STONEHAM DRILLING TRUST

TSX SYMBOL: SDG.UN | 2007 QUARTERLY REPORT

STONEHAM DRILLING TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2007

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, 2006, Management's Discussion and Analysis for the year ended December 31, 2006, and the unaudited Consolidated Financial Statements for the three months ended March 31, 2007 and 2006. 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 May 7, 2007, 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. This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. For a full discussion of the forward-looking information and statements and the risks to which they are subject, see the Forward-Looking Information and Statements Advisory on page 7. Additional information relating to Stoneham, including the annual information form for the year ended December 31, 2006, 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

	Three months ended	
$ 000s except for per trust unit data and trust units outstanding	**March 31, 2007 (unaudited)**	March 31, 2006 (unaudited)
Revenue	**18,963**	18,573
Net earnings	**4,345**	5,807
Per trust unit (basic and diluted)	**0.54**	0.72

$ 000s except for per trust unit data and trust units outstanding	Three months ended **March 31, 2007 (unaudited)**	March 31, 2006 (unaudited)
Cash flow from operations (1)	**6,195**	7,515
Per trust unit (diluted) (1)	**0.77**	0.94
Total assets	**148,508**	109,710
Long term debt (2)	**26,710**	919
Weighted average trust units outstanding		
Basic and diluted	**8,023,261**	8,023,261
EBITDA (3)	**6,597**	7,300

(1) Cash flow from operations is defined as cash flow from operating activities before changes in non-cash working capital relating to operating activities. Readers are advised that cash flow from operations and cash flow from operations per trust unit do 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. A reconciliation to a GAAP measure can be found on page 5 of this MD&A.

(2) Long term debt includes obligations under capital lease, callable debt and long-term 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 a GAAP measure can be found on page 5 of this MD&A.

Highlights

- Net earnings for the first quarter of 2007 were $4.3 million, a 25% decrease from $5.8 million in 2006 as a result of lower operating margins and higher amortization, general and administrative expenses, and interest expense.

- Cash flow from operations decreased 18% to $6.2 million for the three months ended March 31, 2007, compared to $7.5 million in the previous year.

- Stoneham's rig utilization continued to exceed the industry average. Our utilization rate was 72.0%, 22.4% higher than the industry average of 58.8%.

- During the first quarter of 2007, we deployed Rig 15. Expenditures on the six remaining rigs under construction totaled $16.5 million.

- Stoneham declared distributions of $3.6 million or $0.45 per trust unit to unitholders during the first quarter of 2007.

Operational Highlights

	Three months ended March 31, **2007**	2006	% Change
Average number of rigs (1)	**12.5**	10.0	25%
Number of rigs at quarter end	**13.0**	10.0	30%
Operating days (2)	**805**	803	0%
Stoneham rig utilization rate (3)	**72.0%**	89.2%	-19%
CAODC industry average (3)	**58.8%**	81.1%	-28%

(1) Rig 15 was deployed in February 2007. In 2006, Rigs 11 and 14 were deployed in November.
(2) Operating days is the sum of the number of days from spud to rig release excluding stand-by, moving, rig-up, and rig-out days for rigs active during the period.
(3) Rig utilization rate is the percentage arrived at by dividing the number of operating days for the period by the number of calendar days multiplied by the number of rigs active during the period, as reported by the Canadian Association of Oilwell Drilling Contractors (CAODC).

Total operating days remained constant year-over-year, with increased capacity resulting from the full quarter inclusion of Rigs 11 and 14 and the deployment of Rig 15 in February, being offset by a 19% reduction in the rig utilization rate. The reduced utilization rate resulted from an earlier spring break-up as compared to 2006 and from lower demand for contract drilling services industry wide. Weaker natural gas prices throughout 2006 have resulted in reduced customer cash flows and reduced 2007 drilling budgets.

Higher than average snowfall in late March is expected to prolong spring break-up. Combined with the reduced demand for drilling services, this is expected to result in a significant reduction in operating days in the second quarter of 2007 compared to the same period in 2006.

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.

Results of Operations

Revenue and Operating Expenses

$ 000s	Three months ended March 31, **2007**	2006	% Change
Revenue	**18,963**	18,573	2%
Operating expenses	**11,061**	10,443	6%

Revenue increased slightly in 2007, as a result of the higher day rates associated with the new rigs and certain cost escalation increases, offset by a reduction in cost recoverable charges. On a per day basis this translated to $23,557 per day in the first quarter of 2007, up from $23,130 per day for the same period in 2006.

Operating expenses rose 6% to $11.1 million in the first quarter of 2007 as a result of increased rig crew compensation and higher costs for maintenance and rig consumables offset in part by the lower cost recoverable expenditures. With additional staff in our field office associated with the larger fleet, the fixed cost component also increased. Accordingly, operating expenses per operating day grew to $13,740 in 2007 from $13,005 in 2006.

General and Administrative Expenses

	Three months ended March 31,		%
$ 000s	**2007**	2006	Change
General and administrative expenses	**1,305**	830	57%

General and administrative expenses increased 57% to $1.3 million due to additional staff hired to accommodate growth, fees associated with the renegotiation of the long-term debt facility and increases in other costs, including insurance associated with the new equipment. As a result of the adoption of CICA Handbook section 3855 Financial Instruments – Recognition and Measurement as described in Note 2 of the consolidated financial statements, certain costs related to the negotiation of the long-term debt facility were expensed during the quarter.

Amortization

	Three months ended March 31,		%
$ 000s	**2007**	2006	Change
Amortization	**1,850**	1,708	8%

Amortization of property, plant and equipment rose 8% for the three month period ended March 31, 2007, reflecting the higher per operating day amortization rate on the new and deeper capacity equipment.

Interest Expense (Income)

	Three months ended March 31,		%
$ 000s	**2007**	2006	Change
Interest on term and callable debt	**330**	19	-
Other interest (net)	**72**	(234)	-

Interest on term and callable debt increased year-over-year as a result of higher debt levels from financing a portion of the cost of our ongoing rig construction program. Other interest in the first quarter of 2007 represents interest expense from utilizing the operating line facility. During the same period in 2006, other interest was comprised of interest income derived from investing cash from the equity financings completed during 2005 that was not immediately required for Stoneham's capital expenditure program.

Interest on debt facilities is calculated at the prime rate plus the applicable margin according to the lending agreement. As the prime rate fluctuates, Stoneham is exposed to changes in interest rates on its long-term debt.

Income Taxes

The Trust distributes taxable income to its unitholders, therefore the only income taxes recognized are those incurred by the General Partner. Taxable income of the General Partner was nil, therefore no income tax has been recognized for the three month periods ended March 31, 2007 and 2006.

On December 31, 2006, the Minister of Finance released for comment draft legislation to enact proposals made on October 31, 2006, concerning the taxation of certain publicly traded trusts and partnerships. For trusts publicly traded before November 2006, the new regime will impose a tax of 31.5% on distributed trust income derived from certain sources beginning in 2011. For Stoneham, this would include income from business activities allocated to it from the Partnership. The tax would be paid by the Trust. Unitholders will treat such tax paid distributions as dividends. Individuals resident in Canada will be entitled to dividend tax credits in non-registered accounts, 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 March 31, 2007, Stoneham had a working capital deficiency of $5.0 million, compared to $5.1 million at December 31, 2006. The working capital deficiency is a result of amounts owing to suppliers for goods and services relating to the rig construction program totaling $8.1 million, which were included in accounts payable and accrued liabilities at March 31, 2007. Subsequent to the end of the period these amounts were paid by draws on Stoneham's long-term debt facility. At December 31, 2006, amounts owing to suppliers related to rig construction totaled $9.8 million.

During the quarter, Stoneham completed loan documentation to increase the operating loan facilities to $17.0 million and to increase the funds available under the 364-day facility to $60.0 million. All other terms including interest rates and security of the facilities remain unchanged. The current term of the 364-day extendable revolving credit facility expires on March 11, 2008. During the quarter, $15.0 million was drawn on the facility to partially fund the rig construction program. At March 31, 2007, $3.7 million was drawn on the operating facility.

Operating Activities

	Three months ended March 31,		%
$ 000s	**2007**	2006	Change
Net earnings	**4,345**	5,807	-25%

Net earnings declined 25% to $4.3 million as a result of lower operating margins and higher amortization, general and administrative expenses, and interest expense.

Reconciliation of Non-GAAP Measures

	Three months ended March 31,	
$ 000s	**2007**	2006
Net earnings	**4,345**	5,807
Add (deduct):		
Amortization	**1,850**	1,708
Cash flow from operations (1)	**6,195**	7,515
Interest on term and callable debt	**330**	19
Other interest (income)	**72**	(234)
EBITDA (2)	**6,597**	7,300

(1) Cash flow from operations is defined as cash flow from operating activities before changes in non-cash working capital relating to operating activities.
(2) EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

The above table reconciles the non-GAAP measures, cash flow from operations and EBITDA, to net earnings, a GAAP measure. We believe in addition to net earnings, cash flow from operations and EBITDA provide supplemental financial information that is useful in the evaluation of Stoneham's operations as key measures of our ability to generate cash, finance the rig construction program, and pay monthly distributions. Investors are 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 March 31, 2007	2006	% Change
Capital expenditures	**18,743**	7,623	-

In the first quarter of 2007 we continued to incur costs on our rig construction program with the majority of expenditures being purchases of, or deposits on equipment. Rig 15 was deployed in February 2007 and the remaining six drilling rigs under construction will be deployed throughout the remainder of the year. The majority of capital expenditures for the same period in 2006 also related to the rig construction program.

Financing Activities

$ 000s	Three months ended March 31, 2007	2006	% Change
Net change in term debt (1)	**15,000**	(608)	**-**

(1) Includes long-term debt, callable debt, and capital leases.

During the three months ended March 31, 2007, $15.0 million was drawn on our long-term debt facility to fund a portion of our rig construction program. In the same period in 2006, term debt repayments of $0.6 million were made.

Distributions

$ 000s, except for per trust unit amounts	Three months ended March 31, 2007	2006	% Change
Net earnings	**4,345**	5,807	-25%
Cash flow from operations (1)	**6,195**	7,515	-18%
Distributions paid and payable	**3,610**	3,009	20%
Distributions per trust unit	**0.450**	0.375	20%

(1) Cash flow from operations is defined as cash flow from operating activities before changes in non-cash working capital relating to operating activities.

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 months ended March 31, 2007 and 2006, the payout ratio was 58% and 40%, respectively. Stoneham currently makes monthly cash distributions of $0.15 per trust unit ($1.80 per trust unit per annum).

At March 31, 2007 and at May 7, 2007, the Trust had 8,023,261 trust units outstanding, unchanged from March 31, 2006. The Trust does not have an equity option plan for directors, officers or employees.

Changes in Accounting Policies

On January 1, 2007, as disclosed in Note 2 to our interim consolidated financial statements, we adopted the Canadian Institute of Chartered Accountants accounting standards on the accounting for and disclosure of financial instruments and comprehensive income.

The financial instruments standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on 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. The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly, long-term debt financing costs are now expensed as incurred.

Comprehensive income consists of net income and other comprehensive income. Stoneham has no financial instruments or activities that give rise to other comprehensive income or accumulated other comprehensive income.

Selected Quarterly Financial Information

$ 000s except per trust unit data and utilization	Three Months Ended March 31 2007	Three Months Ended March 31 2006	Three Months Ended December 31 2006	Three Months Ended December 31 2005	Three Months Ended September 30 2006	Three Months Ended September 30 2005	Three Months Ended June 30 2006	Three Months Ended June 30 2005
Revenue	**18,963**	18,573	17,782	15,239	15,780	10,458	11,079	5,321
Net earnings	**4,345**	5,807	4,243	5,133	3,953	2,662	2,004	867
Per trust unit								
(basic and diluted)	**0.54**	0.72	0.53	0.77	0.49	0.43	0.25	0.14
Cash flow from operations (1)	**6,195**	7,515	6,220	6,479	5,542	3,730	3,043	1,332
Per trust unit (diluted)	**0.77**	0.94	0.78	0.98	0.69	0.61	0.38	0.22
Distributions	**3,610**	3,009	3,410	2,542	3,009	2,309	3,009	2,309
Per trust unit	**0.450**	0.375	0.425	0.375	0.375	0.375	0.375	0.375
Utilization: (2)								
Stoneham	**72%**	89%	75%	85%	82%	71%	89%	47%
Industry	**59%**	81%	47%	72%	57%	63%	81%	32%

(1) Cash flow from operations is defined as cash flow from operating activities before changes in non-cash working capital relating to operating activities.

(2) Rig utilization rate is the percentage arrived at by dividing the number of operating days for the period by the number of calendar days multiplied by the number of rigs active during the period, as reported by the CAODC.

Forward-Looking Information and Statements Advisory

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "might" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: (i) utilization of drilling rigs under contracts with customers; (ii) the timing for completion and cost of drilling rigs under construction; (iii) other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance. Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this MD&A.

The forward-looking information and statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: (i) demand for Stoneham's services by oil and gas exploration and production companies; (ii) capital expenditure programs and other expenditures by oil and gas exploration and production companies; (iii) commodity prices, foreign currency exchange rates and interest rates; (iv) supply and demand for commodities; (v) expectations regarding the Trust's ability to raise capital and to increase the fleet of drilling rigs through acquisitions and development; (vi) schedules and timing of certain projects and Stoneham's strategy for growth; (vii) Stoneham's future operating and financial results; (viii) treatment under governmental regulatory regimes and tax, environmental and other laws; (ix) the timing of the delivery of drilling rigs under construction contracts; and (x) the ability to attract and retain qualified crews to crew Stoneham's drilling rigs.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: (i) volatility in market prices for commodities; (ii) volatility in exchange rates for the Canadian dollar relative to other world currencies; (iii) liabilities and risks inherent in the drilling industry, including technical problems; (iv) competition for, among other things, capital, the ability to secure manufacturers for drilling rig construction and skilled personnel; (v) changes in general economic, market and business conditions in Canada, North America, and worldwide; (vi) actions by governmental or regulatory authorities including changes in income tax laws; (vii) the ability for Stoneham's customers to maintain cash flow and/or to raise capital and to continue with their drilling programs; (viii) the impact of adverse weather on Stoneham's operations; (ix) increases and overruns in drilling rig construction costs; (x) the impact of increased competition and an over-supply of drilling rigs in the industry; (xi) the impact of disasters and accidents such as blow-outs; and (xii) the impact of environmental issues, including climate change.

The Trust cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and the Trust assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Stoneham Drilling Trust

Consolidated Balance Sheets

Unaudited - stated in thousands

		March 31, 2007		December 31, 2006
ASSETS				
Current				
Accounts receivable	**$**	**12,685**	$	15,191
Prepaid expenses		**599**		876
		13,284		16,067
Property, plant and equipment		**135,224**		118,331
	$	**148,508**	$	134,398
LIABILITIES				
Current				
Bank indebtedness	**$**	**3,703**	$	3,295
Accounts payable and accrued liabilities		**13,407**		15,440
Distributions payable (Note 5)		**1,203**		1,203
Current portion of long-term debt (Note 4)		**-**		1,220
		18,313		21,158
Long-term debt (Note 4)		**26,710**		10,490
		45,023		31,648
UNITHOLDERS' EQUITY				
Unitholders' capital		**89,198**		89,198
Accumulated earnings		**39,506**		35,161
Accumulated distributions to unitholders (Note 5)		**(25,219)**		(21,609)
		103,485		102,750
	$	**148,508**	$	134,398

Stoneham Drilling Trust

Consolidated Statements of Earnings, Comprehensive Income and Accumulated Earnings

Unaudited - stated in thousands, except for per trust unit amounts

	Three months ended March 31, 2007	March 31, 2006
REVENUE	**$ 18,963**	$ 18,573
EXPENSES		
Operating	**11,061**	10,443
Amortization	**1,850**	1,708
General and administrative	**1,305**	830
Interest on term and callable debt	**330**	19
Other interest (net)	**72**	(234)
	14,618	12,766
Net earnings and comprehensive income	**4,345**	5,807
Accumulated earnings, beginning of period	**35,161**	19,154
Accumulated earnings, end of period	**$ 39,506**	$ 24,961
Earnings per unit		
Basic and diluted	**$ 0.54**	$ 0.72

Stoneham Drilling Trust

Consolidated Statements of Cash Flows

Unaudited - stated in thousands

	Three months ended **March 31, 2007**	March 31, 2006
OPERATING ACTIVITIES		
Net earnings for the period	**$ 4,345**	$ 5,807
Adjustment for an item not affecting cash:		
Amortization	**1,850**	1,708
	6,195	7,515
Changes in non-cash working capital related to operating activities (Note 6)	**2,451**	(4,724)
	8,646	2,791
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(18,743)**	(7,623)
Changes in accounts payable relating to investing activities	**(1,701)**	(2,835)
	(20,444)	(10,458)
FINANCING ACTIVITIES		
Term and callable debt financing	**15,000**	-
Term and callable debt repayments	**-**	(607)
Distributions paid and payable to Trust unitholders (Note 5)	**(3,610)**	(3,009)
	11,390	(3,616)
Decrease in cash and cash equivalents	**(408)**	(11,283)
(Bank indebtedness) cash and cash equivalents, beginning of period	**(3,295)**	35,659
(Bank indebtedness) cash and cash equivalents, end of period	**$ (3,703)**	$ 24,376

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, 2006, except as disclosed in Note 2. 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, 2006, contained in the Trust's 2006 annual report.

2. Changes in Accounting Policies

On January 1, 2007, the Trust adopted the CICA Handbook Sections 1530 Comprehensive Income, 3251 Equity, 3855 Financial Instruments – Recognition and Measurement and 3861 Financial Instruments – Disclosure and Presentation. As required by the new standards, prior periods have not been restated.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net income and other comprehensive income. The Trust's financial statements now include a Statement of Earnings, Comprehensive Income and Accumulated Earnings, which includes the components of comprehensive income. The cumulative changes in other comprehensive income are included in accumulated other comprehensive income. The Trust has no financial instruments or activities that give rise to other comprehensive income or accumulated other comprehensive income.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on 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 changes in those fair values recognized in net income. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Bank indebtedness is designated as held-for-trading and is measured at carrying value, which approximates fair value due its short-term nature.

Accounts receivable are designated as loans and receivables. Accounts payable, distributions payable and accrued liabilities, long-term debt are designated as other financial liabilities.

Unaudited - tabular amounts stated in thousands except for per trust unit amounts

2. Changes in Accounting Policies (continued)
The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly long-term debt financing costs are now expensed as incurred. At December 31, 2006, there were no significant amounts of deferred financing costs included in the Trust's Balance Sheet.

3. 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 winter 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.

4. Long-term Debt
During the quarter, the Trust completed loan documentation increasing the funds available under the operating loan facilities to $17.0 million and the 364-day extendable revolving credit facility to $60.0 million. All other terms including interest rates and security of the facilities remain unchanged. The current term of the 364-day extendable revolving credit facility expires on March 11, 2008.

5. Accumulated Distributions to Unitholders
The following table shows the cumulative distributions to unitholders.

	$/unit	Amount
Distributions declared to December 31, 2006		$ 21,609
January, 2007	0.150	1,203
February, 2007	0.150	1,204
March, 2007 (declared and payable in April, 2007)	0.150	1,203
		3,610
		$ 25,219

Unaudited - tabular amounts stated in thousands except for per trust unit amounts

6. Supplemental Cash Flow Information

Changes in non-cash working capital relating to operating activities.

	Three months ended	
	March 31, 2007	March 31, 2006
Decrease (increase) in current assets		
Accounts receivable	**$ 2,506**	$ (5,624)
Prepaid expenses	**277**	101
(Decrease) increase in current liabilities		
Accounts payable and accrued liabilities	**(332)**	799
	$ 2,451	$ (4,724)
Interest paid	**$ 364**	$ 19

TRUST INFORMATION

STONEHAM DRILLING INC.
DIRECTORS

Martin G. Abbott [(1)(2)(3)(4)]
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) Chairman 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

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