



STONEHAM
DRILLING TRUST

TSX SYMBOL: SDG.UN



2006 QUARTERLY REPORT

STONEHAM DRILLING TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

Management's Discussion and Analysis (MD&A) should be read in conjunction with the Consolidated Financial Statements and Notes thereto of Stoneham Drilling Trust for the year ended December 31, 2005, Management's Discussion and Analysis for the year ended December 31, 2005, and the unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2006 and 2005. The Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Throughout this report the term "Stoneham" has been used to refer to Stoneham Drilling Trust, its subsidiaries, Stoneham Drilling Limited Partnership, Stoneham Drilling Inc. and Stoneham Administration Inc., as the context requires.

The information in this MD&A was prepared on November 2, 2006, and incorporates all relevant considerations to that date. This discussion provides management's analysis of Stoneham's historical financial and operating results and provides estimates of Stoneham's future financial and operating performance based on information currently available. Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors that may cause actual results to vary significantly from the results implied by such forward looking statements. Consequently, readers should not place undue reliance on any forward-looking statements. Readers should also be aware that historical results are not necessarily indicative of future performance. Forward-looking statements are based on the estimates and opinions of management at the date the statements are made, and, subject to its obligations under applicable law, Stoneham does not intend, and does not assume any obligation to update these forward looking statements if conditions or opinions should change.

Additional information relating to Stoneham, including the annual information form for the year ended December 31, 2005, may be found on Stoneham's website at www.stonehamdrilling.com or on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Overview

Stoneham Drilling Trust (the Trust) is an open-ended investment trust governed by the laws of the Province of Alberta pursuant to the Declaration of Trust. The Trust was established for the purpose of investing in property including the securities of Stoneham Drilling Limited Partnership (the Partnership), Stoneham Drilling Inc., and Stoneham Administration Inc., the manager of the Trust. The Trust is the limited partner in the Partnership holding a 99.99% interest. Stoneham Drilling Inc. is the general partner of the Partnership (the General Partner) holding the remaining 0.01% interest. Valiant Trust Company (the Trustee) is the Trustee of the Trust. The beneficiaries of the Trust are the holders of the trust units.

Selected Financial Information

\$ 000s except for per trust unit data and trust units outstanding	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
Revenue	15,780	10,458	45,433	25,336
Net earnings	3,953	2,662	11,763	5,641
Per trust unit (basic and diluted)	0.49	0.43	1.47	0.98
Cash flow from operations (1)	5,542	3,730	16,101	7,994
Per trust unit (diluted)	0.69	0.61	2.01	1.39
Total assets	111,535	64,005	111,535	64,005
Long term debt (2)	710	2,149	710	2,149
Weighted average trust units outstanding				
Basic and diluted	8,023,261	6,156,561	8,023,261	5,758,656
EBITDA (3)	5,372	3,684	15,478	7,939

(1) Readers are advised that cash flow from operations does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to other companies. However, Stoneham does compute cash flow from operations on a consistent basis for each reporting period.

(2) Long term debt includes long-term debt, obligations under capital lease and callable debt, including the current portion of each.

(3) EBITDA means earnings before interest, taxes, depreciation and amortization. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to other companies. However, Stoneham does compute EBITDA on a consistent basis for each reporting period. A reconciliation to net earnings can be found on page 5 of this MD&A.

Highlights

- Net earnings for the third quarter of 2006 grew 48% to \$4.0 million from \$2.7 million during the same period in 2005 as a result of improved rig utilization, new drilling rigs deployed in 2005 and price increases. Net earnings for the nine months ended September 30, 2006 more than doubled to \$11.8 million.
- Cash flow from operations increased 49% to \$5.5 million for the three months ended September 30, 2006, from \$3.7 million in the third quarter last year. Cash flow from operations year to date doubled to \$16.1 million.
- On a diluted trust unit basis, net earnings in the third quarter of 2006 increased 14% to \$0.49 (2005 - \$0.43), while cash flow from operations rose 13% to \$0.69 (2005 - \$0.61).
- During the third quarter of 2006, Stoneham's rig utilization was 81.8% up from 70.9% last year. Stoneham's rigs continued to be in high demand with a utilization rate that was 43% higher than the industry average of 57.2% as reported by the Canadian Association of Oilwell Drilling Contractors (CAODC).
- Stoneham's 2006 rig construction program continued with total expenditures of \$22.2 million during the quarter. On September 28, 2006, the Trust announced that a settlement was reached with its supplier regarding Rigs 11 and 12.
- Stoneham declared distributions to unitholders of \$3.0 million or \$0.375 per trust unit during the third quarter of 2006.

Operational Highlights

	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Average number of rigs (1)	10	8.3	20%	10	7.3	37%
Number of rigs at quarter end	10	9	11%	10	9	11%
Operating days (2)	753	543	39%	2,076	1,331	56%
Stoneham rig utilization rate (3)	81.8%	70.9%	15%	76.0%	66.5%	14%
CAODC industry average (3)	57.2%	63.2%	-9%	57.8%	55.6%	4%

(1) Rigs 7, 8 and 9 were deployed in February, July and September, 2005, respectively.

(2) Operating days represent the days the rig is in operation from spud to rig release. It does not include stand-by, moving, rig-up or rig-out days.

(3) Rig utilization is the percentage of operating days to total days available.

Operating days increased 39% in the third quarter of 2006 and 56% year-over-year. The improvement is a result of additional capacity resulting from the 2005 rig construction program and continued strong demand for Stoneham's services. Stoneham's utilization rate exceeded the industry average as reported by the CAODC by 43% and 31% for the three and nine months ended September 30, 2006.

The drop in natural gas prices has resulted in a slow down of drilling activity in Canada, particularly in the shallow gas market. Stoneham, with its fleet of deeper depth rated and newer drilling rigs, which are mainly under long term take or pay contracts, expects to continue to operate at a utilization rate higher than the industry average for the remainder of the year.

Revenue and Operating Expenses

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Revenue	15,780	10,458	51%	45,433	25,336	79%
Operating expenses	9,313	5,996	55%	27,014	15,312	76%

The increase in operating days, price increases, higher day rates associated with the new rigs and increase in expenditures recovered at cost from our customers, resulted in higher revenue in the third quarter of 2006 and for the nine months ended September 30, 2006. Revenue per operating day increased 9% to \$20,956 in the third quarter of 2006, from \$19,260 for the same period in 2005. Year-over-year revenue per operating day grew 15% to \$21,885 in 2006 from \$19,035 in 2005.

Operating expenses in the third quarter and the first nine months of 2006 were also higher due to the increase in activity, wage increases, higher rig consumable and maintenance costs and increase in expenditures recovered at cost from our customers. Operating expenses per operating day in the third quarter increased 12% to \$12,368 from \$11,042 during the same period in 2005. For the nine months ended September 30, 2006, operating expenses per operating day increased 13% to \$13,013 from \$11,504 per operating day.

Modifications in the terms of contracts with our customers over time have resulted in a significant increase in operating expenditures that are recovered at cost from the customer. As a result of the increased significance of these amounts, Stoneham has applied the recommendations of CICA Emerging Issues Committee Abstract 123, Reporting Revenue Gross as a Principal Versus Net as an Agent, meaning that these cost recoverable amounts are now recorded as revenue and operating expenses rather than being netted as was the case previously. The three and nine month 2005 comparative results have been restated to reflect this change. On a per operating day basis, this results in revenue and

operating expenses increasing by \$1,809 for the third quarter of 2006 (2005 - \$1,228) and by \$2,131 for the nine months ended September 30, 2006 (2005 - \$1,207).

General and Administrative Expenses

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
General and administrative expenses	1,095	778	41%	2,940	2,085	41%

The increases in general and administrative expenses in 2006 are attributable to the impact of additional staff hired throughout 2005 and 2006 to manage our larger fleet, and other costs, including insurance, associated with Stoneham's growth.

Amortization

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Amortization	1,589	1,068	49%	4,338	2,353	84%

Amortization of property, plant and equipment continued to increase over 2005. The increase is partially a result of the increase in operating days in 2006, because the majority of Stoneham's capital assets are amortized on a unit-of-production basis. Per operating day amortization also rose reflecting the higher cost of the new deeper depth rated equipment purchased in the last half of 2005.

Interest Expense (Income)

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Interest on term and callable debt	10	35	-71%	42	184	-77%
Other interest (income)	(180)	(81)	122%	(665)	(239)	178%

Interest on term and callable debt, including capital leases, declined 71% to \$0.01 million in the third quarter of 2006, and 77% year to date. The reduction reflects lower levels of term debt. Other interest is comprised of interest income derived from investing cash from the equity financings completed during 2005 that is not immediately required for Stoneham's 2006 capital expenditure program. The cash is invested in short-term, low risk instruments.

Interest Rate Risk Management

Stoneham is exposed to fluctuations in interest rates on our floating rate callable debt and long-term debt. Stoneham manages interest rate risk by utilizing a mix of fixed and floating rate debt.

Income Taxes

The Trust distributes all of its taxable income to its unitholders, therefore the only income taxes recognized are those incurred by the General Partner. Taxable income of the General Partner is not significant and as a result its income taxes are included with general and administrative expenses.

On October 31, 2006, the Minister of Finance announced a new tax regime for income trusts and limited partnerships. For trusts publicly traded before November 2006, the new regime will impose a tax of 31.5% on

distributions of trust income derived from certain sources beginning in 2011. For the Trust, this would include income from Canadian business activities allocated to it from the Partnership, interest earned on loans made to the Partnership and capital gains from the disposition of non-portfolio investments. The tax would be paid by the Trust.

To the extent distributions are paid out of such income, unitholders will treat them as dividends. Individuals will be entitled to dividend tax credits, while Canadian corporations will be subject to the tax regime for inter-corporate dividends and non-residents will be subject to withholding tax at the rates applicable to dividends.

Liquidity and Capital Resources

At September 30, 2006, Stoneham's working capital was \$11.3 million, down from \$40.8 million at December 31, 2005. A significant portion of the December 31, 2005 balance was from the December 2005 equity issue in contemplation of Stoneham's 2006 rig construction program. The decrease in working capital in the first nine months of 2006 is attributable to capital expenditures on the rig construction program. As construction costs are incurred, Stoneham expects the working capital balance to decrease somewhat further. During the quarter, \$42,677 of debt was repaid bringing the year to date total to \$0.9 million, and \$35,462 was drawn on the 364-day extendable revolving credit facility.

During the third quarter, Stoneham completed formal loan documentation to restructure its credit facilities. At September 30, 2006, Stoneham had available operating line facilities totaling \$12.0 million, of which no amounts were drawn. In addition, the Trust's obligations under capital lease and callable debt have been replaced with a \$30.0 million, 364-day extendable, revolving credit facility. Proceeds from the revolving credit facility together with existing cash balances will be used to fund the balance of the rig construction program.

Operating Activities

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Net earnings	3,953	2,662	48%	11,763	5,641	109%
Cash flow from operations	5,542	3,730	49%	16,101	7,994	101%

Additional operating days associated with the new drilling rigs, improved rig utilization and price increases led to higher net earnings and cash flow from operations. Earnings and cash flow from operations are sensitive to the demand for Stoneham's services. To reduce its exposure to fluctuations in demand for contract drilling services the Trust emphasizes the continuous development of long-term relationships with a core group of customers who maintain ongoing drilling programs during all phases of the economic cycle.

Reconciliation of Non-GAAP Measure

\$ 000s	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
Net earnings	3,953	2,662	11,763	5,641
Add (deduct):				
Amortization	1,589	1,068	4,338	2,353
Interest on term and callable debt	10	35	42	184
Other interest (income)	(180)	(81)	(665)	(239)
EBITDA (1)	5,372	3,684	15,478	7,939

(1) EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

The above table reconciles the non-GAAP measure EBITDA to net earnings, a GAAP measure. Management believes in addition to net earnings, EBITDA and cash flow from operations provide supplemental financial information that is useful in the evaluation of Stoneham's operations. Cash flow from operations is derived from our Consolidated Statements of Cash Flows and represents cash provided by operating activities, before changes in non-cash working capital items. Investors should be cautioned, however, that EBITDA and cash flow from operations should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Stoneham's performance.

Investing Activities

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Capital expenditures	22,213	5,810	282%	36,840	19,066	93%

During the third quarter of 2006, Stoneham continued to incur costs on its rig construction program with deposits and progress payments being made on all of the drilling rigs currently under construction. On September 28, 2006, the Trust announced that a settlement had been reached with its supplier regarding Rigs 11 and 12. Rig 11 is now complete and is in the process of mobilizing to its first location. Rig 12 is expected to be completed in the latter half of 2007. Construction of Rigs 14 through 18, with Houston based National Oilwell Varco is progressing slightly slower than anticipated, with two rigs expected to be deployed during the fourth quarter of 2006 and three in the first half of 2007. Rigs 19 and 20 are expected to commence field operations in the fourth quarter of 2007.

In 2005, Rigs 7, 8 and 9 were deployed in February, July and September, respectively, with deposits and progress payments made on Rigs 9, 10, 11, and 12 throughout the nine month period.

Financing Activities

\$ 000s	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Net change in term debt (1)	(7)	(621)	-99%	(817)	(11,627)	-93%
Changes in capital	-	-	-	-	39,470	-

(1) Includes long-term debt, callable debt, capital leases and amounts due to unitholders.

Term debt payments net of financing of \$0.07 million for the three months ended September 30, 2006 decreased significantly from the same period in 2005 due to the restructuring of the Trust's credit facilities during the quarter. During the first quarter of 2005, the Trust completed its initial public offering and a follow up private placement. A portion of the funds from the initial public offering were used to repay certain debt facilities.

Distributions

\$ 000s, except for per trust unit amounts	Three months ended Sept 30,			Nine months ended Sept 30,		
	2006	2005	% Change	2006	2005	% Change
Net earnings	3,953	2,662	48%	11,763	5,641	109%
Cash flow from operations	5,542	3,730	49%	16,101	7,994	101%
Distributions paid and payable	3,009	2,309	30%	9,026	6,630	36%
Distributions per trust unit	0.375	0.375	-	1.125	1.125	-

Stoneham makes monthly distributions to unitholders from cash flow from operations, after withholding a portion of cash flow to repay debt and fund capital expenditures. The level of cash flow retained will vary based on debt levels and anticipated capital expenditures. Stoneham is prepared to adjust the payout levels in an effort to balance desired

distributions with the requirement to maintain an appropriate capital structure. Stoneham maintains a policy of paying out up to 75% of its cash flow from operations in distributions. For the three and nine month periods ended September 30, 2006, the payout ratio was 54% and 56%, respectively. Stoneham currently makes monthly cash distributions of \$0.125 per trust unit (\$1.50 per trust unit per annum).

At September 30, 2006 and November 2, 2006, the Trust had 8,023,261 trust units outstanding compared with 6,156,561 trust units outstanding at September 30, 2005. The Trust does not have an equity option plan for directors, officers or employees.

Selected Quarterly Financial Information

\$ 000s except per trust unit data and utilization	Three Months Ended		Three Months Ended		Three Months Ended		Three Months Ended	
	September 30		June 30		March 31		December 31	
	2006	2005	2006	2005	2006	2005	2005	2004
Revenue (1)	15,780	10,458	11,079	5,321	18,573	9,556	15,239	7,997
Net earnings	3,953	2,662	2,004	867	5,807	2,112	5,133	1,938
Per trust unit (basic)	0.49	0.43	0.25	0.14	0.72	0.43	0.77	0.69
Per trust unit (diluted)	0.49	0.43	0.25	0.14	0.72	0.43	0.77	0.60
Cash flow from operations	5,542	3,730	3,043	1,332	7,515	2,932	6,479	2,715
Per trust unit (diluted)	0.69	0.61	0.38	0.22	0.94	0.59	0.98	0.84
Distributions	3,009	2,309	3,009	2,309	3,009	2,013	2,542	-
Per trust unit	0.375	0.375	0.375	0.375	0.375	0.375	0.375	-
Utilization:								
Stoneham	82%	71%	57%	47%	89%	80%	84%	82%
Industry	57%	63%	38%	32%	81%	71%	71%	62%

(1) Revenue has been restated to reflect the application of the CICA's Emerging Issues Committee Abstract 123. For additional information please see Note 1 to the accompanying financial statements.

The Canadian drilling industry is seasonal with activity building over the summer and fall and peaking during the winter months as northern transportation routes become accessible. The peak Canadian drilling season ends with spring break-up, at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use). As warm weather returns in the spring many secondary roads are incapable of supporting the weight of heavy equipment until they have completely dried out. This spring break-up usually occurs in April and May and generally lasts from four to eight weeks.

Stoneham Drilling Trust
Consolidated Balance Sheets

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current		
Cash and cash equivalents	\$ 5,066,129	\$ 35,658,986
Accounts receivable	13,381,268	14,595,531
Prepaid expenses	1,796,268	512,728
	20,243,665	50,767,245
Property, plant and equipment	91,291,642	58,789,021
	\$ 111,535,307	\$ 109,556,266
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 7,905,444	\$ 7,846,657
Distributions payable (Note 4)	1,002,908	1,002,908
Current portion of obligations under capital lease	-	391,251
Callable debt	-	757,000
	8,908,352	9,997,816
Obligations under capital lease	-	378,626
Long-term debt (Note 3)	709,810	-
	9,618,162	10,376,442
UNITHOLDERS' EQUITY		
Unitholders' capital	89,198,008	89,198,008
Accumulated earnings	30,917,783	19,154,295
Accumulated distributions to unitholders (Note 4)	(18,198,646)	(9,172,479)
	101,917,145	99,179,824
	\$ 111,535,307	\$ 109,556,266

Stoneham Drilling Trust
Consolidated Statements of Earnings and Accumulated Earnings (unaudited)

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
		(Restated - Note 1)		(Restated - Note 1)
REVENUE	\$ 15,779,997	\$ 10,458,047	\$ 45,433,037	\$ 25,335,786
EXPENSES				
Operating	9,313,170	5,995,684	27,014,740	15,312,057
Amortization	1,589,382	1,068,375	4,337,594	2,352,801
General and administrative	1,094,974	778,123	2,940,213	2,084,733
Interest on term and callable debt	9,514	34,933	42,284	184,450
Other interest (income)	(179,872)	(81,069)	(665,282)	(239,315)
	11,827,168	7,796,046	33,669,549	19,694,726
Net earnings	3,952,829	2,662,001	11,763,488	5,641,060
Accumulated earnings, beginning of period	26,964,954	11,358,856	19,154,295	8,379,797
Accumulated earnings, end of period	\$ 30,917,783	\$ 14,020,857	\$ 30,917,783	\$ 14,020,857
Earnings per unit				
Basic and diluted	\$ 0.49	\$ 0.43	\$ 1.47	\$ 0.98

Stoneham Drilling Trust
Consolidated Statements of Cash Flows (unaudited)

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2006	2005	2006	2005
OPERATING ACTIVITIES				
Net earnings for the period	\$ 3,952,829	\$ 2,662,001	\$ 11,763,488	\$ 5,641,060
Adjustments for an item not affecting cash:				
Amortization	1,589,382	1,068,375	4,337,594	2,352,801
Cash flow from operations	5,542,211	3,730,376	16,101,082	7,993,861
Change in non-cash working capital relating to operating activities (Note 5)	(7,679,593)	(4,838,402)	(3,765,016)	(2,318,751)
	(2,137,382)	(1,108,026)	12,336,066	5,675,110
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(22,213,430)	(5,810,360)	(36,840,217)	(19,066,453)
Changes in accounts payable relating to investing activities	5,104,399	1,044,870	3,754,538	2,286,403
	(17,109,031)	(4,765,490)	(33,085,679)	(16,780,050)
FINANCING ACTIVITIES				
Term and callable debt repayments	(42,677)	(620,580)	(852,534)	(11,626,536)
Term debt financing	35,462	-	35,462	-
Trust unit issue	-	-	-	39,269,830
Proceeds on exercise of Trust unit options	-	-	-	200,000
Distributions paid and payable to Trust unitholders (Note 4)	(3,008,724)	(2,308,710)	(9,026,172)	(6,630,430)
Interest paid to Trust unitholders	-	-	-	(22,978)
Changes in accounts payable relating to financing activities	-	-	-	769,570
	(3,015,939)	(2,929,290)	(9,843,244)	21,959,456
(Decrease) Increase in cash and cash equivalents	(22,262,352)	(8,802,806)	(30,592,857)	10,854,516
Cash and cash equivalents (Bank indebtedness), beginning of period	27,328,481	17,738,307	35,658,986	(1,919,015)
Cash and cash equivalents, end of period	\$ 5,066,129	\$ 8,935,501	\$ 5,066,129	\$ 8,935,501

Stoneham Drilling Trust
Notes to the Consolidated Financial Statements
September 30, 2006 and September 30, 2005
(unaudited)

1. Basis of Presentation

These interim financial statements were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Stoneham Drilling Trust (the "Trust") audited consolidated financial statements for the year ended December 31, 2005. These interim financial statements conform in all respects to the requirements of generally accepted accounting principles in Canada for annual financial statements with the exception of certain note disclosures. As a result, these interim financial statements should be read in conjunction with the Trust's audited financial statements for the year ended December 31, 2005, contained in the Trust's 2005 annual report.

Due to the increased significance of operating expenditures recovered at cost from our customers, the Trust has applied the recommendations of CICA Emerging Issues Committee Abstract 123, Reporting Revenue Gross as a Principal Versus Net as an Agent ("EIC 123"). Under EIC 123 the cost recoverable amounts are now recorded as revenue and operating expenses rather than being netted as was the case previously. As a result an adjustment has been made to increase revenue and operating expenses \$666,856 and \$1,606,900 respectively for the three and nine month periods ended September 30, 2005. Revenue was previously reported as \$9,791,191 and \$23,728,886 for the three and nine month periods ending September 30, 2005. Operating expenses were previously reported as \$5,328,828 and \$13,705,157 for the three and nine month periods ended September 30, 2005.

2. Seasonality of Operations

All of the Trust's operations are carried out in Canada. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this spring break-up has a direct impact on the Trust's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen sufficiently to support drilling equipment and services. The timing of freeze up and spring break-up affects the ability to move drilling equipment in and out of these areas. As a result, April through May is traditionally our slowest time.

3. Long-term debt

During the quarter, the formal loan documentation of the new credit facility was completed. Under the new facility the operating loan increases to \$10.0 million. It remains subject to margin requirements and bears interest at a rate of prime plus 0.50%. The amount available under the Trust's secondary demand operating facility remains at \$2.0 million bearing interest at a rate of prime plus 0.75%. The Trust's obligations under capital lease and callable debt as described in Notes 5 and 6 to the financial statements for the year ended December 31, 2005 have been replaced with a \$30.0 million 364-day extendible revolving credit facility. The full facility bears interest at the lenders' prime rate plus 0.75% or bankers' acceptance rate plus 2.25%. The facility is secured by a general security agreement and the assignment to the bank of all risk insurance.

Pursuant to the terms of the credit facility, the parties may agree to extend the revolving period for a further 364-day period. If not extended, the revolving facility will convert to a four year non-revolving term loan with the first payment due three months after the commencement of the term period.

Stoneham Drilling Trust
Notes to the Consolidated Financial Statements
September 30, 2006 and September 30, 2005
(unaudited)

4. Accumulated Distributions to Unitholders

The following table shows the cumulative distributions to unitholders.

	<u>\$/unit</u>	<u>Amount</u>
Amount declared during the year ended December 31, 2005	1.500	\$ 9,172,479
January, 2006	0.125	1,002,908
February, 2006	0.125	1,002,908
March, 2006	0.125	1,002,908
April, 2006	0.125	1,002,908
May, 2006	0.125	1,002,908
June, 2006	0.125	1,002,908
July, 2006	0.125	1,002,908
August, 2006	0.125	1,002,908
September, 2006 (payable in October, 2006)	0.125	1,002,908

5. Supplemental Cash Flow Information

Changes in non-cash working capital relating to operating activities

	<u>Three months ended Sept 30,</u>		<u>Nine months ended Sept 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
(Increase) decrease in current assets				
Accounts receivable	\$ (4,485,961)	\$ (5,273,532)	\$ 1,214,263	\$ (2,144,863)
Prepaid expenses	(1,507,925)	(322,816)	(1,283,540)	150,251
(Decrease) increase in current liabilities				
Accounts payable and accrued liabilities	(1,685,707)	757,946	(3,695,739)	(324,139)
	<u>\$ (7,679,593)</u>	<u>(4,838,402)</u>	<u>\$ (3,765,016)</u>	<u>\$ (2,318,751)</u>
Interest paid	<u>\$ 5,313</u>	<u>\$ 35,807</u>	<u>\$ 38,853</u>	<u>\$ 187,503</u>

**TRUST INFORMATION
STONEHAM DRILLING INC.
DIRECTORS**

Martin G. Abbott ⁽¹⁾⁽²⁾⁽³⁾
Calgary, Alberta

Donald D. Copeland ⁽²⁾⁽⁴⁾
Calgary, Alberta

D. Grant Gunderson ⁽⁴⁾
Calgary, Alberta

Bruce W. Jones
DeWinton, Alberta

Kenneth D. Poffenroth ⁽²⁾⁽³⁾
Spruce Grove, Alberta

**STONEHAM ADMINISTRATION INC.
DIRECTORS**

Jeffrey J. McCaig ⁽¹⁾⁽²⁾⁽⁵⁾
The Woodlands, Texas

D. Grant Gunderson ⁽⁵⁾
Calgary, Alberta

Perry W. Jasson ⁽²⁾⁽⁵⁾
Calgary, Alberta

Bruce W. Jones
DeWinton, Alberta

J. Wayne Thomas ⁽²⁾
Calgary, Alberta

- ⁽¹⁾ Chair of the Board
- ⁽²⁾ Member of the Audit Committee
- ⁽³⁾ Member of the Compensation Committee
- ⁽⁴⁾ Member of the Governance Committee
- ⁽⁵⁾ Member of the Governance and Compensation Committee

OFFICERS

Bruce W. Jones
President and Chief Executive Officer

Jack M. Smart, CA
Chief Financial Officer

Scott W. N. Clarke
Corporate Secretary

Head Office

1230, 335 - 8 Avenue S.W.
Calgary, Alberta T2P 1C9
Telephone: (403) 264-7777
Fax: (403) 264-7766
Website: www.stonehamdrilling.com

Field Operations Office

2, 2104 – 7th Street
Nisku, Alberta T9E 7Y2
Telephone: (780) 955-4242
Fax: (780) 955-4757

Trustee Registrar and Transfer Agent

Valiant Trust Company
310, 606 – 4th Street S.W.
Calgary, Alberta T2P 1T1

Stock Exchange Listing

Toronto Stock Exchange
Symbol: **SDG.UN**

Auditors

PricewaterhouseCoopers LLP
3100, 111 – 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Bankers

HSBC Bank Canada
9th Floor, 407 – 8th Avenue S.W.
Calgary, Alberta T2P 1E5

Legal Counsel

Blake Cassels & Graydon LLP
3500, 855 – 2nd Street S.W.
Calgary, Alberta T2P 4J8