



MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2006

The following Management's Discussion and Analysis ("MD&A") was prepared as of May 15, 2006 and should be read in conjunction with the unaudited consolidated financial statements for the three-month period ended March 31, 2006 and the MD&A and audited consolidated financial statements for the year ended December 31, 2005.

In conformity with the Canadian Securities Administrators National Instrument 51-101 ("NI 51-101"), natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("mcf") to one boe.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Greentree's Management at the time the statements were made.

Included in the MD&A are references to the term "cash flow". This term is not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and consequently is referred to as a non-GAAP measure. Reported amounts may not be comparable to similarly titled measures reported by other companies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with Canadian GAAP.

Greentree Gas & Oil Ltd. ("Greentree" or the "Company") is a junior explorer and producer of natural gas and oil in southwestern Ontario and trades under the symbol 'GGO' on the TSX Venture Exchange. Greentree currently has 33,125,290 shares outstanding.

PRODUCTION, REVENUES AND ROYALTIES

Total revenues for the first quarter of 2006 of \$544,810 increased approximately 35.4% from \$402,357 as compared to the first quarter of 2005. Total revenues consisted of sales of natural gas, crude oil, and to a lesser extent, natural gas by-product sales and other miscellaneous revenue.

NATURAL GAS

Natural gas production in the first quarter of 2006 increased approximately 10.4% as compared to the same period in the prior year (Q1 – 2006: 49,384 mcf, Q1 – 2005: 44,744 mcf). The increase in production was the result of production from new wells in the West Lorne and Innerkip areas and due to pipeline and gathering system improvements in the Charlotteville gas field.

Due both to the increase in production and natural gas prices, natural gas revenues increased approximately 35.9% in the first quarter of 2006 as compared to the prior year's first quarter. The Company received an average price of \$10.34/mcf for its natural gas in Q1 2006, compared to \$8.39/mcf in Q1 2005.

CRUDE OIL

Crude oil production increased from 459 bbls in the first quarter of 2005 to 511 bbls in the first quarter of 2006, an increase of roughly 11.3%. Shutdowns to the Rodney Unit 3 oil pool occurred in both of these periods, with the prior year shutdown occurring for a longer period due to a major overhaul of oil/water separation machinery and piping.

Crude oil sales increased approximately 31.9% in the first quarter of 2006 as compared to the prior year's first quarter. Along with the increased production, crude oil prices remained strong during the first quarter of 2006. The average price for the Company's oil in Q1 2006 was \$65.88/bbl as compared to \$56.31/bbl in Q1 2005, an increase of approximately 17%.

ROYALTIES

Royalties include both freehold and gross overriding payments. Royalties as a percentage of gas and oil revenue was approximately 12.3% in Q1 2006 as compared to approximately 11.5% in Q1 2005.

OPERATING EXPENSES

Operating expenses were higher (approximate 15.9% increase) in Q1 2006 as compared to Q1 2005. The main causes of the increase were facility, well repairs and an increase in by-product disposal costs. Necessary repairs to facilities, as well as increased water source well maintenance, were undertaken in the Rodney Unit 3 oil field. Operating costs were down slightly from Q4 2005 on an overall basis (4.6% reduction), and up slightly on a per-barrel equivalency basis (5.2% increase).

GENERAL & ADMINISTRATIVE EXPENSES

General and administrative costs were down approximately 37.7% in Q1 2006 as compared to Q1 2005 as a result of steps taken throughout 2005 to streamline administrative costs and which have been discussed in previous MD&A's. General and administrative cost levels were comparable to Q3 2005 (fourth quarter G&A costs tend to be higher due to year-end audit and reserve evaluation fees), which Management believes can be maintained for the near future.

DEPLETION AND DEPRECIATION EXPENSES

Depletion and depreciation expense in Q1 2006 was comparable to Q1 2005.

DEPLETION

The main factors that affect the calculation of depletion are the level of production, net book value of assets subject to depletion, and estimated remaining reserves. Depletion moves in direct proportion to the first two (i.e., the higher the level of production and the higher the average net book value of depletable assets over a given period, the higher the depletion expense). On the other hand, depletion expense is inversely proportional to the average level of estimated proven reserves over a given period (i.e., the higher the level of estimated reserves, the lower the depletion expense).

DEPRECIATION

Because equipment is depreciated on a straight-line basis, depreciation expense for a given class of assets has more of a direct relationship with the average net book value of the related depreciable assets. As the Company uses depreciation rates varying from 10% to 30%, fluctuations may arise when comparing certain periods. For example, a significant percentage increase in depreciation expense may occur if the Company were to purchase a disproportionately larger amount of assets in a higher-rate class.

CASH FLOW

Cash flow, as commonly used in the oil and gas industry, represents net income before depletion and depreciation, future income taxes and other non-cash expenses. The following table reconciles the Company's cash flow from operating activities to cash flow for the three-month periods ended March 31, 2006 and March 31, 2005. The difference between "cash flow" and "cash flow from operating activities" is that cash flow represents cash that has, or will be, received in the future due to the revenues generated during the period, net of cash that has been, or will be, paid in the future as a result of expenses incurred during the period. On the other hand, the latter term measures the actual cash collection and cash payments relating to operating activities that took place during the period.

3-Month period ended:	March 31, 2006 (\$)	March 31, 2005 (\$)
Cash flow from operating activities, as reported	(224,664)	(476,779)
Changes in non-cash operating working capital items	354,026	471,432
Cash flow	129,362	(5,347)

Management continues to carefully monitor cash flow in order to settle old outstanding accounts and improve its working capital position. Although cash flow has remained positive, reductions in natural gas prices may slow progress on this front.

CAPITAL EXPENDITURES AND PROJECTS

The Company invested \$231,608 in property, plant and equipment during Q1 2006, as compared to \$299,254 during Q1 2005. The Company's 2006 winter drilling program was delayed due to rig availability and ground conditions. Capital expenditures incurred during Q1 2006 consisted primarily of drilling expenditures (\$127,391), oil and gas facility costs (\$32,336), purchase of a vacuum truck (\$29,225) and geological expenditures (\$32,175).

In April of 2006, Greentree completed the drilling of its first well of the year. GGOL #70 encountered a natural gas show in the Silurian A-2 formation but did not encounter natural gas in the targeted Silurian Grimsby formation. Due to uneconomic measured volumes in the Silurian A-2 formation, the well was plugged and abandoned.

Much preparation was required in obtaining necessary permits, and approvals and dealing with other administrative matters prior to commencing work on the co-development of the Company's Rodney South oil pool with Wavefront Energy and Environmental Services Inc ("Wavefront"). Management estimates that the drilling of 8 injection wells and 2 horizontal producers will commence in late May or early June, 2006. Pursuant to the terms of the agreement, Greentree will retain a 30% interest in the production from the Rodney South wells once the first new producing well is drilled, completed, equipped and tied-in, and a 50% interest subsequent to Wavefront recouping its capital investment. The project is being undertaken at no capital cost to Greentree.

Seismic data has been obtained with respect to a joint project with a large industrial user of natural gas in southwestern Ontario. As per their agreement, the Company will act as operator and the industrial user will provide exploratory lands and financing. This project is being undertaken at little or no capital cost to Greentree.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2006, the terms of the Company's operating facility consisted of a revolving line of credit for a maximum unrestricted amount of \$2,400,000 with no monthly reductions (i.e., required repayments are interest only, but subject to availability, review and the lending institution's right of demand) and bearing interest at prime plus 2% per year. The Company pledged as security a \$10 million debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum and natural gas reserves at the request of the lender.

As at March 31, 2006, trade payables and accrued liabilities were \$769,821, a steady improvement from 3 months prior (\$1,188,663) and 1 year prior (\$1,471,114). During Q1 2006, the Company has continued to meet the terms of payment arrangements entered into with suppliers.

Negotiations are in progress at the time of writing to raise additional capital to fund further drilling in 2006 as well as to potentially reduce short-term debt.

RELATED PARTY TRANSACTIONS

A relationship exists between the Company and a law firm of which a partner is a director and shareholder of the Company. During Q1 2006, professional fees of \$4,919 were incurred for services provided by the law firm. The balance due to the law firm as at March 31, 2006 was \$305,063.

ADDITIONAL DISCLOSURES

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates require Management to make assumptions regarding matters that are highly uncertain at the time the estimate is made and have a material impact on the financial condition of the Company. A comprehensive discussion of the Company's significant accounting policies may be found in Note 3 to the March 31, 2006 consolidated financial statements.

Reserves. The Company's natural gas and oil reserves were evaluated and reported on by the independent petroleum engineering and geological consulting firm of Dobson Resource Management Ltd., which evaluated the Company's reserves as at December 31, 2005. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change with updated information from the results of future drilling, testing or production levels. Such revisions could be upwards or downwards. Reserve estimates have a material impact on depletion and depreciation expense, asset retirement costs and impairment expense, which could possibly have a material impact on consolidated net income.

Depletion. Capitalized costs and estimated future expenditures to develop proved reserves, including abandonment costs, are depleted based on the proportion of estimated proved oil and natural gas reserves produced during the year compared to total proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If it is determined that properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

Impairment. In applying the full cost method of accounting, the Company periodically calculates a ceiling, or limitation on the amount that petroleum and natural gas properties may be carried for on the balance sheet. An impairment exists if the undiscounted future net cash flows from proved reserves at future commodity prices plus the cost of undeveloped properties is less than the carrying value of the capitalized costs. If an

impairment is found to exist, the impaired properties are written down to their fair value. The fair value of the assets is calculated based on future net cash flows from proved plus probable reserves, discounted at a 10% rate using future commodity prices, plus the cost of undeveloped properties. An impairment may result in a material loss for a particular period; however, future depletion and depreciation expense would be reduced. Assumptions about reserves and future prices are required to calculate future net cash flows. The assumptions made to estimate reserves have been previously discussed. There is significant uncertainty regarding forecasting future commodity prices due to economic and political uncertainty. Future prices are derived from a consensus of price forecasts among recognized reserve evaluators. Estimates of future cash flows assume a long-term price forecast and current operating costs per boe plus an inflation factor. It is difficult to determine and assess the impact of a decrease in proved reserves on impairment. The relationship between reserve estimates and the estimated undiscounted cash flows, and the nature of the impairment test, is complex.

Asset Retirement Obligations. The Company is required to remove production equipment, batteries, pipelines, gas plants and restore land at the end of natural gas and oil operations. The Company estimates these costs in accordance with existing laws, contracts and other policies. These obligations are initially measured at fair value, which is the discounted future value of the liability. These costs are also capitalized as part of the cost of the related assets and amortized over the useful life of the assets.

An annual increase to the liability will be recorded to recognize the passage of time and the impending settlement of the obligation. The liability will be impacted by any changes in the assumptions used in the asset retirement obligation calculation. Adjustments to the estimate will be recorded as an expense on the consolidated statements of earnings.

The asset retirement obligation cost calculations were derived from typical industry experience and practices. The deemed asset retirement obligation liability for wells and facilities is the sum of the calculated abandonment and reclamation liabilities adjusted for designated status as active, inactive, abandoned, or problem site.

Estimating future asset removal costs is difficult and requires Management to make estimates and judgments because most of the removal obligations are many years in the future and contracts and regulations often have vague descriptions of what constitutes removal. Asset removal technologies and costs are constantly changing, as well as regulatory, political, environmental, safety and public relations considerations. As a result, it is not possible to provide a reasonable analysis of the impact that changes in removal costs would have on the asset retirement obligation.

OPERATIONAL AND FINANCIAL CONDITIONS AND RISKS

Greentree's operations are subject to risks normally associated with the natural gas and oil industry. Oil and natural gas exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that commercial quantities of natural gas and crude oil will be discovered by the Company. The marketability of natural gas and crude oil acquired or discovered will be affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation.

The Company is exposed to financial risks including interest rate risk on its operating facility, and commodity prices and expenditure costs shifting due to changes in market conditions. Commodity prices are driven by supply, demand and market forces outside the Company's influence. Greentree's ability to raise additional capital will depend upon a number of factors, such as general economic and market conditions that are beyond its control.

QUARTERLY INFORMATION

Quarterly Data (unaudited) Year Ended December 31, 2006	1st Quarter (\$)
Gas and oil revenues	543,020
Earnings before interest, taxes, depreciation and amortization (EBITDA)	185,493
Basic & diluted earnings (loss) per share	0.01
Cash flow	129,362
Operating netback per boe*	31.60
Operating and G&A netback per boe**	21.22
Production (boe/d)	97

Quarterly Data (unaudited) Year ended December 31, 2005	1st Quarter (\$)	2nd Quarter (\$)	3rd Quarter (\$)	4th Quarter (\$)
Gas and oil revenues	400,164	508,033	554,006	834,438
Earnings before interest, taxes, depreciation and amortization (EBITDA)	35,173	143,052	257,009	393,082
Basic & diluted earnings (loss) per share	(0.01)	(0.00)	(0.00)	(0.03)
Cash flow	(5,347)	86,029	211,733	152,894
Operating netback per boe*	23.21	30.43	39.83	56.57
Operating and G&A netback per boe**	4.44	15.34	29.81	41.84
Production (boe/d)	87	102	94	102

Quarterly Data (unaudited) Year ended December 31, 2004	1st Quarter (\$)	2nd Quarter (\$)	3rd Quarter (\$)	4th Quarter (\$)
Gas and oil revenues	393,049	421,100	512,284	530,400
Earnings/(loss) before interest, taxes, depreciation and amortization (EBITDA)	(17,759)	(263,731)	(277,777)	(46,673)
Basic & diluted earnings (loss) per share	(0.00)	0.01	(0.02)	(0.10)
Cash flow	(18,107)	(322,342)	(292,266)	(80,211)
Operating netback per boe*	12.92	(4.71)	22.74	26.15
Operating and G&A netback per boe**	(2.15)	(32.70)	(26.46)	(5.82)
Production (boe/d)	91	89	114	104

* Operating netback is calculated as revenues less royalties and operating expenses.

* Operating and G&A netback is calculated as revenues less royalties, operating expenses, and general and administrative expenses.

In Q1 2006, gas and oil revenues decreased from Q4 2005 as a result of lower natural gas prices and lower oil production. Fluctuations in production during 2004 and 2005 were due to sporadic shut-downs during both those years. EBITDA, cash flow and netbacks show a positive trend over the last two years due to increased average commodity prices and generally reducing operating and general and administrative expenses.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements for Greentree Gas & Oil Ltd. have been prepared by Management in accordance with Canadian GAAP consistently applied. The most significant of these accounting principles have been set out in the statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, Management is satisfied that these consolidated financial statements have been fairly presented.

OUTLOOK

We continue to be enthusiastic about Greentree's prospects for growth for the remainder of 2006 and beyond. To date management has been successful at reducing expenses to more respectable levels and at forging innovative working relationships with a supplier of new technology and a high volume natural gas user. In addition Greentree will strive to build new relationships with various funds and capital markets to ensure that the company has sufficient funding to move forward.

Greentree is currently focused on four main priorities:

1. Development of Rodney South in partnership with Wavefront Energy and Environmental Services, utilizing Wavefronts patented "Deepwave (SM)" injection technology. The project is expected to commence in late May to early June, 2006 with the drilling of 8 injection wells and 2 horizontal producers.
2. Evaluation of a large industrial property for natural gas potential. To date 37.5 kilometers of high-resolution 2D seismic data has been acquired, processed and interpreted. The project is expected to move forward to the drilling of an exploratory well in Q3 2006.
3. Raising sufficient capital to drill up to 10 exploratory and development wells from our existing prospect inventory in 2006.
4. Maximizing production in existing properties through reworking of wells and the use of compression. The Company recently completed an 8,000 foot section of pipeline which tied-in 3 natural gas wells into Greentree's main producing system. The wells were previously producing into a local sales line without the benefit of compression.

Timely execution of our four main priorities is expected to result in a very successful year for Greentree.