\$ 317,868	\$ 289,394

Commitments and contingencies (Note 14)

See accompanying notes to the consolidated financial statements.

On behalf of the board of directors,

Marc Staniloff
Director

David Tuer
Director

Xtreme Coil Drilling Corp.
Consolidated Statement of
Income and Retained Earnings (Deficit)
(in thousands, except share and per share data)

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Revenue	\$ 99,371	\$ 78,114
Expenses		
Operating expenses	59,550	55,221
General and administrative expenses	13,819	7,487
Depreciation of capital assets	11,787	7,896
Amortization of intangibles	284	271
Stock-based compensation	1,261	1,251
Foreign exchange gain	(2,936)	(875)
Loss on sale of equipment	15	46
Net interest expense	3,158	3,191
Income before tax for the year	12,433	3,626
Tax expense (recovery)		
Current	3,079	1,354
Future	(733)	(469)
Total tax expense	2,346	885
Net income	10,087	2,741
Deficit, beginning of year	(5,638)	(8,379)
Retained earnings (deficit), end of year	4,449	(5,638)
Net income per common share		
– basic	\$ 0.22	\$ 0.07
– diluted	\$ 0.21	\$ 0.07
Weighted average number of common shares (Note 10e)		
– basic	46,875,330	38,569,546
– diluted	47,192,491	39,421,623

See accompanying notes to the consolidated financial statements.

Xtreme Coil Drilling Corp.
Consolidated Statements of
Comprehensive Income (Loss)

(in thousands)

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Net income	\$ 10,087	\$ 2,741
Other comprehensive income (loss)		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(32,286)	-
Comprehensive income (loss)	\$ (22,199)	\$ 2,741

See accompanying notes to the consolidated financial statements.

Xtreme Coil Drilling Corp.
Consolidated Statements of
Accumulated Other Comprehensive Loss

(in thousands)

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Accumulated other comprehensive income		
- beginning of year	\$ -	\$ -
Impact of translating financial statements of self-sustaining foreign operations beginning of period (<i>Note 3</i>)	26,488	-
Unrealized loss on translation of foreign operations during the current year (<i>Note 3</i>)	(32,286)	-
Accumulated other comprehensive loss		
- end of year	\$ (5,798)	\$ -

See accompanying notes to the consolidated financial statements.

Xtreme Coil Drilling Corp.
Consolidated Statement of Cash Flows
(in thousands)

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Cash provided by operating activities		
Net income	\$ 10,087	\$ 2,741
Items not affecting cash:		
Depreciation and amortization	12,071	8,167
Stock-based compensation	1,261	1,251
Loss on sale of equipment	15	46
Amortization of financing cost	301	360
Unrealized foreign exchange gain	(3,290)	(1,670)
Future income tax recovery	(733)	(469)
	19,712	10,426
Changes in non-cash operating working-capital (Note 16)	1,874	(19,898)
	21,586	(9,472)
Financing activities		
Proceeds from shares issued	47,203	34,990
Share issue costs	(2,825)	(890)
Proceeds from exercise of stock options	141	670
Proceeds from other long-term liabilities	-	8,000
Proceeds from (reduction of) long-term debt	(15,254)	23,930
Proceeds from (repayment of) operating facility	(7,878)	7,878
Capital lease payments	(110)	(41)
	21,277	74,537
Investing activities		
Proceeds from sale of equipment	958	42
Capital expenditures	(17,048)	(55,994)
Increase in intangibles	(270)	(241)
Changes in non-cash working capital relating to capital items (Note 16)	(6,649)	(7,245)
	(23,009)	(63,438)
Increase in cash and cash equivalents during the year	19,854	1,627
Cash and cash equivalents, beginning of year	2,010	383
Cash and cash equivalents, end of year	\$ 21,864	\$ 2,010
Supplemental disclosure of cash flow information		
Interest received	\$ 21	\$ 24
Interest paid	2,897	2,844
Income tax paid	2,011	-
Non-cash transactions		
Issuance of common shares for joint venture purchase	-	3,920
Repayment of joint venture loan	-	4,080

See accompanying notes to the consolidated financial statements.

Xtreme Coil Drilling Corp.
Notes to the Consolidated Financial Statements

(\$ in thousands, except where indicated)

1. Nature of operations

Xtreme Coil Drilling Corp. ("Xtreme Coil" or the "Company") was incorporated May 24, 2005, under the Business Corporations Act of Alberta. The Company develops and operates coiled tubing drilling rigs using Xtreme Coil's patented and patent-related coil rig designs and technology. On completion of the Coil Over Top Drive® ("COTD™") drilling rigs, Xtreme Coil contracts drilling services to oil and natural gas exploration and development companies and international integrated drilling services companies in the United States of America ("United States" or "US") and the United Mexican States ("Mexico"). Xtreme Coil's head office is in Houston, Texas, and the Company has a corporate office in Calgary, Alberta, Canada, and a warehouse in Casper, Wyoming. In Mexico, Xtreme Coil's operations are managed from office and warehouse facilities near Poza Rica, in the state of Veracruz.

2. Significant accounting policies

Basis of Presentation

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

Use of estimates

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

Principles of consolidation

The consolidated financial statements include the accounts of Xtreme Coil and its subsidiaries. All are wholly-owned subsidiaries and are fully consolidated. All intercompany balances and transactions have been eliminated on consolidation.

Cash and cash equivalents

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

Inventory

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

Equipment

Xtreme Coil records equipment at cost. The Company depreciates equipment using the straight-line method over the estimated useful life of the computer and shop equipment, furniture and fixtures, vehicles, and trucking equipment.

	Estimated useful life (in years)
Computer equipment	3
Furniture and fixtures	5
Vehicles	5
Trucking equipment	5
Shop equipment	20

Leasehold improvements are depreciated on a straight-line basis over the shorter of their expected useful lives or related lease terms.

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

Intangible Assets

Xtreme Coil amortizes drilling and technology patents and pending patents on a straight-line basis over a period of 20 years, which is the life of each patent. Xtreme Coil tests for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Recoverability is assessed by

Xtreme Coil Drilling Corp.
Notes to the Consolidated Financial Statements

(\$ in thousands, except where indicated)

comparing the carrying amount to the projected future net cash flows the intangible assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates the carrying amount of the asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds fair value. In assessing fair value, discounted cash flow calculations are considered.

Foreign currency translation

Xtreme Coil considers operations in the United States and Mexico as self-sustaining foreign operations. Assets and liabilities denominated in United States dollars ("USD") are translated to Canadian dollars ("CAD") at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate in effect during the period in which the transactions occurred. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive loss in shareholders' equity.

Other foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Stock-based compensation

Xtreme Coil has a Stock Option Plan as described in Note 10(d). The Company uses the fair value method of accounting for stock-based compensation. The fair value of options awarded to employees under the stock option plan is determined using the Black-Scholes option pricing model. The amount of the fair value is charged to earnings over the vesting period of the stock option and a corresponding credit is made to contributed surplus. Upon the exercise of the options, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event unvested options expire without being exercised, previously recognized compensation expense associated with such options is reversed.

Income tax

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

Per share amounts

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

Impairment of long-lived assets

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

Revenue recognition

Xtreme Coil's services are generally sold by means of a contract with the customer and incorporate a fixed or determinable price based upon daily rates. Revenue is recognized when services are rendered or over equipment usage periods, and when collection is reasonably assured.

Financial instruments

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

Financial assets and financial liabilities "held-for-trading" are measured at fair value with the changes in those fair values recognized in net earnings. Financial assets "available for sale" are measured at fair value with the changes

Xtreme Coil Drilling Corp.
Notes to the Consolidated Financial Statements

(\$ in thousands, except where indicated)

in those fair values recognized in other comprehensive income. Financial assets “held-to-maturity”, “loans and receivables” or “other financial liabilities” are measured at amortized cost using the effective interest method of amortization.

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

<i>Cash and cash equivalents</i>	<i>Held-for-trading</i>
<i>Accounts receivable and other receivables</i>	<i>Loans and receivables</i>
<i>Accounts payable, accrued liabilities, bank indebtedness and long-term debt</i>	<i>Other financial liabilities</i>

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company’s fair value hierarchy has the following levels: Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level I); and inputs other than quoted prices included in Level I that are observable for the asset or liability, either directly or indirectly (Level II); and valuation techniques with significant unobservable market inputs. (Level III).

Financial instruments – recognition and measurement

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

Goodwill

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

3. Changes in accounting policies and future accounting standards

Changes in accounting policies and accounting standards

Prior to January 1, 2009, Xtreme Coil accounted for its subsidiaries in the United States and Mexico as integrated for the purposes of reporting gains and losses on foreign currency transactions. The day-to-day drilling operations of the subsidiaries were financed primarily through borrowings from the Company prior to January 1, 2009. Throughout the year ended 2009, the Mexico subsidiary, which started the year with six rigs operating under long-term contracts and ended the year with ten rigs working under long-term contracts, generated sufficient income to fund its own operations, thereby eliminating the need for further financing from the Company. Similarly, the Company’s United States subsidiary has been operating three rigs throughout the year ended December 31, 2009, and does not require borrowings from the Company to finance its day-to-day drilling operations.

As a result, Xtreme Coil concluded that the United States and Mexico subsidiaries should be accounted for as self-sustaining operations effective January 1, 2009. The subsidiaries’ foreign currency translations have been prospectively changed to the current rate method. Revenue and expenses are translated at the average exchange rate in effect during the period in which the transactions occurred. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive loss in shareholders’ equity. Other foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

As a result of this change of accounting policy, Xtreme Coil recognized a total of \$5,798 in accumulated other comprehensive loss, comprised of \$32,286 comprehensive loss for the year ended December 31, 2009, and \$26,488 comprehensive income in the years prior to January 1, 2009.

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) approved Handbook section 3064 - , *Goodwill and Intangible Assets*, which replaced previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. These updated standards were effective beginning January 1, 2009. The adoption of these updated standards did not have a material impact on the earnings or assets of the Company.

Emerging Issues Committee Abstract 173 (“EIC-173”) - *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, was issued by the CICA in January 2009. EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial

Xtreme Coil Drilling Corp.
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(\$ in thousands, except where indicated)

liabilities, including derivative instruments. EIC-173 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year ending December 31, 2009, with retroactive application. The adoption of EIC-173 did not impact the consolidated financial statements of the Company.

Section 3862 – *Financial Instruments – Disclosures* has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The change did not have a material impact on its consolidated financial statements.

Future accounting standards

In January 2009, the CICA issued Section 1582 - *Business Combinations* which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company is reviewing the impact that this standard will have on its consolidated financial statements.

In January 2009, the CICA issued Handbook Section 1601 - *Consolidated Financial Statements*. This Section, together with new Section 1602 - *Non-controlling Interests*, replaces the former Consolidated Financial Statements (Section 1600) and establishes standards for the preparation of financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. The Company is reviewing the impact that this standard will have on its consolidated financial statements.

Effective January 1, 2011, the Company will be required to adopt CICA Handbook Section 1602 - *Non-controlling Interests*, which with CICA Handbook Section 1601 will supersede the existing business combinations standard. This section establishes the standards for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. A non-controlling interest in a subsidiary will be required to be classified as a separate component of equity under this standard. The Company is reviewing the impact that this standard will have on its consolidated financial statements.

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in 2008 that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") by 2011. The Company will begin preparing its financial statements and related disclosures in accordance with IFRS as of the first quarter of 2011 with comparative data for the prior year. Although the IFRS conceptual framework is similar to Canadian GAAP, Xtreme Coil will be required to address any significant differences in recognition, measurement and disclosures.

4. Accounts receivable, net

	2009 Dec 31	2008 Dec 31
	\$ 28,807	\$ 27,291

Accounts receivable include primarily trade receivables which have been recorded net of a provision for doubtful accounts of \$0 at December 31, 2009 (at December 31, 2008 – \$494).

5. Other receivables

	2009 Dec 31	2008 Dec 31
	\$ 7,568	\$ 7,966

Other receivables reflect net value added tax amounts receivable from the Government of Mexico, primarily related to the importation of Xtreme Coil's rigs into Mexico during 2008 and 2009. The Company has applied for a refund of these amounts. During 2009 the Company paid additional value added tax of \$2,257 on rigs imported into Mexico during 2009, recovered \$2,790, and expects to recover the remaining receivable balance in 2010.

6. Inventory

	2009 Dec 31	2008 Dec 31
Coiled tubing and parts inventory	\$ 4,592	\$ 1,045

Coiled tubing and parts inventories are carried at the lower of cost and net realizable value and valued on a specific item basis. Cost includes the purchase price plus expenses related to transportation and handling.

The amount of inventory recognized in operating expenses during 2009 was \$4,926 (2008 - \$748).

Xtreme Coil Drilling Corp.
Notes to the Consolidated Financial Statements
(\$ in thousands, except where indicated)

7. Equipment

	2009 Dec 31			2008 Dec 31
	Cost	Accumulated amortization	Net book value	Net book value
Office and shop equipment	\$ 4,453	1,053	3,400	\$ 3,426
Leasehold improvements	196	32	164	31
Vehicles	1,397	455	942	1,277
Trucking equipment	1,851	845	1,006	2,603
Drilling equipment	247,116	15,674	231,442	226,209
Drilling equipment – construction in progress	2,144	–	2,144	4,799
	\$ 257,157	\$ 18,059	\$ 239,098	\$ 238,345

Xtreme Coil depreciates drilling rigs beginning on the date they commence operations. The rigs are depreciated to residual value using the units-of-production method based on an estimated useful life of 5,000 drilling days. Other assets are depreciated on a straight-line basis with estimated useful lives ranging from three to 20 years.

8. Intangible assets

	2009 Dec 31			2008 Dec 31
	Cost	Accumulated amortization	Net book value	Net book value
Patents	\$ 5,852	\$ 943	\$ 4,909	\$ 4,923

As at December 31, 2009, Xtreme Coil held 13 patents related to technologies for drilling with coiled tubing and conventional drill pipe as well as certain rig transportation methods. The patents have been issued by: the United States Patent and Trademark Office (seven), the Canadian Intellectual Property Office (five) and the Eurasian Patent Organization (one). Xtreme Coil has more than 60 patent-related applications in progress in the United States, Canada and other worldwide jurisdictions.

9. Long-term debt

On May 30, 2008, Xtreme Coil entered into an agreement for credit facilities (“Credit Agreement”) with its existing lender and another lender on a syndicated basis. The credit facilities included a \$15,000 operating loan facility and a revolving extendible facility, initially set at \$70,000 which reduced as scheduled to \$60,000 at December 31, 2008. The credit facilities required Xtreme Coil to maintain certain financial covenants. During the quarters ended June 30, 2009, September 30, 2009 and December 31, 2009, the Company was in compliance with all of the financial covenants associated with its credit facilities; however, at December 31, 2008 and March 31, 2009, the Company was not in compliance with two covenants related to funded debt to EBITDA and interest coverage. The syndicate provided waivers with regard to covenant non-compliance for twelve months following the respective balance sheet dates of non-compliance. The syndicate provided waivers which regard to covenant non-compliance for twelve months following the respective balance sheet dates of non-compliance. Funds drawn under the credit facilities may be denominated in either CAD or USD, with the limits of the facilities being the CAD equivalent.

On November 10, 2008, the Company executed the first amendment to the Credit Agreement. The amendment allows exclusion of rigs operated in Mexico from the asset value used in calculating the borrowing limits under Tranche B and permitted the transfer of those rigs to certain affiliates of the Company.

On May 29, 2009, the Company executed the second amendment to its extendible Credit Agreement. The amendment extended the Company’s credit facilities, continuing its \$15,000 operating loan facility (“Tranche A”) and converting its \$60,000 revolving credit facility into an extendible term loan (“Tranche B”).

On November 20, 2009, the Company executed the third amendment to its extendible Credit Agreement. The amendment allows the exclusion of rigs operated in the Middle East from the asset value used in calculating the borrowing limits under Tranche B.

On November 20, 2009, Xtreme Coil entered into an agreement with a major diversified oilfield services company (the “Service Company”), in which the Service Company agreed to fund up to USD\$5,700 (approximately \$5,991 CAD) in customization costs for an XTC 200DTR^{PLUS} drilling rig and pay for certain significant mobilization and start-up costs of deploying the rig to the Middle East upon project award. Under the terms of the agreement, the repayment of the loan is USD\$2 per day for each day the rig is earning day rate, continuing until the earlier of the end such activity or the three-year term of the agreement. The loan is non-interest bearing and is secured by designated components on the customized rig. Pursuant to the agreement, the Service Company has preferential access to the

Xtreme Coil Drilling Corp.
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(\$ in thousands, except where indicated)

rig throughout the term of the agreement. As at December 31, 2009, the Service Company had advanced \$4,635 to the Company.

a. Operating facility

Xtreme Coil's \$15,000 operating loan facility bears interest at the bank's prime rate plus 1.50 percent and is secured by accounts receivable. The effective average interest rate for 2009 was approximately 4.01 percent (2008 – 6.00 percent). As of December 31, 2009, the Company had no borrowings outstanding under this facility (December 31, 2008 – \$7,878)

b. Long-term bank debt, net of financing costs

The amended Tranche B facility requires minimum principal payments based on a five-year amortization of the outstanding balance of \$59,683 at May 29, 2009. Quarterly installments in arrears began June 30, 2009 and continue until the stated maturity date of January 4, 2011, at which time the remaining facility balance becomes due and payable unless the facility is extended. Under the terms of the amendment, Xtreme Coil may request extension of the facility at any time more than 90 days before the stated maturity date. A debt service coverage ratio covenant replaces the EBIT interest coverage and funded debt to EBITDA covenants that previously applied to quarterly financial reporting periods.

The extendible term loan bears interest at the bank's prime rate plus up to 2.25 percent in 2009 (2008 - bank's prime rate plus 1.50 percent). The weighted average interest rate during 2009 was approximately 4.78 percent (2008 – 6.00 percent). The facility is secured by a general security agreement over all present and future assets, excluding Xtreme Coil's intellectual property.

At December 31, 2009, approximately \$12,997 CAD (2008 Dec 31 – approximately \$20,700 CAD) of borrowing under the extendible term loan was denominated in USD.

At December 31, 2009, \$11,783 (2008 Dec 31 – \$9,825) of the outstanding balance on this facility is included in the current portion of long-term debt, representing the portion that would become due within one year. Interest expense on the extendible term loan during 2009 was \$2,557 (2008 – \$2,504) (Note 12).

At December 31, 2009, the Service Company mentioned above had funded \$4,635, of which \$549 is included in the current portion of long-term debt.

	2009 Dec 31	2008 Dec 31
Extendible term loan, net of financing cost	\$ 39,041	\$ 58,930
Other third party loan	4,635	–
	43,676	58,930
Less: current portion of long-term debt	(12,332)	(9,825)
	\$ 31,344	\$ 49,105

Principal payments due under the long-term debt over the next five years are shown below.

2010	\$ 12,332
2011	28,025
2012	3,319
2013	–
2014	–
	\$ 43,676

Xtreme Coil Drilling Corp.
Notes to the Consolidated Financial Statements
(\$ in thousands, except where indicated)

10. Share capital**Authorized and issued shares**

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

	Year ended 2009 Dec 31		Year ended 2008 Dec 31	
	Number	Amount	Number	Amount
Balance, beginning of year	40,726,169	\$ 207,462	33,965,407	\$ 162,814
Bought deal equity offering, net of issue costs of \$2,825	11,845,000	43,370	-	-
Private placement	258,500	1,008	4,780,000	34,100
Private placement for purchase of joint venture	-	-	1,092,896	8,000
Performance warrants exercised	-	-	666,666	6
Employee options exercised	44,666	157	281,200	664
Employee options purchased	-	-	(60,000)	(389)
Transferred from contributed surplus	-	38	-	2,030
Future income tax effect of common shares issue cost at expected tax rates	-	762	-	237
	12,148,166	45,335	6,760,762	44,648
Balance, end of year	52,874,335	\$ 252,797	40,726,169	\$ 207,462

a. Equity offerings

On June 29, 2009, Xtreme Coil completed a bought deal equity offering of 11,845,000 common shares at a price of \$3.90 per share for gross proceeds of \$46,195. The net proceeds of this offering were \$43,370, net of issue costs of \$2,825.

On June 29, 2009, Xtreme Coil completed a non-brokered private placement offering of 258,500 common shares at a price of \$3.90 per share for gross proceeds of \$1,008.

On May 1, 2008, Xtreme Coil completed a private placement of 4,780,000 common shares at a price of \$7.32 per share for gross proceeds of \$34,990. The net proceeds of this offering were \$34,100, net of issue costs of \$890. On May 1, 2008, Xtreme Coil issued 1,092,896 common shares at a price of \$7.32 per share for gross value of \$8,000. These shares were issued to settle a loan with a former joint venture partner and to fully acquire the remaining interest in the joint venture.

b. Expiry of warrants

The 700,000 performance warrants issued on May 1, 2008, expired on May 1, 2009, since the holder did not meet the vesting criteria. The warrant holder continues to hold 1,000,000 purchase warrants exercisable at \$9.87 per warrant at any time until May 1, 2010.

c. Contributed surplus

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Contributed surplus, beginning of year	\$ 3,453	\$ 3,066
Stock-based compensation	1,338	1,319
Warrants cancelled on purchase of joint venture	-	1,098
Contributed surplus transferred on exercise of options and warrants	(38)	(2,030)
Contributed surplus, end of year	\$ 4,753	\$ 3,453

d. Stock options outstanding

The Company's Stock Option Plan (the "Plan") for directors, officers, employees and consultants permits granting of options to purchase up to a maximum of 10 percent of issued and outstanding common shares. The board of directors sets the number of options and the exercise price thereof at the time of the option grant provided that the

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exercise price is not less than that permitted under the current rules of any stock exchange upon which Xtreme Coil's common shares are listed. Options granted under the Plan may be exercisable for a period not exceeding ten years, generally with one-third of the options vesting each year for the first three years, commencing on the one-year anniversary of the grant.

During 2009, the board of directors approved granting of options to purchase 1,231,000 common shares (2008 – 1,392,000). As at December 31, 2009, a total of 3,466,336 options (2008 Dec 31 – 2,969,000) were outstanding. Included in contributed surplus for 2009 is stock-based compensation of \$1,338 (2008 - \$1,319), of which \$1,261 was recorded as stock-based compensation expense (2008 - \$1,251) and \$77 was capitalized (2008 - \$68).

Xtreme Coil uses the fair value method of accounting for stock-based compensation. The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants assuming: (i) no dividends are paid on common shares; (ii) a risk-free interest rate ranging from 1.2 to 4.6 percent; (iii) an average life of 3.0 years and; (iv) an expected volatility of up to 74 percent. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders. The amount of the fair value is charged to earnings over the period of vesting of the options, with a corresponding credit to contributed surplus.

This table summarizes the status of Xtreme Coil's Stock Option Plan at December 31, 2009.

	Year ended 2009 Dec 31		Year ended 2008 Dec 31	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	2,969,000	\$ 5.79	2,012,200	\$ 4.60
Granted	1,231,000	2.74	1,392,000	7.22
Exercised	(44,666)	3.52	(281,200)	3.00
Forfeited and cancelled	(688,998)	8.40	(154,000)	8.40
Outstanding, end of year	3,466,336	4.22	2,969,000	5.79
Options exercisable, end of year	1,532,657	\$ 4.02	1,472,662	\$ 4.24

Range of exercise prices	Number outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$1.50 - \$ 4.50	2,320,000	2.4 yrs	\$ 2.75	1,195,999	\$ 3.05
\$4.51 - \$ 6.99	539,000	4.1 yrs	5.14	125,994	5.30
\$7.00 - \$10.50	577,002	3.1 yrs	8.88	187,998	8.45
\$10.51 - \$13.52	30,334	1.9 yrs	11.42	22,666	11.49
	3,466,336	3.1 yrs	\$ 4.22	1,532,657	\$ 4.02

e. Diluted earnings per share

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

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Weighted average common shares outstanding – basic	46,875,330	38,569,546
Effect of options and warrants	317,161	852,077
Weighted average common shares outstanding – diluted	47,192,491	39,421,623

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11. Income Tax*Net Future Income Tax Asset*

Future income tax and liabilities arise from temporary differences, which are differences between the tax basis of an asset or liability and the carrying amount in the balance sheet and tax benefits not utilized currently which may be utilized in future years. The table below outlines components of future income tax assets and liabilities.

	2009 Dec 31	2008 Dec 31
Non-capital losses carried forward	\$ 14,071	\$ 16,294
Equipment: difference between net book value and undepreciated capital cost	(11,757)	(16,369)
Intangible assets: difference between net book value and cumulative eligible capital balance	(383)	(399)
Share issue costs	1,387	1,338
Accrued leases and other	3,224	3,990
Stock-based compensation	638	
Tax credit carry forward	255	243
Valuation allowance	(155)	(131)
Net future income tax asset	\$ 7,280	\$ 4,966

The non-capital losses carried forward expire primarily between 2015 and 2029.

The provision for income tax in the consolidated statement of income and retained earnings (deficit) varies from the amount that would be computed by applying the expected tax rates of 29.00 percent (2008 – 29.50 percent) to income before tax.

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

	2009 Dec 31	2008 Dec 31
Income before tax	\$ 12,433	\$ 3,626
Income tax rate	29.00%	29.50%
Computed expected income tax expense	\$ 3,606	\$ 1,070
Increase (decrease) in income tax resulting from:		
Non-deductible expenses	128	87
Stock-based compensation	198	–
Rate change on future income tax	632	118
Higher (lower) effective rate on non-Canadian operations	(1,625)	470
Other	(175)	(991)
Increase in (reversal of) valuation allowance	(418)	131
	\$ 2,346	\$ 885
Effective income tax expense rate	18.87%	24.41%

12. Financial instruments*– Credit risk*

Xtreme Coil is exposed to credit risk in relation to its accounts receivable which includes balances due from customers primarily operating in the oil and natural gas industry. Management assesses the credit worthiness of customers on an ongoing basis and considers the credit risks on these amounts as normal for the industry. Xtreme Coil is exposed to significant concentration of credit risk because the majority of accounts receivable balances are with a small group of customers (*Note 15*). To offset its credit risk, Xtreme Coil buys trade credit insurance, which covers 90 percent of trade receivables under 90 days for named buyers.

Xtreme Coil's accounts receivable is recorded net of a provision of \$0 (December 31, 2008 – \$494).

The following table summarizes the aging of the Company's accounts receivable which management does not consider impaired.

Accounts receivable	2009 Dec 31	2008 Dec 31
Less than 90 days	\$ 21,197	\$ 22,427
Greater than 90 days and less than 180 days	2,502	3,632
Greater than 180 days	5,108	1,232
	\$ 28,807	\$ 27,291

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Included in accounts receivable greater than 180 days at December 31, 2009, is approximately \$4,400 related a customer receivable in dispute. In 2008 Q4 the Company filed suit in federal court in Colorado to recover this amount, plus interest. The Company will continue to pursue the claim to collect the outstanding amount. As at December 31, 2009, the Company has not recorded a provision for this amount.

– *Liquidity risk*

Liquidity risk relates to risks Xtreme Coil may encounter in meeting obligations associated with financial liabilities and commitments. Xtreme Coil anticipates the current level of financial capacity will be sufficient to fund commitments and to fund working capital. While the Company has, on occasion, not met certain covenants related to its credit agreement, it has thus far obtained any necessary waivers in regard to non-compliance from the lending syndicate of Canadian financial institutions.

– *Contractual obligations*

The table below illustrates various contractual obligations which Xtreme Coil expects to repay, including any interest payments required other than interest amounts related to the variable rate credit facilities.

Payments due by period

Contractual obligations	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years
Accounts payable and accrued liabilities	\$ 14,139	\$ 14,139	\$ –	\$ –
Income tax payable	2,222	2,222	–	–
Operating leases	1,590	663	927	–
Long-term debt	45,426	14,067	31,359	–
Commitments	1,675	1,675	–	–
Total contractual obligations	\$ 65,052	\$ 32,766	\$ 32,286	\$ –

– *Fair value*

The carrying values of cash and cash equivalents, accounts receivable and other receivables, bank indebtedness, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. Long-term debt is initially recorded at fair value, net of transaction costs directly attributable to the issuance of the debt.

– *Foreign exchange risk*

Foreign exchange volatility may give rise to gains or losses which have an effect on Xtreme Coil's financial results. Xtreme Coil reports all activities in CAD. As of the previously announced execution of the eight new contracts that were effective September 1, 2009, all of the Company's contracts are denominated in USD. As a result, fluctuations in the value of the USD relative to the CAD give rise to fluctuations in reported revenue. Xtreme Coil is also exposed to risk from fluctuations in foreign currency exchange rates in the United States and Mexico where operating expenses denominated in USD and MXN are translated into CAD during the reporting period.

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated at the current rate as at the balance sheet date and any realized foreign exchange gains or losses are included in income, except for unrealized gains and losses in self-sustaining foreign subsidiaries, which are recorded in other comprehensive income. The Company does not currently utilize derivative instruments to manage its exposure to foreign currency rate fluctuations. For 2009, a one percent change in the foreign currency exchange rate would result in a change in other comprehensive income of approximately \$2,000.

– *Interest rate risk*

Xtreme Coil is exposed to interest rate risk to the extent the changes in market interest rates can impact operating and long-term debt facilities which have a floating interest rate. For 2009, a one percent change in the effective interest rate would result in a change to net income before tax by approximately \$300 on an annualized basis (2008 - \$422).

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13. Capital management

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

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

	2009 Dec 31	2008 Dec 31
Shareholders' equity	\$ 257,831	\$ 206,907
Long-term debt	43,676	58,930
Bank indebtedness, net of cash and cash equivalents	(21,864)	5,868
Capital under management	\$ 279,643	\$ 271,705
Net debt as a percentage of capital under management	8	24
Net debt to equity ratio	0.1 : 1	0.3 : 1

Net debt is defined as total long-term debt less cash and cash equivalents.

Xtreme Coil is subject to externally imposed minimum debt to tangible net worth requirements relating to existing covenants under its credit facility. As of December 31, 2009, Xtreme Coil was in compliance with debt to tangible net worth requirements.

14. Commitments and contingencies**a. Commitments**

i. Operating leases

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

2010	\$	663
2011		447
2012		296
2013		184
2014		-
	\$	1,590

ii. Purchase commitments

With respect to contracts for the construction of Coil Over Top Drive® drilling rigs, Xtreme Coil has commitments of \$1,675 (December 31, 2008 – \$3,374) which are not reflected in these consolidated financial statements.

b. Contingencies

The Company is party to various disputes and lawsuits in the normal course of its business and believes the ultimate liability arising from these matters will have no material impact on its consolidated financial statements.

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15. Segmented information

The table below segments Xtreme Coil's revenue by geographic area.

Revenue	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Canada	\$ 1,805	\$ 3,783
United States	24,328	53,915
Mexico	73,238	20,416
Total	\$ 99,371	\$ 78,114

Although Xtreme Coil did not conduct drilling operations in Canada during 2009 the Company recorded revenues of \$1,805 relating to the mobilization of a rig to the Middle East.

For the year ended December 31, 2009, two customers accounted for revenue of \$96,690 or 97 percent. Of this total, Customer A accounted for \$73,238 (74 percent) and Customer B accounted for \$23,452 (24 percent).

For the year ended December 31, 2008, three customers accounted for revenue of \$61,987 or 79 percent. Of this total, Customer B accounted for \$26,909 (34 percent), Customer A accounted for \$20,415 (26 percent) and Customer C accounted for \$14,663 (19 percent).

At December 31, 2009, Xtreme Coil had equipment located in the United States, Mexico, Canada and the Middle East. The table below segments information by geographic area.

Equipment	2009 Dec 31	2008 Dec 31
Canada	\$ 4,739	\$ 1,163
United States	73,914	142,266
Mexico	145,197	94,916
Middle East	15,248	-
Total	\$ 239,098	\$ 238,345

16. Changes in non-cash working capital

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Accounts receivable and other receivables	\$ (1,118)	\$ (22,218)
Prepaid expenses	(902)	93
Inventory	(3,547)	(710)
Accounts payable and accrued liabilities	(76)	(5,662)
Income tax payable	868	1,354
Total	\$ (4,775)	\$ (27,143)

Changes in non-cash working capital are categorized below.

	Year ended 2009 Dec 31	Year ended 2008 Dec 31
Operating activities	1,874	(19,898)
Investing activities	(6,649)	(7,245)
Total	\$ (4,775)	\$ (27,143)

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17. Subsequent Events

On March 4, 2010, the Canadian financial institutions that provide the Company's extendible term loan notified the Company that, among other things, the stated maturity date had been extended to June 30, 2011, and the Company would be permitted to transfer two of its rigs into a joint venture corporation in which the Company would own a majority interest. These consents are expected to be incorporated into a fourth amendment to the Company's existing credit agreement by March 31, 2010.

On March 12, 2010, a wholly-owned subsidiary of the Company was awarded a long-term contract for two drilling rigs to operate in Saudi Arabia.