



**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2007**  
**(Unaudited)**

Interim Financial Statements

(Expressed in Canadian Dollars)  
(Prepared in accordance with Canadian GAAP)

**Six months ended June 30, 2007**

The accompanying unaudited interim financial statements of Greentree Gas & Oil Ltd. For the six months ended June 30, 2007 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

**INDEX**

	<b><u>Page</u></b>
Consolidated Balance Sheets	1
Consolidated Statements of Operations and Deficit	2
Consolidated Statements of Cash Flows	3
Notes to Consolidated Financial Statements	4



## CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	\$ 344,719	\$ 633,038
Prepaid expenses and other receivables	75,245	96,559
Current portion of future income taxes (note 10)	27,790	48,254
	<u>447,754</u>	<u>777,851</u>
<b>Reclamation bonds</b>	72,558	71,928
<b>Property, plant and equipment</b> (note 4)	<u>10,697,689</u>	<u>11,009,938</u>
	<u>\$ 11,218,001</u>	<u>\$ 11,859,717</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness (note 5)	\$ 2,236,116	\$ 2,282,780
Accounts payable and accrued liabilities	813,662	1,171,437
Notes and other payables (Note 6)	260,000	-
Income and other taxes payable (note 8)	275,677	295,472
Current portion of long-term debt (Note 7)	40,033	46,130
	<u>3,625,488</u>	<u>3,795,819</u>
<b>Long-term debt</b> (Note 7)	130,714	149,271
<b>Income and other taxes payable</b> (Note 8)	330,946	291,202
<b>Asset retirement obligations</b> (Note 9)	460,186	446,806
<b>Future income taxes</b> (Note 10)	<u>2,520,870</u>	<u>2,432,307</u>
	<u>7,068,204</u>	<u>7,115,405</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b> (Note 11)	15,059,542	15,277,945
<b>Warrants</b> (Note 11)	334,500	334,500
<b>Contributed surplus</b> (Note 12)	716,933	617,433
<b>Deficit</b>	<u>(11,961,178)</u>	<u>(11,485,566)</u>
	<u>4,149,797</u>	<u>4,744,312</u>
	<u>\$ 11,218,001</u>	<u>\$ 11,859,717</u>

Signed on behalf of the Board:

"Duncan Hamilton"	Director
"Gary Bean"	Director



## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the period ending	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2007	2006	2007	2006
<b>Revenue</b>				
Gas sales	429,076	379,311	823,765	889,733
Oil sales	65,351	90,502	107,847	123,100
Other	10,559	1,726	12,847	3,516
	<u>504,986</u>	<u>471,539</u>	<u>944,459</u>	<u>1,016,349</u>
Royalties	60,249	54,382	111,854	121,054
	<u>444,737</u>	<u>417,157</u>	<u>832,605</u>	<u>895,295</u>
<b>Expenses</b>				
Operations	190,087	201,597	393,624	401,747
Depletion and depreciation	292,812	202,401	572,869	394,044
General and administrative	122,746	310,292	356,803	402,788
Interest expense	53,837	47,294	105,514	85,800
Other taxes and related interest	24,445	(37,882)	51,605	(20,257)
Accretion of asset retirement obligations	7,043	8,504	16,079	16,734
	<u>690,970</u>	<u>732,206</u>	<u>1,496,494</u>	<u>1,280,856</u>
<b>Loss before income taxes</b>	<b>(246,233)</b>	<b>(315,049)</b>	<b>(663,889)</b>	<b>(385,561)</b>
<b>Recovery of income taxes</b> (note 10)	<b>85,215</b>	<b>(66,474)</b>	<b>188,276</b>	<b>222,770</b>
<b>Net income/(loss)</b>	<b>(161,018)</b>	<b>(381,523)</b>	<b>(475,613)</b>	<b>(162,791)</b>
<b>Deficit, beginning of period</b>	<b>(11,800,160)</b>	<b>(8,526,049)</b>	<b>(11,485,565)</b>	<b>(8,744,781)</b>
<b>Deficit, end of period</b>	<b>(11,961,178)</b>	<b>(8,907,572)</b>	<b>(11,961,178)</b>	<b>(8,907,572)</b>
<b>Earnings per share</b>				
Basic income/(loss) per share	0.00	(0.01)	(0.01)	0.00
Weighted average shares outstanding	38,684,247	33,125,290	38,631,208	33,125,290



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ending	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net income/(loss)	(161,018)	(381,523)	(475,613)	(162,790)
Items not affecting cash:			-	
Depletion and depreciation	292,812	202,401	572,869	394,044
Gain on disposal of assets	-	(1,869)	(1,000)	(1,869)
Accretion of asset retirement obligations	7,043	8,504	16,079	16,734
Stock-based compensation	-	189,000	99,500	189,000
Future income taxes	(85,215)	66,474	(188,276)	(222,770)
Asset retirement costs	(650)	(800)	(8,908)	(800)
	<u>52,972</u>	<u>82,187</u>	<u>14,651</u>	<u>211,549</u>
Net change in non-cash working capital				
accounts receivable	126,961	(16,871)	298,621	86,828
prepaid expenses	(200)	8,403	21,314	19,296
accounts payable and accruals	(291,921)	(102,034)	(250,860)	(520,876)
notes and other payables	260,000	-	260,000	-
income and other taxes payable	18,669	(37,882)	27,066	(87,658)
	<u>166,481</u>	<u>(66,197)</u>	<u>370,792</u>	<u>(290,861)</u>
<b>Financing activities</b>				
Increase/(decrease) in bank indebtedness	(16,057)	380,804	(46,664)	854,803
Repayment of long-term debt	(9,906)	(88,907)	(31,771)	(106,634)
Share issuance costs on shares-for-debt settlement	-	-	(1,100)	-
	<u>(25,963)</u>	<u>291,897</u>	<u>(79,535)</u>	<u>748,169</u>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(140,199)	(227,569)	(254,410)	(459,177)
Change in non-cash working capital relating to	-	-	-	-
property, plant and equipment	-	-	(37,217)	-
Proceeds from sale of assets	-	1,869	1,000	1,869
Reclamation bonds	(319)	-	(630)	-
	<u>(140,518)</u>	<u>(225,700)</u>	<u>(291,257)</u>	<u>(457,308)</u>
Increase/(decrease) in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	-	-	-	-



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

### 1. GOING CONCERN

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the year six-month period ended June 30, 2007, the Company had a net loss of \$475,613 (net loss of \$162,791 for the six-month period ended June 30, 2006) and positive cash flow from operating activities of \$110,792 (negative cash flow from operating activities of \$290,861 for the six-month period ended June 30, 2006). As a result of recurring losses over the Company's history, the Company has a deficit of \$11.96 million as at June 30, 2007 (\$8.91 million as at June 30, 2006) and has a net working capital deficiency of \$3.08 million at that date (\$3.10 million as at June 30, 2006).

The ability of the Company to continue as a going concern will depend on raising additional financing and achieving profitable operations sufficient to meet its' obligations. The Company's operating facility agreement (see Note 5) requires that the Company meet certain covenants including one relating to working capital ratio. As at June 30, 2007, the Company is in violation of the working capital ratio covenant however the bank has confirmed a continuing waiver of the non-compliance.

Although in the opinion of Management the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses, and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

### 2. INTERIM FINANCIAL INFORMATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and use the same accounting policies and methods used in the preparation of the company's most recent consolidated financial statements, except as disclosed. However, all disclosures required for annual financial statements have not been included in these financial statements. These interim consolidated financial statements should therefore be read in conjunction with the company's most recent annual consolidated financial statements.

The Company is engaged primarily in the exploration for and production of natural gas and petroleum reserves in southwestern Ontario.

### 3. NEW ACCOUNTING STANDARDS

As at January 1, 2007, the Company was required to adopt revised Canadian Institute of Chartered Accountants (“CICA”) Section 1506, “*Accounting Changes*”, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

#### a) Comprehensive income

As at January 1, 2007, the Company was required to adopt new CICA Section 1530, “*Comprehensive Income*”. Under the new standards, comprehensive income has been introduced which will provide for certain gains and losses, including foreign currency translation adjustments and other amounts arising from changes in fair value, to be temporarily recorded outside of net earnings/loss.

#### b) Financial instruments

As at January 1, 2007, the Company was required to adopt new CICA Section 3855, “*Financial Instruments – Recognition and Measurement*”. Under the new standards, all financial instruments, including derivatives, are to be included in the Company’s consolidated balance sheet and measured, in most cases, at fair values.

#### c) Hedges

As of January 1, 2007, the Company was required to adopt CICA Section 3865, “*Hedges*”, which specifies how to apply hedge accounting and what disclosures are necessary when it is applied.

### RECENT ACCOUNTING PRONOUNCEMENTS

Commencing with the Company’s December 31, 2008 year-end, the Company will be required to adopt new CICA Section 3862, “*Financial Instruments – Disclosures*” and new CICA Section 3863, “*Financial Instruments – Presentation*”, which will replace Section 3861, “*Financial Instruments – Disclosure and Presentation*”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed.

Commencing with the Company’s December 31, 2008 year-end, the Company will be required to adopt CICA Section 1535, “*Capital Disclosures*” which provides for more detailed information on information about the entity’s objectives, policies and processes for managing capital, as well as compliance with any externally imposed capital requirements, where they may exist.

#### 4. PROPERTY, PLANT AND EQUIPMENT

	<b>June 30, 2007</b>		
	<b>Cost</b>	<b>Accumulated Depletion and Depreciation</b>	<b>Net Book Value</b>
Petroleum and natural gas properties and equipment	<b>\$ 22,074,435</b>	<b>\$ 11,391,512</b>	<b>\$ 10,682,923</b>
Furniture and equipment	<b>361,074</b>	<b>346,308</b>	<b>14,766</b>
	<b>\$ 22,435,509</b>	<b>\$ 11,737,820</b>	<b>\$ 10,697,689</b>

Petroleum and natural gas properties and equipment included costs of \$4,213,000 related to unproved properties, which have been excluded from the calculation of depletion.

Included in Petroleum and natural gas properties and equipment are assets under capital lease with a cost of \$220,000 and accumulated depletion of \$ 46,372.

#### 5. BANK INDEBTEDNESS

The loan facility provides Greentree with a revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 2.00%. Presently, the bank's prime lending rate is 6.25%. The Company's operating facility agreement requires that the Company meet certain covenants including one relating to working capital ratio. As at June 30, 2007, the Company is in violation of the working capital ratio covenant however the bank has confirmed a continuing waiver of the non-compliance.

The loan is collateralized by 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, a general assignment of book debts, insurance assignment showing the lender as first loss payee, an assignment of revenues and monies under material contracts, and a guarantee from Southwest Petroleum Explorations Inc., supported by debenture security.

As at June 30, 2007, \$2,236,116 of funds had been drawn against the credit facility of \$2,400,000. The available credit was approximately \$200,000. The bank has not waived its right to demand repayment of the outstanding principal balance and consequently the entire balance has been shown as a current liability.

## 6. NOTES AND OTHER PAYABLES

During the quarter ended June 30, 2007, an individual who is related to a Director of the Company provided \$100,000. The funds were provided for general corporate purposes. The note is an unsecured loan bearing interest payable monthly at a rate of 12.5% per annum. The note is due on or before December 31, 2007. There is no prepayment penalty and includes a provision for conversion to a long-term repayment.

During the quarter ended June 30, 2007, proceeds of \$160,000 relating to a non-brokered private placement of convertible debentures were received. The debentures will bear interest at 12% per annum, payable quarterly and maturing on July 1, 2012. The debentures will be convertible at the option of the holder into common shares of Greentree at \$0.24 per share during the first two years, \$0.27 per share during the third year, \$0.30 per share during the fourth year and \$0.33 per share in the last year before maturity. The Company may redeem the debentures on thirty (30) days' notice provided that its common shares have traded at prices not less than \$0.50 per share in the 30 days immediately preceding the date of such notice if notice is given before July 1, 2009, at \$0.55 per share if notice is given in the third year, \$0.60 per share if notice is given in the fourth year, and \$0.65 per share if notice is given in the last year before maturity.

This financing has not closed and therefore, the funds are presently treated as a short-term obligation of the Company.

## 7. LONG TERM DEBT

	<b>June 30, 2007</b>
Vehicle financing	\$ 4,038
Obligation under capital lease	166,709
	<b>170,747</b>
Less: current portion of vehicle financing	-4,038
Less: current portion of obligations under capital lease	-35,995
	<b>\$ 130,714</b>

The vehicle financing agreement relates to a truck used in field operations. The vehicle is pledged as collateral for the financing arrangement. The financing bears no interest and matures on October 10, 2007.

Under the terms of the capital lease, blended payments of \$4,573 are payable monthly together with a balloon payment of \$121,000 due September 15, 2008. Interest is calculated at 12.5% per annum.

## 8. INCOME AND OTHER TAXES PAYABLE

	<b>June 30, 2007</b>
Current portion	
Other taxes payable – current year	27,790
Other taxes payable – prior years	247,887
	<b>275,677</b>
Long term portion	
Other taxes payable – prior years	330,946
	<b>\$ 606,623</b>

## 9. ASSET RETIREMENT OBLIGATIONS

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,400,182 (2006 - \$1,404,200) which has been discounted using a credit-adjusted risk-free rate of 8.5% and includes a 2.0% inflation factor.

	<b>2007</b>
<b>Asset retirement obligations, beginning of the period</b>	446,806
<b>Liabilities incurred</b>	-8,908
<b>Liabilities settled</b>	6,209
<b>Accretion expense</b>	16,079
<b>Revisions in estimated cash flows</b>	
<b>Asset retirement obligations, end of the period</b>	<b>460,186</b>

Costs attributable to these commitments and contingencies are expected to occur over an extended period of time and are to be funded from the Company's cash provided by operating activities and resources at the time of retirement and removal.

## 10. INCOME TAXES

The recovery for income taxes differs from the amount anticipated based on the statutory combined federal and provincial tax rates.

	<b>2007</b>
Anticipated income tax recovery at a tax rate of 36.12%	239,797
Increase (decrease) in tax recovery resulting from:	
Resource allowance	4,326
Non-deductible tax and interest	(11,574)
Adjustment to loss carry-forwards and other tax pools and allowances	-
Stock-based compensation	(35,939)
Adjustments to net future tax liabilities for tax rate changes	(214)
Other	(8,120)
	<b>(188,276)</b>

The future income tax liability is comprised of:

	<b>2007</b>
Property, plant and equipment (excess of book value over tax value)	2,272,032
Share issue costs	(68,876)
Non-capital loss carry forwards	-
Asset retirement obligations	(158,327)
Other taxes	(6,749)
	2,493,080
Add: current portion of asset	27,790
	<b>2,520,870</b>

## 11. SHARE CAPITAL

### i) Authorized

Unlimited common voting shares without par value.

### ii) Issued and outstanding

	<b>2007</b>	
	Shares	Amount (\$)
Common shares		
Balance, beginning of period	38,364,247	15,277,945
Future income tax effects of prior year flow through shares	-	(297,681)
Share-for-debt settlement	320,000	79,278
	<u>38,684,247</u>	<u>15,059,542</u>

### iii) Stock Options:

As at June 30, 2007, all options to purchase 2,475,000 shares have been issued and are fully vested and exercisable at a weighted average exercise price of \$0.40. During the six months ending June 30, 2007, there were 575,000 options granted.

### iv) Warrants:

As at June 30, 2007, there were, 2,333,352 outstanding with a fair value of \$334,500. There were no warrants issued during the six months ended June 30, 2007.

### v) Net loss per share

As at June 30, 2007, all options and warrants outstanding were excluded in the computation of diluted loss per share because they were anti-dilutive.

## 12. CONTRIBUTED SURPLUS

	<b>2007</b>
Balance, beginning of period	617,433
Stock-based compensation on new options	99,500
Balance, end of period	<u>716,933</u>

### 13. FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The carrying values of bank indebtedness, accounts receivable, accounts payable and accrued liabilities, and long-term debt approximates their fair value as at June 30, 2007.

#### Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its operating facility.

#### Industry and credit risk

The Company is exposed to financial risk that arises from the credit quality of the entities to which it provides its natural gas, crude oil, other by-products and services. Credit risk arises from the possibility that the entities to which the Company provides these commodities and services may experience financial difficulty and be unable to fulfill their obligations. The Company's revenues are dependent on a selective customer base and bad debts have not been significant. As such, concentrations of credit risk are considered to be minimal.

The Company does not manage price risk on its production by entering into forward sales and fixed price contracts.

### 14. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2007, the following transactions occurred in the normal course of business between the Company and a law firm of which a partner is a director and shareholder of the Company.

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
	<b>(\$)</b>	<b>(\$)</b>
<i>Transactions during the period:</i>		
Administrative expenses incurred	6,917	9,977
<i>Balance at end of the period:</i>		
Due to related party	36,066	285,193

During the three months ended June 30, 2007, the following transactions occurred in the normal course of business between the Company and non-management directors of the Company.

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
	<b>(\$)</b>	<b>(\$)</b>
<i>Transactions during the period:</i>		
Directors' fees to non-management directors	4,045	-
<i>Balance at end of the period:</i>		
Due to non-management directors	56,118	-

These transactions were recorded at the exchange amount, which is the amount agreed to by the transacting parties. The balances are included in accounts payable and accrued liabilities in the consolidated balance sheets.

## 15. SUBSEQUENT EVENTS

On July 31, 2007, Greentree revised its bank credit facilities to include a \$1,500,000 revolving demand loan and a \$750,000 non-revolving demand loan. The revolving facility bears interest at the bank's prime lending rate plus 2.0% per annum payable monthly. The non-revolving demand loan bears interest at the bank's prime lending rate plus 5.0% per annum payable monthly and is subject to a review by the Bank on September 30, 2007. In consideration, the Company granted 500,000 share purchase warrants exercisable for a term of 2 years at \$0.18 per share as additional compensation.

On July 31, 2007, Greentree granted an aggregate of 125,000 common share incentive stock options to non-management Directors. The options expire on July 30, 2012 and are exercisable at \$0.18 per share subject to a four-month hold period commencing on July 31, 2007.