



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

Interim Financial Statements

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

Nine months ended September 30, 2007

The accompanying unaudited interim financial statements of Greentree Gas & Oil Ltd. For the nine months ended September 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.

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CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006
	(Unaudited)	(Audited)
ASSETS		
Current		
Accounts receivable	\$ 261,816	\$ 633,038
Prepaid expenses and other receivables	66,412	96,559
Current portion of future income taxes (note 10)	22,435	48,254
	<u>350,663</u>	<u>777,851</u>
Reclamation bonds	72,506	71,928
Property, plant and equipment (note 4)	10,539,863	11,009,938
	<u>\$ 10,963,032</u>	<u>\$ 11,859,717</u>
LIABILITIES		
Current		
Bank indebtedness (note 5)	\$ 2,174,639	\$ 2,282,780
Accounts payable and accrued liabilities	797,564	1,171,437
Notes and other payables (Note 6)	125,000	-
Income and other taxes payable (note 8)	299,306	295,472
Current portion of long-term debt (Note 7)	38,767	46,130
	<u>3,435,276</u>	<u>3,795,819</u>
Long-term debt (Note 7)	381,000	149,271
Income and other taxes payable (Note 8)	330,946	291,202
Asset retirement obligations (Note 9)	463,844	446,806
Future income taxes (Note 10)	2,409,360	2,432,307
	<u>7,020,426</u>	<u>7,115,405</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	15,015,602	15,277,945
Warrants (Note 11)	377,440	334,500
Contributed surplus (Note 12)	732,593	617,433
Deficit	(12,183,029)	(11,485,566)
	<u>3,942,606</u>	<u>4,744,312</u>
	<u>\$ 10,963,032</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 September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2007	2006	2007	2006
Revenue				
Gas sales	310,029	363,806	1,133,794	1,253,539
Oil sales	141,136	77,135	248,983	200,235
Other	4,107	9,390	16,954	12,906
	<u>455,272</u>	<u>450,331</u>	<u>1,399,731</u>	<u>1,466,680</u>
Royalties	60,469	56,298	172,323	177,352
	<u>394,803</u>	<u>394,033</u>	<u>1,227,408</u>	<u>1,289,328</u>
Expenses				
Operations	194,759	174,807	588,383	576,554
Depletion and depreciation	310,492	199,027	883,361	593,071
General and administrative	111,624	88,051	468,427	490,839
Interest expense	70,799	44,972	176,313	130,772
Other taxes and related interest	22,496	10,291	74,101	(9,966)
Accretion of asset retirement obligations	12,639	12,555	28,718	29,289
	<u>722,809</u>	<u>529,703</u>	<u>2,219,303</u>	<u>1,810,559</u>
Loss before income taxes	(328,006)	(135,670)	(991,895)	(521,231)
Recovery of income taxes (note 10)	106,155	89,443	294,431	312,213
Net income/(loss)	(221,851)	(46,227)	(697,464)	(209,018)
Deficit, beginning of period	(11,961,178)	(8,907,572)	(11,485,565)	(8,744,781)
Deficit, end of period	(12,183,029)	(8,953,799)	(12,183,029)	(8,953,799)
Earnings per share				
Basic income/(loss) per share	\$ (0.01)	\$ -	\$ (0.02)	\$ (0.01)
Weighted average shares outstanding	38,684,247	35,293,595	38,649,082	33,856,007



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ending	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2007	2006	2007	2006
Operating activities				
Net income/(loss)	(221,851)	(46,227)	(697,464)	(209,017)
Items not affecting cash:			-	
Depletion and depreciation	310,492	199,027	883,361	593,071
Gain on disposal of assets	-	-	(1,000)	(1,869)
Accretion of asset retirement obligations	12,639	12,555	28,718	29,289
Stock-based compensation	15,660	-	115,160	189,000
Future income taxes	(106,155)	(89,443)	(294,431)	(312,213)
Asset retirement costs	(8,981)	(8,425)	(17,889)	(9,225)
	1,804	67,487	16,455	279,036
Net change in non-cash working capital				
accounts receivable	82,903	(264,065)	381,524	(177,237)
prepaid expenses	8,833	(1,594)	30,147	17,702
accounts payable and accruals	(16,098)	(3,054)	(266,958)	(523,930)
notes and other payables	(135,000)	-	125,000	-
income and other taxes payable	23,629	3,924	50,695	(83,734)
	(33,929)	(197,302)	336,863	(488,163)
Financing activities				
Increase/(decrease) in bank indebtedness	(61,477)	(493,497)	(108,141)	361,306
Repayment of long-term debt	(10,980)	(82,775)	(42,751)	(189,409)
Proceeds from convertible debentures	260,000		260,000	
Issuance of common shares		943,416		943,416
Issuance of common share purchase warrants		141,000		141,000
Share issuance costs	(1,000)	-	(2,100)	-
	186,543	508,144	107,008	1,256,313
Investing activities				
Acquisition of property, plant and equipment	(152,666)	(310,082)	(407,076)	(769,259)
Change in non-cash working capital relating to property, plant and equipment	-		(37,217)	
Proceeds from sale of assets	-		1,000	1,869
Reclamation bonds	52	(760)	(578)	(760)
	(152,614)	(310,842)	(443,871)	(768,150)
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

September 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 nine-month period ended September 30, 2007, the Company had a net loss of \$697,464 (net loss of \$209,018 for the nine-month period ended September 30, 2006) and positive cash flow from operating activities of \$436,863 (negative cash flow from operating activities of \$488,163 for the nine-month period ended September 30, 2006). As a result of recurring losses over the Company's history, the Company has a deficit of \$12.18 million as at September 30, 2007 (\$8.95 million as at September 30, 2006) and has a net working capital deficiency of \$3.18 million at that date (\$3.02 million as at September 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 September 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 taken by Management 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

	September 30, 2007		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and equipment	\$ 22,227,101	\$ 11,688,351	\$ 10,538,750
Furniture and equipment	361,074	359,961	1,113
	\$ 22,588,175	\$ 12,048,312	\$ 10,539,863

Petroleum and natural gas properties and equipment included costs of \$4,106,000 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 \$ 53,392.

5. BANK INDEBTEDNESS

The loan facility provides Greentree with a \$1,500,000 revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 2.00% and, a \$750,000 variable rate demand loan bearing interest payable monthly at the bank's prime lending rate plus 5.00%. Presently, the bank's prime lending rate is 6.25% and the entire facility is subject to the bank's review on December 31, 2007. The Company's operating facility agreement requires that the Company meet certain covenants including one relating to working capital ratio. As at September 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 September 30, 2007, \$2,174,639 of funds had been drawn against the aggregate credit facility of \$2,250,000. The available credit was approximately \$76,000. 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

Notes Payable	Date	Rate	Amount	Total
Related Parties Director	August 10, 2007	12.00%	\$ 25,000	\$ 25,000
Director	August 7, 2007	12.00%	\$ 20,000	
	August 9, 2007	12.00%	\$ 20,000	
	September 12, 2007	12.00%	\$ 10,000	\$ 50,000
Director	August 9, 2007	12.00%	\$ 25,000	
	September 12, 2007	12.00%	\$ 10,000	
	September 26, 2007	12.00%	\$ 15,000	\$ 50,000
				\$ 125,000

During the quarter ended September 30, 2007, additional funds in the amount of \$125,000 were received from Directors of the Company, payable on demand and bearing interest at a rate of 12% per annum. The funds were provided for general corporate purposes. A note in the amount of \$100,000 reported in a previous quarter was included in the closing of the Convertible Debenture (see Note 7).

7. LONG TERM DEBT

	September 30, 2007
Vehicle financing	\$ 1,615
Convertible debentures	260,000
Obligation under capital lease	158,152
	419,767
Less: current portion of vehicle financing	-1,615
Less: current portion of obligations under capital lease	-37,152
	\$ 381,000

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.

On September 28, 2007, a non-brokered private placement of convertible debentures was closed. The debentures will bear interest at 12% per annum, payable quarterly and will mature on July 1, 2012. The debentures are 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.

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

	September 30, 2007
Current portion	
Other taxes payable – current year	(22,435)
Other taxes payable – prior years	299,306
	<u>276,871</u>
Long term portion	
Other taxes payable – prior years	330,946
	<u>\$ 607,817</u>

9. ASSET RETIREMENT OBLIGATIONS

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,406,000 (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.

	2007
Asset retirement obligations, beginning of the period	446,806
Liabilities incurred	(17,889)
Liabilities settled	
Accretion expense	28,718
Revisions in estimated cash flows	6,209
	<u>463,844</u>
Asset retirement obligations, end of the period	463,844

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.

	2007
Anticipated income tax recovery at a tax rate of 36.12%	358,272
Increase (decrease) in tax recovery resulting from:	
Resource allowance	4,326
Non-deductible tax and interest	(16,453)
Adjustment to loss carry-forwards and other tax pools and allowances	-
Stock-based compensation	(41,596)
Adjustments to net future tax liabilities for tax rate changes	(214)
Other	(9,904)
	<u>(294,431)</u>

The future income tax liability is comprised of:

	2007
Property, plant and equipment (excess of book value over tax value)	2,624,933
Share issue costs	(68,876)
Non-capital loss carry forwards	-
Asset retirement obligations	(159,585)
Other taxes	(9,547)
	<u>2,386,925</u>
Add: current portion of asset	22,435
	<u>2,409,360</u>

11. SHARE CAPITAL

i) Authorized

Unlimited common voting shares without par value.

ii) Issued and outstanding

	2007	
	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
	38,684,247	15,059,542

iii) Stock Options:

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. During the quarter, 250,000 common share incentive stock options with a weighted average exercise price of \$0.39 were forfeited.

As at September 30, 2007, all options to purchase 2,350,000 shares have been issued and are fully vested and exercisable at a weighted average exercise price of \$0.39. During the nine months ending September 30, 2007, there were 700,000 options granted.

iv) Warrants:

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. 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.

As at September 30, 2007, there were, 2,833,352 warrants outstanding with a fair value of \$377,440. During the nine months ended September 30, 2007 there were 500,000 warrants granted.

v) Net loss per share

As at September 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

	2007
Balance, beginning of period	617,433
Stock-based compensation on new options	115,160
Balance, end of period	732,593

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 September 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 September 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.

	September 30, 2007	September 30, 2006
<i>Transactions during the period:</i>	(\$)	(\$)
Administrative expenses incurred	24,664	23,321
<i>Balance at end of the period:</i>		
Due to related party	75,578	289,656

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

	September 30, 2007	September 30, 2006
<i>Transactions during the period:</i>	(\$)	(\$)
Directors' fees to non-management directors	1,500	1,500
<i>Balance at end of the period:</i>		
Due to non-management directors	43,000	19,000

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.

During the three months ended September 30, 2007, \$125,000 was received from Directors. These funds will be utilized for general corporate purposes, see Note 6.