



**STONEHAM**  
DRILLING TRUST



TSX SYMBOL: SDG.UN

2007 QUARTERLY REPORT

## STONEHAM DRILLING TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 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 July 26, 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 8. 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](http://www.stonehamdrilling.com) or on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://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 June 30,		Six months ended June 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Revenue	2,867	11,079	21,830	29,653
Net earnings (loss)	(7,399)	2,004	(3,054)	7,811
Per trust unit (basic and diluted)	(0.92)	0.25	(0.38)	0.97

\$ 000s except for per trust unit data and trust units outstanding	Three months ended June 30,		Six months ended June 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Cash flow from operations (1)	<b>(1,990)</b>	3,044	<b>4,205</b>	10,559
Per trust unit (diluted) (1)	<b>(0.25)</b>	0.38	<b>0.52</b>	1.32
Total assets	<b>156,435</b>	107,180	<b>156,435</b>	107,180
Long term debt (2)	<b>50,210</b>	717	<b>50,210</b>	717
Weighted average trust units outstanding				
Basic and diluted	<b>8,023,261</b>	8,023,261	<b>8,023,261</b>	8,023,261
EBITDA (3)	<b>(1,373)</b>	2,806	<b>5,224</b>	10,107

- (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 6 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 6 of this MD&A.

### ***Significant Items***

- In the second quarter, we recorded a future income tax expense of \$5.0 million, accounting for the largest change in Stoneham's net earnings (loss) for the quarter and the year to date relative to the prior year. The second quarter expense reflects the impact of the trust tax legislation, which was substantively enacted when it received third reading on June 12, 2007. While net income in the second quarter was reduced significantly by this future income tax adjustment, there was no impact on cash flow from operations. Combined with low activity levels in the quarter, the future income tax expense resulted in a loss for the quarter of \$7.4 million.
- Cash flow from operations was \$(2.0) million due to the lower activity levels.
- Utilization for the quarter was 11.5%, slightly below the industry average of 16.8%.
- Stoneham declared distributions of \$3.6 million or \$0.45 per trust unit to unitholders during the second quarter of 2007.
- Capital expenditures on the six rigs under construction totaled \$11.4 million during the quarter. Rig 12 was deployed to the field on July 5, 2007.

## Operational Highlights

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Average number of rigs (1)	13.0	10.0	30%	12.8	10.0	28%
Number of rigs at quarter end	13.0	10.0	30%	13.0	10.0	30%
Operating days (2)	136	520	-74%	941	1,323	-29%
Stoneham rig utilization rate (3)	11.5%	57.1%	-80%	40.9%	73.1%	-44%
CAODC industry average (3)	16.8%	37.5%	-55%	37.5%	58.2%	-36%

- (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).

The second quarter is traditionally associated with spring break-up as wet ground conditions limit the ability to move heavy equipment due to road bans. In the second quarter of 2007, lower demand for contract drilling services and an extended spring break-up caused a significant decline in operating days across the industry. Weaker natural gas prices throughout 2006 and the first half of 2007 have resulted in lower customer cash flows and reduced 2007 drilling budgets. As a result, the industry average rig utilization rate was 55% lower than that of the second quarter of last year.

Prolonged wet weather in the areas of Alberta and British Columbia where our rigs operate extended spring break-up into July, which caused our rig utilization rate to be lower than the industry average. The industry average includes wells drilled in southeast Saskatchewan, where spring break-up is not as prolonged.

Deeper capacity drilling rigs (4,600+ metres) had a significantly higher operating utilization rate at approximately 40%, as these rigs were employed to drill deeper wells that take longer to complete and thus were able to operate into and through spring break-up without relocation. As part of our current rig construction program, we are constructing three 5,500 metre capacity rigs that will be completed before year end to compete in this segment of the market.

For the six months ended June 30, 2007, operating days and utilization rate decreased as compared to the prior year due to lower activity levels in the second quarter. Year to date, our utilization rate still exceeds the industry average by 8% at 40.9%. Our rig utilization rate has improved in the third quarter, with 11 of 14 rigs currently active. With additional drilling rigs coming on stream, Stoneham anticipates activity for the balance of year should exceed 2006 totals for the same period.

## Results of Operations

### Revenue and Operating Expenses

\$ 000s	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Revenue	2,867	11,079	-74%	21,830	29,653	-26%
Operating expenses	2,963	7,257	-59%	14,024	17,701	-21%

Revenue decreased in the second quarter and year to date as a result of significantly reduced operating days in the second quarter. On a per day basis, this translated to \$21,081 per day in the second quarter of 2007, consistent with

\$21,306 per day for the same period in 2006. For the six months ended June 30, 2007, revenue per operating day increased 4% to \$23,199, from \$22,413 in 2006 as a result of the higher day rates associated with the newer equipment, and certain cost escalation increases, offset by a reduction in cost recoverable charges and reduced usage of ancillary equipment.

Lower activity levels also contributed to the decrease in operating expenses in the quarter and first six months of 2007. However, we proactively perform routine repairs and maintenance on equipment when not in operation. As a result of this and the fixed cost component, the decrease in operating expenses was less than that of revenue. At lower levels of activity, the fixed cost component of operating expenses is a higher percentage of total operating expenses. In the second quarter of 2007, the fixed component was 25% (versus 6% in the second quarter of 2006), causing operating expenses to exceed revenue. For the year to date, the fixed cost component was 10% compared with 5% in the first half of 2006. A portion of the increase in the fixed costs is attributable to higher staffing levels and other costs associated with the new equipment as compared to last year.

Operating expenses increased to \$21,786 per day from 13,956 in the same quarter in 2006. Fixed costs accounted for 58% of this increase and repairs and maintenance costs and associated labour costs, accounted for much of the balance. In the first six months of 2007, operating expenses were \$14,903 per day compared to \$13,380 per operating day in 2006.

Stoneham has a large number of “take or pay” contracts with its customers with various anniversary dates. All contracts with anniversary dates in the first six months of 2007 achieved at least the minimum operating days required. Certain contracts with July anniversary dates will not achieve minimum operating days. Discussions with these customers have been initiated and we are confident that all shortfalls will be settled in a manner acceptable to Stoneham.

Continued depressed commodity pricing and higher than average natural gas storage levels have weakened cash flows for our clients and demand for contract drilling services. While these conditions cast a negative outlook in the short term, Stoneham remains committed to the underlying fundamentals for drilling for oil and gas in western Canada. We expect the fundamentals within the industry to rebalance and stimulate Canadian drilling demand. We are well positioned for weaker markets with the majority of our equipment under long-term contract and participate when the cycle moves upward with our modern innovative fleet of medium to medium deep drilling rigs.

#### *General and Administrative Expenses*

\$ 000s	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
General and administrative expenses	<b>1,277</b>	1,016	26%	<b>2,582</b>	1,845	40%

General and administrative expenses increased 26% in the quarter and 40% in the year to date due to additional staff hired to accommodate growth, and increases in other costs, including insurance associated with the new equipment.

#### *Amortization*

\$ 000s	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Amortization	<b>449</b>	1,040	-57%	<b>2,299</b>	2,748	-16%

Amortization of property, plant and equipment decreased 57% for the three month period ended June 30, 2007, and 16% for the year to date reflecting lower activity levels.

### ***Interest Expense (Net)***

\$ 000s	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Interest on term and callable debt	573	13	-	903	33	-
Other interest (net)	44	(251)	-	116	(485)	-

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 half 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 debt facilities.

### ***Income Taxes***

The Trust distributes taxable income to its unitholders, therefore the only income taxes currently payable are those incurred by the General Partner. Taxable income of the General Partner was minimal, therefore it has been included in general and administrative costs for the three and six month periods ended June 30, 2007 and 2006.

On June 12, 2007, legislation concerning the taxation of certain publicly traded trusts and partnerships received its third reading in the House of Commons, substantively enacting the changes. The new regime imposes a tax of 31.5% on distributed trust income derived from certain sources beginning in 2011. For Stoneham this includes business income allocated to it from the Partnership. As a result we have recorded a \$5.0 million future income tax liability and expense. The liability is comprised of the cumulative temporary differences between the accounting value and tax value of property, plant and equipment (expected to reverse after 2010), measured at the substantively enacted tax rate of 31.5%.

### ***Liquidity and Capital Resources***

At June 30, 2007, Stoneham had a working capital deficiency of \$0.9 million, compared to a deficiency of \$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 \$3.7 million, which were included in accounts payable and accrued liabilities at June 30, 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 first quarter of 2007, 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, \$23.5 million was drawn on the facility to partially fund the rig construction program.

### ***Operating Activities***

\$ 000s	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Net earnings (loss)	(7,399)	2,004	-	(3,054)	7,811	-

The initial recording of future income taxes, as well as lower revenue, higher interest expense, and higher general

and administrative costs, reduced net earnings to a loss in the second quarter of 2007. The reduction in earnings was partially offset by lower operating expenses and amortization.

### Reconciliation of Non-GAAP Measures

\$ 000s	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net earnings (loss)	(7,399)	2,004	(3,054)	7,811
Add (deduct):				
Amortization	449	1,040	2,299	2,748
Future income taxes	4,960	-	4,960	-
Cash flow from operations (1)	(1,990)	3,044	4,205	10,559
Interest on term and callable debt	573	13	903	33
Other interest (net)	44	(251)	116	(485)
EBITDA (2)	(1,373)	2,806	5,224	10,107

- (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 (loss), 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 June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Capital expenditures	12,710	7,004	81%	31,453	14,627	115%

In the second quarter, we continued to incur costs on our rig construction program. While the majority of expenditures continued to be purchases of or deposits on equipment, we also began the development of our operations centre in Leduc. Rig 15 and Rig 12 were deployed in February and July 2007, respectively. Construction on the remaining five rigs continues as anticipated with the rigs expected to commence field operations before the end 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 June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Net change in term debt (1)	23,500	(202)	-	38,500	(810)	-

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

During the three months ended June 30, 2007, \$23.5 million was drawn on our long-term debt facility bringing year to date financing to \$38.5 million. Proceeds have been used to fund a portion of our rig construction program. In the same periods in 2006, term debt repayments of \$0.2 and \$0.8 million were made.

### *Distributions*

\$ 000s, except for per trust unit amounts	Three months ended June 30,			Six months ended June 30,		
	2007	2006	% Change	2007	2006	% Change
Net earnings (loss)	<b>(7,399)</b>	2,004	-	<b>(3,054)</b>	7,811	-
Cash flow from operations (1)	<b>(1,990)</b>	3,044	-	<b>4,205</b>	10,559	-60%
Distributions paid and payable	<b>3,610</b>	3,009	20%	<b>7,220</b>	6,017	20%
Distributions per trust unit	<b>0.450</b>	0.375	20%	<b>0.900</b>	0.750	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 on an annualized basis. For the six months ended June 30, 2007 the payout ratio was 171%. During the same period in 2006 the payout ratio was 57%. Stoneham currently makes monthly cash distributions of \$0.15 per trust unit (\$1.80 per trust unit per annum). We believe that with the majority of our fleet in operation throughout the balance of 2007, pay out levels will fall within acceptable levels. We will however, carefully monitor cash flow levels on a monthly basis for the balance of the year.

At June 30, 2007 and at July 26, 2007, the Trust had 8,023,261 trust units outstanding, unchanged from June 30, 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 (loss) consists of net earnings (loss) 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 June 30		Three Months Ended March 31		Three Months Ended December 31		Three Months Ended September 30	
	2007	2006	2007	2006	2006	2005	2006	2005
Revenue	<b>2,867</b>	11,079	18,963	18,573	17,782	15,239	15,780	10,458
Net earnings (loss)	<b>(7,399)</b>	2,004	4,345	5,807	4,243	5,133	3,953	2,662
Per trust unit								
(basic and diluted)	<b>(0.92)</b>	0.25	0.54	0.72	0.53	0.77	0.49	0.43
Cash flow from operations (1)	<b>(1,990)</b>	3,044	6,195	7,515	6,220	6,479	5,542	3,730
Per trust unit (diluted)	<b>(0.25)</b>	0.38	0.77	0.94	0.78	0.98	0.69	0.61
Distributions	<b>3,610</b>	3,009	3,610	3,009	3,410	2,542	3,009	2,309
Per trust unit	<b>0.450</b>	0.375	0.450	0.375	0.425	0.375	0.375	0.375
Utilization: (2)								
Stoneham	<b>12%</b>	57%	72%	89%	75%	85%	82%	71%
Industry	<b>17%</b>	38%	59%	81%	47%	72%	57%	63%

(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.

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.

### *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 construction; (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

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,923	\$ -
Accounts receivable	2,624	15,191
Prepaid expenses	403	876
	<b>8,950</b>	<b>16,067</b>
<b>Property, plant and equipment</b>	<b>147,485</b>	<b>118,331</b>
	<b>\$ 156,435</b>	<b>\$ 134,398</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness	\$ -	\$ 3,295
Accounts payable and accrued liabilities	7,586	15,440
Distributions payable (Note 6)	1,203	1,203
Current portion of long-term debt (Note 4)	1,046	1,220
	<b>9,835</b>	<b>21,158</b>
<b>Long-term debt (Note 4)</b>	<b>49,164</b>	<b>10,490</b>
<b>Future income taxes (Note 5)</b>	<b>4,960</b>	<b>-</b>
	<b>63,959</b>	<b>31,648</b>
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital	89,198	89,198
Accumulated earnings	32,107	35,161
Accumulated distributions to unitholders (Note 6)	(28,829)	(21,609)
	<b>92,476</b>	<b>102,750</b>
	<b>\$ 156,435</b>	<b>\$ 134,398</b>

**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 June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>REVENUE</b>	\$ 2,867	\$ 11,079	\$ 21,830	\$ 29,653
<b>EXPENSES</b>				
Operating	2,963	7,257	14,024	17,701
Amortization	449	1,040	2,299	2,748
General and administrative	1,277	1,016	2,582	1,845
Interest on term and callable debt	573	13	903	33
Other interest (net)	44	(251)	116	(485)
	<b>5,306</b>	9,075	<b>19,924</b>	21,842
Earnings (loss) before income taxes	<b>(2,439)</b>	2,004	<b>1,906</b>	7,811
Future income tax expense (Note 5)	<b>4,960</b>	-	<b>4,960</b>	-
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>(7,399)</b>	2,004	<b>(3,054)</b>	7,811
Accumulated earnings, beginning of period	<b>39,506</b>	24,961	<b>35,161</b>	19,154
<b>Accumulated earnings, end of period</b>	<b>\$ 32,107</b>	\$ 26,965	<b>\$ 32,107</b>	\$ 26,965
Earnings (loss) per unit				
Basic and diluted	\$ (0.92)	\$ 0.25	\$ (0.38)	\$ 0.97

**Stoneham Drilling Trust**  
**Consolidated Statements of Cash Flows**  
Unaudited - stated in thousands

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss) for the period	\$ (7,399)	\$ 2,004	\$ (3,054)	\$ 7,811
Adjustment for items not affecting cash:				
Amortization	449	1,040	2,299	2,748
Future income tax expense	4,960	-	4,960	-
	<b>(1,990)</b>	3,044	<b>4,205</b>	10,559
Changes in non-cash working capital relating to operating activities (Note 7)	<b>8,793</b>	8,638	<b>11,244</b>	3,914
	<b>6,803</b>	11,682	<b>15,449</b>	14,473
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	<b>(12,710)</b>	(7,004)	<b>(31,453)</b>	(14,627)
Changes in accounts payable relating to investing activities	<b>(4,357)</b>	1,486	<b>(6,058)</b>	(1,350)
	<b>(17,067)</b>	(5,518)	<b>(37,511)</b>	(15,977)
<b>FINANCING ACTIVITIES</b>				
Long-term debt financing	<b>23,500</b>	-	<b>38,500</b>	-
Term and callable debt repayments	-	(202)	-	(810)
Distributions paid and payable to Trust unitholders (Note 6)	<b>(3,610)</b>	(3,009)	<b>(7,220)</b>	(6,017)
	<b>19,890</b>	(3,211)	<b>31,280</b>	(6,827)
Increase (decrease) in cash and cash equivalents	<b>9,626</b>	2,953	<b>9,218</b>	(8,331)
(Bank indebtedness) cash and cash equivalents, beginning of period	<b>(3,703)</b>	24,375	<b>(3,295)</b>	35,659
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,923</b>	\$ 27,328	<b>\$ 5,923</b>	\$ 27,328

**Stoneham Drilling Trust**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2007 and June 30, 2006**  
**Unaudited - tabular amounts stated in thousands except for per trust unit amounts**

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**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 Notes 2 and 5. 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.

Cash and cash equivalents and bank indebtedness are designated as held-for-trading and are measured at carrying value, which approximates fair value due its short-term nature.

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

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**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**

In the first 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. Future Income Taxes**

On June 12, 2007, legislation concerning the taxation of certain publicly traded trusts and partnerships received its third reading in the House of Commons, substantively enacting the changes. The new regime imposes a tax of 31.5% on distributed trust income derived from certain sources beginning in 2011. For the Trust this includes business income allocated to it from the Partnership. As a result, the Trust has recorded a future tax liability. Under the liability method of accounting for future income taxes, future income tax assets and liabilities are determined based on temporary differences. Temporary differences are differences between the accounting basis and the tax basis of the assets and liabilities on the balance sheet measured using the current or substantively enacted tax rates and laws expected to apply when these differences reverse.

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**5. Future income taxes (continued)**

The provision from income taxes differs from that which would be expected by applying Canadian statutory income tax rates as follows.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Earnings (loss) before income taxes	\$ (2,439)	\$ 2,004	\$ 1,906	\$ 7,811
Federal and provincial statutory rates	31.5%	0%	31.5%	0%
Tax at statutory rates	-	-	600	-
Adjusted for the effects of:				
Non-deductible expenses	32	-	62	-
Tax reduction from trust income distribution	(32)	-	(662)	-
Effect of cumulative timing differences at time of change in tax legislation	4,960	-	4,960	-
Income tax expense	\$ 4,960	\$ -	\$ 4,960	\$ -

The net future tax liability is comprised of the tax effect of the following temporary difference:

	June 30, 2007	December 31, 2006
Future income tax liability:		
Property, plant and equipment	\$ 4,960	\$ -

**6. 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	0.150	1,203
April, 2007	0.150	1,203
May, 2007	0.150	1,204
June, 2007 (declared and payable in July 2007)	0.150	1,203
		7,220
		\$ 28,829

**Stoneham Drilling Trust**  
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**7. Supplemental Cash Flow Information**

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

	Three months ended June 30,		Six months ended June 30,	
	<b>2007</b>	2006	<b>2007</b>	2006
Decrease in current assets				
Accounts receivable	\$ <b>10,061</b>	\$ 11,324	\$ <b>12,567</b>	\$ 5,700
Prepaid expenses	<b>196</b>	123	<b>473</b>	224
 (Decrease) in current liabilities				
Accounts payable and accrued liabilities	<b>(1,464)</b>	(2,809)	<b>(1,796)</b>	(2,010)
	<b>\$ 8,793</b>	\$ 8,638	<b>\$ 11,244</b>	\$ 3,914
Interest paid	<b>\$ 523</b>	\$ 14	<b>\$ 887</b>	\$ 33