



**STONEHAM**  
DRILLING TRUST

TSX: SDG.UN

**Q1**

**2008**  
**Q1 REPORT**

FOR THE PERIOD ENDED MARCH 31, 2008





**STONEHAM**  
DRILLING TRUST

## Profile

Stoneham Drilling Trust is an income trust that provides contract drilling services to oil and natural gas exploration and production companies operating within the Western Canada Sedimentary Basin and the Anadarko Basin of Oklahoma. Our competitive niche is in the medium-deep segment, drilling wells to depths between 2,000 and 5,500 metres. With our modern, innovative fleet of drilling rigs, we are an industry leader in operational performance, safety and rig utilization.

Stoneham trades on the TSX under the symbol SDG.UN. The Trust pays monthly cash distributions to unitholders.

## Mission Statement

At Stoneham, we create an environment for our people to excel with safety and integrity as part of our culture. We build strong relationships by providing quality and value. We deliver industry-leading performance, rig utilization and returns to our stakeholders.

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# Management's Discussion and Analysis (MD&A)

Three months ended March 31, 2008

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, 2007, Management's Discussion and Analysis for the year ended December 31, 2007, and the unaudited Consolidated Financial Statements for the three months ended March 31, 2008 and 2007. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Comparative percentages are between the three months ended March 31, 2008 and 2007, and all dollar amounts are expressed in Canadian currency. Throughout this report, Stoneham has been used to refer to Stoneham Drilling Trust, its subsidiaries, Stoneham Drilling Limited Partnership, Stoneham Drilling Inc., Stoneham Drilling Corporation, and Stoneham Administration Inc., as the context requires.

The information in this MD&A was prepared on April 24, 2008, 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 10.

Additional information relating to Stoneham, including the Annual Information Form dated March 27, 2008, is available on our 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.

The first quarter of 2008 marked Stoneham's entry into the United States market. In January, Stoneham Drilling Corporation was incorporated under the laws of the State of Oklahoma as a wholly-owned subsidiary of Stoneham Drilling Inc., and entered into a one year contract with the U.S. arm of an existing Canadian client. During the first quarter, Rigs 17 and 18 were deployed to Oklahoma and are operating in the Anadarko Basin. This strategic move complements our Canadian operations and we may deploy additional rigs to the U.S. in the future.

### SELECTED FINANCIAL INFORMATION

\$ 000s except for per trust unit data and trust units outstanding	Three months ended March 31,	
	2008 (unaudited)	2007 (unaudited)
Revenue	31,641	18,963
Net earnings and comprehensive income	4,575	4,345
Per trust unit (basic and diluted)	0.57	0.54
Cash flow from operations (1)	8,693	6,195
Per trust unit (basic and diluted)	1.08	0.77
Total assets	193,169	148,508
Long-term debt (2)	69,500	26,710
Weighted average units outstanding		
Basic and diluted	8,023,261	8,023,261
EBITDA (1)	9,880	6,597

(1) Cash flow from operations is defined as cash flow from operating activities before changes in non-cash working capital relating to operating activities. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Readers are advised that cash flow from operations, cash flow from operations per trust unit and EBITDA do not have standardized meanings prescribed by GAAP and therefore may not be comparable with calculations of similar measures for other companies. However, Stoneham does compute these measures on a consistent basis for each reporting period. The reconciliation of cash flow from operating activities and EBITDA to a GAAP measure can be found on page 6.

(2) Long-term debt includes the current portion.

## Highlights

- Revenue for the first quarter of 2008 was \$31.6 million, up 67% from last year. Additional capacity resulting from the deployment of five new drilling rigs during 2007, improved rig utilization in Canada, and an increase in cost recoverable charges all contributed to the revenue increase. As well, U.S. operations commenced during the first quarter of 2008 and contributed \$1.9 million of revenue.
- Cash flow from operations increased 40% to \$8.7 million as a result of the revenue increase offset in part by higher interest expense and slightly lower operating margins.
- Net earnings increased 5% to \$4.6 million as higher cash flow from operations was largely offset by higher amortization costs and a \$0.7 million future income tax charge in the quarter.
- Stoneham achieved a rig utilization rate of 77.1% in Canada for the first quarter of 2008, up from 72.0% for the same period a year ago, while significantly exceeding the industry average utilization rate of 55.9%. Total operating days for the first quarter were 1,243, up from 805 in the first quarter of 2007.
- Capital expenditures totalled \$4.7 million during the quarter, down \$14.0 million from the same period last year. Our 2007 rig construction program was completed in the quarter with the deployment of Rigs 17 and 18 to the U.S. The Leduc operations centre was completed and became operational on March 31, 2008.
- Stoneham declared distributions of \$3.0 million (\$0.375 per trust unit) during the quarter, as compared to \$3.6 million (\$0.450 per trust unit) during the first quarter of 2007. The decrease resulted from a \$0.025 per trust unit reduction in monthly distributions announced during the third quarter of 2007.

## Operational Highlights

	Three months ended March 31,		% Change
	2008	2007	
Average number of rigs (1)	17.5	12.5	40%
Rigs at quarter end			
Canada	17	13	31%
U.S.	2	-	-
<b>Canada</b>			
Operating days (2)	1,217	805	51%
Stoneham rig utilization rate (3)	77.1%	72.0%	7%
CAODC industry average utilization rate (3)	55.9%	58.8%	-5%
<b>U.S.</b>			
Operating days (2)	26	-	-

- (1) Rig 18, which was completed in November 2007, was deployed in February 2008. Rig 17 was deployed in March. In 2007, Rig 15 was deployed in February, Rig 12 was deployed in July, Rigs 16 and 19 were deployed in October, and Rig 20 was deployed in December.
- (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, expressed as a percentage, is based on data reported by the CAODC. It is calculated by dividing the number of operating days for a period (as the numerator) by the number of rigs active during the period multiplied by the number of calendar days in the period (as the denominator).

Total operating days increased 54% in the first quarter of 2008, mainly as a result of the deployment of six new drilling rigs in the past nine months and the inclusion of Rig 15 (deployed in February 2007) for the full quarter in 2008. The increase in operating days can also be attributed to a slight improvement in rig utilization resulting from higher demand for contract drilling services due to strengthening natural gas prices and an increase in our customer base year over year. In Canada, Stoneham's rig utilization rate outperformed the industry average by 38% in the first quarter of 2008, and we anticipate our utilization rate will be higher than the Canadian industry average for the remainder of the year.

## Results of Operations

### REVENUE AND OPERATING EXPENSES

\$ 000s	Three months ended March 31,		% Change
	2008	2007	
Revenue	31,641	18,963	67%
Operating expenses	20,437	11,061	85%

Revenue was 67% higher in the first quarter due to the increase in operating days and higher cost recoverable charges. Higher day rates associated with the newer rigs were offset by lower day rates associated with a higher percentage of spot market activity year over year. Revenue per operating day rose 8% to \$25,455 in the first quarter of 2008, compared to \$23,557 for the same period in 2007.

Operating expenses were 85% higher in the first quarter due to the increase in operating days, higher cost recoverable expenses including fuel and, to a lesser degree, increases in maintenance and rental expenses. The fixed cost component also increased with the additional staff in our field office due to the larger fleet. Operating expenses per operating day rose 20% to \$16,442 in the first quarter of 2008, compared to \$13,740 for the same period in 2007.

### GENERAL AND ADMINISTRATIVE EXPENSES

\$ 000s	Three months ended March 31,		% Change
	2008	2007	
General and administrative expenses	1,324	1,305	1%

General and administrative expenses remained relatively constant with the comparative period as increased insurance and compensation costs associated with both growth in operations and expansion into the U.S. were offset by reduced bank charges. Bank charges were substantially higher in the first quarter of 2007 due to the renegotiation of the long term-debt facility.

### AMORTIZATION

\$ 000s	Three months ended March 31,		% Change
	2008	2007	
Amortization	3,402	1,850	84%

Amortization of property, plant and equipment increased 84% in the first quarter due to additional operating days associated with the expanded rig fleet and higher per operating day amortization on the new and deeper capacity equipment.

**INTEREST EXPENSE**

\$ 000s	Three months ended March 31,		% Change
	2008	2007	
Interest on long-term debt	1,120	330	239%
Other interest	67	72	-7%

Interest on long-term debt increased to \$1.1 million due to higher levels of debt associated with our 2007 rig construction program and building of the new operations centre in Leduc.

**INCOME TAXES**

The Trust distributes taxable income to its unitholders; therefore the only income taxes currently payable are those incurred by the General Partner. For the three month periods ended March 31, 2008 and 2007, taxable income of the General Partner was minimal and therefore current income tax expense has been included in general and administrative expenses.

In June 2007, legislation was enacted concerning the taxation of certain publicly traded flow-through (SIFT) entities. The new regime imposes a tax on distributed trust income derived from certain sources beginning in 2011. For Stoneham, this includes business income allocated to it from the Partnership. As at March 31, 2008, 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 29.5%. During the quarter, there was an increase in the future income tax liability of \$0.7 million.

**Liquidity and Capital Resources**

At March 31, 2008, Stoneham had a working capital surplus of \$4.7 million relatively unchanged from the surplus of \$5.2 million at December 31, 2007. The initial funding of first quarter capital expenditures from working capital and the increase in the current portion of long-term debt are reasons for working capital not increasing during the period.

As at March 31, 2008, Stoneham's authorized 364-day extendable secured facility was \$75.0 million, bearing interest at a rate of prime plus 0.75%. The authorized operating line was \$15.0 million bearing interest at a rate of prime plus 0.5%. The Trust has a secondary operating facility of \$2.0 million that bears interest at a rate of prime plus 0.75%. At March 31, 2008, bank indebtedness was \$5.1 million and outstanding long-term debt was \$69.5 million including a current portion of \$1.4 million. During the quarter, bank indebtedness increased by \$2.0 million to assist in funding the rig construction program and Leduc operations facility.

**OPERATING ACTIVITIES**

\$ 000s	Three months ended March 31,		% Change
	2008	2007	
Net earnings and comprehensive income	4,575	4,345	5%

Net earnings and comprehensive income increased 5% to \$0.57 per trust unit (March 31, 2007 - \$0.54 per trust unit). Increased activity translated to a 67% increase in revenues and a 42% increase in operating margins. This increase was however, largely offset by higher amortization associated with the expanded rig fleet, higher interest expense associated with the rig construction program, and a future income tax expense of \$0.7 million.

## RECONCILIATION OF NON-GAAP MEASURES

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

\$ 000s	Three months ended March 31,	
	2008	2007
Cash flow from operating activities	5,944	8,646
Add (deduct):		
Changes in non-cash working capital relating to operating activities	2,749	(2,451)
Cash flow from operations	8,693	6,195

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

\$ 000s	Three months ended March 31,	
	2008	2007
Net earnings	4,575	4,345
Add:		
Amortization	3,402	1,850
Interest on long-term debt	1,120	330
Other interest	67	72
Future income tax expense	716	-
EBITDA	9,880	6,597

The preceding tables reconcile the non-GAAP measures, cash flow from operations and EBITDA, to cash flow from operating activities and net earnings, both GAAP measures. We believe that, 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 should be cautioned, however, that cash flow from operations and EBITDA 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,		% Change
	2008	2007	
Capital expenditures	4,694	18,743	-75%

In the first quarter, we incurred the remaining expenditures related to our rig construction program and operations centre in Leduc, marking the completion of these capital projects. Capital expenditures for the same period in 2007 also related to the rig construction program and operations centre. In 2007, six rigs were completed (Rigs 12, 15, 16, 18, 19, and 20), all of which were deployed in 2007 with the exception of Rig 18. Rigs 18 and 17 were deployed to the U.S. in February and March 2008, respectively.

**FINANCING ACTIVITIES**

<u>\$ 000s</u>	<u>Three months ended March 31,</u>		<u>%</u>
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Net change in long-term debt	-	15,000	-

At the end of the first quarter, a total of \$69.5 million was drawn on our long-term debt facility, unchanged from December 31, 2007. During the first quarter of 2007, \$15.0 million was drawn under the long-term debt facility to fund rig construction. The current portion of the term debt was \$1.4 million at March 31, 2008.

**DISTRIBUTIONS**

<u>\$ 000s, except for per trust unit amounts</u>	<u>Three months ended March 31,</u>		<u>%</u>
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Net earnings and comprehensive income	4,575	4,345	5%
Cash flow from operations (1)	8,693	6,195	40%
Distributions paid and payable	3,009	3,610	-17%
Per trust unit	0.38	0.45	-17%

- (1) Cash flow from operations is defined as cash flow from operating activities before changes in non-cash working capital related 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. The Board of Directors 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. Stoneham currently makes monthly cash distributions of \$0.125 per trust unit (\$1.50 per trust unit per annum).

At March 31, 2008 and April 24, 2008, the Trust had 8,023,261 trust units outstanding - unchanged from March 31, 2007 and the most recent year end. 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							
	March 31		December 31		September 30		June 30	
	2008	2007	2007	2006	2007	2006	2007	2006
Revenue	31,641	18,963	26,042	17,782	18,050	15,780	2,867	11,079
Net earnings and comprehensive income	4,575	4,345	4,987	4,243	4,063	3,953	(7,399)	2,004
Per trust unit (basic and diluted)	0.57	0.54	0.62	0.53	0.51	0.49	(0.92)	0.25
Cash flow from operations (1)	8,693	6,195	7,680	6,220	5,360	5,542	(1,990)	3,043
Per trust unit (basic and diluted)	1.08	0.77	0.96	0.78	0.67	0.69	(0.25)	0.38
Distributions	3,009	3,610	3,009	3,410	3,611	3,009	3,610	3,009
Per trust unit	0.375	0.450	0.375	0.425	0.450	0.375	0.450	0.375
Candian utilization rate (2):								
Stoneham	77%	72%	71%	75%	63%	82%	12%	57%
Industry	56%	59%	37%	47%	39%	57%	17%	38%

- (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, expressed as a percentage, is based on data reported by the CAODC. It is calculated by dividing the number of operating days for a period (as the numerator) by the number of rigs active during the period multiplied by the number of calendar days in the period (as the denominator).

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 and operator construction costs are reduced. The peak Canadian drilling season ends with spring break-up, at which time drilling operations are curtailed by 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, resulting in the second quarter traditionally being the slowest quarter.

As these seasonal conditions do not exist in the Anadarko Basin, our U.S. expansion provides the opportunity for uninterrupted activity and potentially better overall rig utilization during the second quarter.

## Outlook

Continued volatility in natural gas prices, a strong Canadian dollar, and uncertainty regarding the Alberta royalty regime have led to conservative drilling budgets for 2008. During the first quarter, natural gas prices have strengthened considerably; however, drilling activity has remained at a slightly slower pace than last year as the CAODC industry utilization average fell to 56% from 59% in the first quarter of 2007. Activity levels to date in the second quarter have been higher than the same period in 2007, and, provided that most rigs are able to return to work in early to mid June, we expect Canadian rig utilization in the second quarter of 2008 to be higher than last year. As well, this activity will be augmented by activity from our two rigs operating in the U.S.

## Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make assumptions, judgments and estimates that may have a significant impact on the financial statements. Estimates are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they become known. The Company's significant accounting policies are described in Note 2 of the consolidated financial statements for the year ended December 31, 2007.

## Changes in Accounting Policies

As described in Note 2 to our interim consolidated financial statements, on January 1, 2008 we adopted the CICA Handbook Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments – Disclosures*, Section 3863 *Financial Instruments – Presentation* and the amended Section 1400 *General Standards of Financial Statement Presentation*.

Section 1535 *Capital Disclosures* specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements and the consequences in the event of non-compliance.

Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation* replace Handbook Section 3861 *Financial Instruments – Disclosure and Presentation* and require increased emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

The amended Section 1400 *General Standards of Financial Statement Presentation* includes requirements to assess the entity's ability to continue as a going concern. Material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern are required to be disclosed. Financial statements not prepared on a going concern basis must disclose that fact, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

## CANADIAN ACCOUNTING PRONOUNCEMENTS

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Stoneham is currently evaluating the impact of adopting IFRS.

## Internal Controls over Financial Reporting

There were no changes to Stoneham's internal controls over financial reporting since December 31, 2007, which have materially affected, or are reasonably likely to materially affect Stoneham's internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer have signed form 52-109F2 – Certification of interim filings, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## Risks and Uncertainties

For a discussion about risks and uncertainties, please refer to our Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2007 available at [www.sedar.com](http://www.sedar.com).

## 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 is 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 in Canada and the United States; and (ii) 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; and (ix) 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 of Stoneham's customers to maintain cash flow and/or to raise capital and to continue with their drilling programs; (viii) the assumption that customers will continue to honour the terms of their take-or-pay contracts and/or that amendments may be negotiated to such contracts that would not have a material adverse effect on Stoneham; (ix) the impact of adverse weather on Stoneham's operations; (x) increases and overruns in drilling rig construction costs; (xi) the impact of increased competition and an over-supply of drilling rigs in the industry; (xii) the impact of disasters and accidents such as blow-outs; and (xiii) 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.

# Consolidated Balance Sheets

unaudited - stated in thousands	March 31 2008	December 31 2007
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	\$ 27,414	\$ 22,023
Prepaid expenses	1,025	890
	<u>28,439</u>	<u>22,913</u>
<b>Property, plant and equipment</b>	<b>164,730</b>	<b>163,438</b>
	<u>\$ 193,169</u>	<u>\$ 186,351</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness	\$ 5,096	\$ 3,055
Accounts payable and accrued liabilities	16,144	13,649
Distributions payable (Note 5)	1,003	1,003
Current portion of long-term debt	1,448	-
	<u>23,691</u>	<u>17,707</u>
<b>Long-term debt</b>	<b>68,052</b>	<b>69,500</b>
<b>Future income taxes (Note 4)</b>	<b>4,954</b>	<b>4,238</b>
	<u>96,697</u>	<u>91,445</u>
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital	89,198	89,198
Accumulated earnings	45,732	41,157
Accumulated distributions to unitholders (Note 5)	(38,458)	(35,449)
	<u>96,472</u>	<u>94,906</u>
	<u>\$ 193,169</u>	<u>\$ 186,351</u>

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Earnings, Comprehensive Income and Accumulated Earnings

unaudited - stated in thousands, except for per trust unit amounts	Three months ended March 31,	
	2008	2007
<b>REVENUE</b>	\$ 31,641	\$ 18,963
<b>EXPENSES</b>		
Operating	20,437	11,061
Amortization	3,402	1,850
General and administrative	1,324	1,305
Interest on long-term debt	1,120	330
Other interest	67	72
	26,350	14,618
Earnings before income taxes	5,291	4,345
Future income tax expense (Note 4)	716	-
<b>Net earnings and comprehensive income for the period</b>	<b>4,575</b>	<b>4,345</b>
Accumulated earnings, beginning of period	41,157	35,161
<b>Accumulated earnings, end of period</b>	<b>\$ 45,732</b>	<b>\$ 39,506</b>
Earnings per unit		
Basic and diluted	\$ 0.57	\$ 0.54

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

unaudited - stated in thousands	Three months ended March 31,	
	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	\$ 4,575	\$ 4,345
Adjustment for items not affecting cash:		
Amortization	3,402	1,850
Future income tax expense	716	-
	<u>8,693</u>	<u>6,195</u>
Changes in non-cash working capital relating to operating activities (Note 6)	<u>(2,749)</u>	<u>2,451</u>
	<u>5,944</u>	<u>8,646</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(4,694)	(18,743)
Changes in accounts payable relating to investing activities	(282)	(1,701)
	<u>(4,976)</u>	<u>(20,444)</u>
<b>FINANCING ACTIVITIES</b>		
Long-term debt financing	-	15,000
Distributions paid and payable to Trust unitholders (Note 5)	(3,009)	(3,610)
	<u>(3,009)</u>	<u>11,390</u>
Decrease in cash and cash equivalents	(2,041)	(408)
Bank indebtedness, beginning of period	(3,055)	(3,295)
<b>Bank indebtedness, end of period</b>	<b>\$ (5,096)</b>	<b>\$ (3,703)</b>

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

March 31, 2008 and March 31, 2007

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

## 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, 2007, except as described 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, 2007.

## 2. Changes in Accounting Policies

### FOREIGN CURRENCY TRANSLATION

Accounts of the Trust's integrated foreign operations are translated to Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expenses. Monetary assets and liabilities are translated at the period-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net earnings.

### CAPITAL DISCLOSURES, FINANCIAL INSTRUMENTS AND GENERAL PRESENTATION STANDARDS

On January 1, 2008, the Trust adopted the CICA Handbook Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments – Disclosures*, Section 3863 *Financial Instruments – Presentation*, and the amended Section 1400 *General Standards of Financial Statement Presentation*.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any capital requirements and the consequences in the event of non-compliance. The standard is effective January 1, 2008. The new Sections 3862 and 3863 replace Handbook Section 3861 *Financial Instruments – Disclosure and Presentation* and require increased emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements and is effective January 1, 2008. Adoption of this standard did not have an impact on our consolidated financial statements.

The Canadian Institute of Chartered Accountants has amended Section 1400 *General Standards of Financial Statement Presentation*, also effective January 1, 2008. The amended standard includes requirements to assess the entity's ability to continue as a going concern. Material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern are required to be disclosed. Financial statements not prepared on a going concern basis must disclose that fact, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. The adoption of the amended section did not have an impact on our consolidated financial statements.

## FUTURE ACCOUNTING PRONOUNCEMENTS

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Stoneham is currently evaluating the impact of adopting IFRS.

## 3. Seasonality of Operations

The majority 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. With the expansion into the U.S. during the first quarter of 2008, two of our drilling rigs are operating in the Anadarko Basin, which does not experience these seasonal conditions. This will provide an opportunity for uninterrupted activity and potentially better rig utilization which would partially offset the reduced activity experienced in Canada during the second quarter.

## 4. Future Income Taxes

In June 2007, legislation was enacted concerning the taxation of certain publicly traded flow-through (SIFT) entities. The new regime imposed a tax 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 at March 31, 2008, based on the substantively enacted rate of 29.5%, the Trust has recorded a future income tax liability of \$5.0 million.

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

	Three months ended March 31,	
	<u>2008</u>	<u>2007</u>
Earnings before income taxes	\$ 5,291	\$ -
Federal and provincial statutory rates	<u>29.5%</u>	<u>-</u>
Tax at statutory rates	1,561	-
Adjusted for the effects of:		
Non-deductible expenses	32	-
Tax reduction from trust income distribution	<u>(877)</u>	<u>-</u>
Income tax expense	<u>\$ 716</u>	<u>\$ -</u>

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The net future tax liability is comprised of the tax effect of the following temporary difference:

	March 31, 2008	December 31, 2007
Future income tax liability:		
Property, plant and equipment	\$ 4,954	\$ 4,238

## 5. Accumulated Distributions to Unitholders

The following table shows the cumulative distributions to unitholders.

	\$/unit	Amount
Distributions declared to December 31, 2007		\$ 35,449
January 2008	0.125	1,003
February 2008	0.125	1,003
March 2008 (declared March, 2008 and payable in April, 2008)	0.125	1,003
	0.375	38,458

Distributions are made at the discretion of the Board of Directors in accordance with the distributable cash flow calculation outlined in the Declaration of Trust.

## 6. Supplemental Cash Flow Information

Changes in non-cash working capital relating to operating activities

	Three months ended March 31, 2008	2007
(Increase) decrease in current assets		
Accounts receivable	\$ (5,391)	\$ 2,506
Prepaid expenses	(135)	277
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	2,777	(332)
	\$ (2,749)	\$ 2,451
Interest paid	\$ 1,174	\$ 364

## 7. Capital Risk Management

The Trust's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for unitholders as well as providing an adequate rate of return by pricing services offered commensurately with the level of risk incurred.

The Trust defines capital as including all long-term debt and equity based on the consolidated financial statements. The Trust manages the capital structure and makes adjustments to it in light of its operations, taking into account activities such as a substantial rig construction program, construction of operational facilities, strategic decisions including the expansion of operations outside Canada and maintenance of cash distribution levels. The Trust also considers changes in economic conditions of the marketplace resulting from legislation or volatility in commodity prices as well as risk characteristics of the underlying assets themselves. The Trust's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. Cash requirements are also met through debt financing arrangements or through accessing public capital markets. The Board of Directors does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable, profitable growth. The Board of Directors has approved the distribution of up to 75% of cash flow from operations in the form of monthly cash distributions, based on the distributable cash flow calculation as outlined in the Declaration of Trust.

The Trust is bound by covenants on its syndicated operating and term banking facilities. The covenants are monitored monthly as part of management's internal review to ensure compliance with the requirements. As at March 31, 2008, the Trust was in compliance with all such covenants.

As a result of the Canadian trust taxation legislation passed in June 2007 and effective January 1, 2011, the Trust is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of unitholders' capital that can be issued by the Trust in each of the next three years, based on the Trust's market capitalization on October 31, 2006, as follows:

Normal growth capital allowed in:	Annual	Cumulative
2008 (1)	\$ 94,800	\$ 94,800
2009	31,600	126,400
2010	31,600	158,000

- (1) Since the Trust did not use its allowed growth capital in 2006 or 2007, the amount available for 2008 is the unused amount for 2006 and 2007 plus the annual amount for 2008 of \$31.6 million, for a total of \$94.8 million.

In addition to growth capital restrictions, the Trust also monitors its foreign ownership levels to the extent possible given the practical limitations regarding the beneficial ownership information. The Declaration of Trust, under which the Trust was created, provides that no more than 49% of the units of the Trust can be held by non-residents of Canada. The potential impact of breaching this threshold may be the loss of mutual fund status, which may significantly impact the valuation of the units. At March 31, 2008, the Trust's best estimate of the foreign ownership level was 24.1%, based on account data at April 8, 2008.

## 8. Financial Instruments

The Trust's financial instruments recognized on the consolidated balance sheets include bank indebtedness, accounts receivable, current liabilities and long-term debt. The carrying value of the accounts receivable and current liabilities approximates fair value due to the relatively short time to maturity. The carrying value of the long-term debt, including the current portion, approximates fair value because it has a market value interest rate similar to that found in comparable companies.

The Trust holds various forms of financial instruments. The nature of these instruments and the Trust's operations expose the Trust to credit, interest rate, liquidity and foreign exchange risk. The Trust manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

### (a) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A significant portion of the Trust's financial assets at the balance sheet date arise from receivables owing for contract drilling services. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Trust considers past due. For the three month period ended March 31, 2008, two customers each provided more than 10% of the Trust's revenues (December 31, 2007 – three customers). The Trust is satisfied with its credit relationships with existing customers and mitigates credit risk by dealing mainly with larger, well established companies and major national chartered banks.

### (b) Interest rate risk

The Trust is exposed to interest rate risk in relation to interest expense on its bank indebtedness and long-term debt. Interest is calculated at prime to prime plus the applicable margin according to the lending agreement. The prime interest rate is subject to change. The Trust currently does not use interest rate hedges or fixed interest rate contracts to manage the Trust's exposure to interest rate fluctuations.

### (c) Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements, the Trust will not have sufficient funds to settle a transaction on the due date, will be forced to sell financial assets at a value which is less than what they are worth, or will be unable to settle or recover a financial asset.

The Trust's operating cash requirements are continuously monitored by management. As the demand for our services largely depends on the level of spending by exploration and production companies on exploration and production activities, the price received by our customers for the crude oil and natural gas they produce has a direct impact on the cash flow available to them to purchase the services we provide. Industry activity levels are also influenced by taxation and regulatory changes, access to pipeline capacity and changes in equity markets. Demand for crude oil and natural gas is also strongly influenced by weather patterns, geopolitical factors, and the strength of the global economy.

As these factors change, liquidity risks may necessitate the need for the Trust to raise capital by issuing equity or obtaining additional debt financing. The Trust also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

At March 31, 2008, the Trust had available to it \$5.5 million of authorized borrowing capacity on the long-term debt facility and \$9.9 million of authorized borrowing capacity on the operating loan. The Trust believes it has sufficient funding through operations and the use of these facilities to meet foreseeable financial obligations.

(d) Foreign exchange risk

The Trust is exposed to foreign exchange risk as a result of its U.S. operations. This exposure is subject to change based on the relationship between the Canadian and U.S. currencies. Management regularly monitors the exchange rates and may choose to enter into agreements to fix the exchange rate of the Canadian dollar to the U.S. dollar in order to manage this risk. To date, management has not entered into any such contracts.

## 9. Segmented Information

The Trust's operating activities are entirely related to providing contract drilling services to oil and natural gas exploration and production companies operating within the Western Canada Sedimentary Basin and the Anadarko Basin of Oklahoma.

	Three months ended March 31,	
	2008	2007
<b>Revenue</b>		
Canada	\$ 29,760	\$ 18,963
U.S.	1,881	-
Total	<u>\$ 31,641</u>	<u>\$ 18,963</u>
<b>Property, plant and equipment, net</b>		
Canada	\$ 135,076	\$ 135,224
U.S.	29,654	-
Total	<u>\$ 164,730</u>	<u>\$ 135,224</u>

# Trust Information



**STONEHAM**  
DRILLING TRUST

## STONEHAM DRILLING INC.

### Directors

**Martin G. Abbott** <sup>(1)(2)(3)</sup>

Calgary, Alberta

**Donald D. Copeland** <sup>(2)(4)</sup>

Calgary, Alberta

**D. Grant Gunderson** <sup>(3)(4)</sup>

Calgary, Alberta

**Bruce W. Jones**

DeWinton, Alberta

**Kenneth D. Poffenroth** <sup>(2)(3)</sup>

Spruce Grove, Alberta

## STONEHAM ADMINISTRATION INC.

### Directors

**Jeffrey J. McCaig** <sup>(1)(2)(5)</sup>

The Woodlands, Texas

**D. Grant Gunderson** <sup>(5)</sup>

Calgary, Alberta

**Perry W. Jasson** <sup>(2)(5)</sup>

Calgary, Alberta

**Bruce W. Jones**

DeWinton, Alberta

**J. Wayne Thomas** <sup>(2)</sup>

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

## TRUSTEE, REGISTRAR AND TRANSFER AGENT

**Valiant Trust Company**

310, 606 – 4th Street SW

Calgary, Alberta T2P 1T1

## AUDITORS

**PricewaterhouseCoopers LLP**

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Calgary, Alberta T2P 5L3

## BANKERS

**HSBC Bank Canada**

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Calgary, Alberta T2P 1E5

**Toronto-Dominion Bank**

910, 333 – 7th Avenue SW

Calgary, Alberta T2P 2Z1

## LEGAL COUNSEL

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## CORPORATE OFFICE

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Stoneham Drilling Inc.**

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USA

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## TORONTO STOCK EXCHANGE

Symbol: SDG.UN

## ANNUAL MEETING

Wednesday, June 4, 2008

10:00 a.m.

Calgary Petroleum Club

319 – 5th Avenue SW

Calgary, Alberta T2P 0L5



**STONEHAM**  
DRILLING TRUST