



CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(Unaudited)

Interim Financial Statements

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

Three months ended March 31, 2008

The accompanying unaudited interim financial statements of Greentree Gas & Oil Ltd. For the three months ended March 31, 2008 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

	<u>Page</u>
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5



GREEN TREE
GAS & OIL LTD.
CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
ASSETS		
Current		
Accounts receivable	348,081	307,600
Prepaid expenses and other receivables	152,759	161,540
Current portion of future income taxes	24,312	36,620
	<u>525,152</u>	<u>505,760</u>
Property, plant and equipment (note 4)	11,042,868	11,259,792
Asset retirement trust fund (note 6)	73,525	73,271
	<u>11,641,545</u>	<u>11,838,823</u>
LIABILITIES		
Current		
Bank indebtedness (note 5)	2,064,090	2,099,470
Accounts payable and accrued liabilities	1,046,961	992,568
Notes and other payables	25,000	25,000
Income and other taxes payable (note 7)	662,771	647,401
Current portion of long-term debt	146,284	149,271
	<u>3,945,106</u>	<u>3,913,710</u>
Long-term debt (note 6)	260,000	260,000
Asset retirement obligations (note 8)	974,866	955,220
Future income taxes (note 9)	2,016,251	2,096,569
	<u>7,196,223</u>	<u>7,225,499</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 10)	15,565,180	15,567,511
Warrants (note 10)	349,876	349,876
Contributed surplus (note 11)	981,899	927,577
Deficit	(12,451,633)	(12,231,640)
	<u>4,445,322</u>	<u>4,613,324</u>
	<u>11,641,545</u>	<u>11,838,823</u>

Going Concern (note 1)

Subsequent Events (note 15)

Signed on behalf of the Board:

"Duncan Hamilton"	Director
"Gary Bean"	Director

See accompanying notes to the consolidated financial statements



CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the period ending	Three months ended	
	March 31, (unaudited)	
	2008	2007
Revenue		
Gas sales	377,330	394,689
Oil sales	121,124	42,496
Other	2,362	2,288
	<u>500,816</u>	<u>439,473</u>
Royalties	57,429	51,605
	<u>443,387</u>	<u>387,868</u>
Expenses		
Operations	215,022	203,537
Depletion and depreciation	261,697	280,057
General and administrative	162,588	234,057
Interest expense	54,824	51,677
Other taxes and related interest	15,371	27,160
Accretion of asset retirement obligations	21,888	9,036
	<u>731,390</u>	<u>805,524</u>
Loss before income taxes	(288,003)	(417,656)
Recovery of income taxes (note 9)	68,010	103,061
Net loss	(219,993)	(314,595)
Deficit, beginning of year	(12,231,640)	(11,485,565)
Deficit, end of year	(12,451,633)	(11,800,160)
Net loss per share		
Basic and diluted (note 10)	-	(0.01)

See accompanying notes to the consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ending	Three months ended March 31, (unaudited)	
	2008	2007
Operating activities		
Net loss	(219,993)	(314,595)
Items not affecting cash:		
Depletion and depreciation	261,697	280,057
Gain on disposal of assets	-	(1,000)
Accretion of asset retirement obligations	21,888	9,036
Stock-based compensation	54,322	99,500
Future income taxes	(68,010)	(103,061)
Asset retirement costs	(2,242)	(8,258)
	<u>47,662</u>	<u>(38,321)</u>
Net change in non-cash working capital		
Accounts receivable	(6,674)	171,660
Prepaid expenses and other receivables	8,781	21,514
Accounts payable and accrued liabilities	(87,247)	41,061
Income and other taxes payable	15,370	8,397
	<u>(22,108)</u>	<u>204,311</u>
Financing activities		
Increase (decrease) in bank indebtedness	(35,380)	(30,607)
Repayment of long-term debt	(2,987)	(21,865)
Share issuance costs on shares-for-debt settlement	-	(1,100)
Change in non-cash working capital	-	-
relating to issuance of common shares	1,194	-
	<u>(37,173)</u>	<u>(53,572)</u>
Investing activities		
Acquisition of property, plant and equipment	(44,773)	(114,211)
Change in non-cash working capital		
relating to acquisition of property, plant and equipment	104,308	(37,217)
Proceeds from sale of assets	-	1,000
Asset retirement trust fund	(254)	(311)
	<u>59,281</u>	<u>(150,739)</u>
Decrease in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	-	-

See accompanying notes to the consolidated financial statements



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

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 three-month period ended March 31, 2008, the Company had a net loss of \$219,993 (net loss of \$314,595 for the three-month period ended March 31, 2007) and negative cash flow from operating activities of \$22,108 (positive cash flow from operating activities of \$204,311 for the three-month period ended March 31, 2007). As a result of recurring losses over the Company's history, the Company has a deficit of \$12.45 million as at March 31, 2008 (\$12.23 million as at March 31, 2007) and has a net working capital deficiency of \$3.42 million at that date (\$3.41 million as at March 31, 2007).

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 March 31, 2008, the Company is in violation of the working capital ratio covenant. The bank has not provided a continuing waiver of the non-compliance.
- On April 10, 2008, the Company closed the first tranche of a Private Placement Offering consisting of 1,524,999 units at a price of \$0.12 per unit for aggregate gross proceeds of \$183,000. (See note 15). The net proceeds will be used to finance the evaluation of additional shallow oil properties, rework and re-stimulate existing producing wells to enhance production and, to improve the Company's working capital deficiency.
- On April 17, 2008, the Federal Department of Finance issued a Letter of Demand for the payment of arrears in the amount of \$520,273. The demand is related to arrears of amounts owing in respect of income and other taxes payable. The Company has commenced discussions with the Department regarding this obligation and has submitted its proposal for repayment. No agreement has been reached as yet for a scheduled reduction.

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

Effective January 1, 2007, the Company adopted four new accounting standards relating to financial instruments and derivatives, including Canadian Institute of Chartered Accountants (“CICA”) Section 1530, “*Comprehensive income*”, 3855 “*Financial Instruments – Recognition and Measurement*”, 3861 “*Financial Instruments – Disclosure and Presentation*” and 3865 “*Hedges*”. No transition adjustment was required to adjust opening carrying values of financial instruments to fair values when the Company adopted these new standards.

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*” and CICA Section 3856, “*Financial Instruments – Disclosure and Presentation*”. 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.

The CICA has issued the following new Handbook Sections that will become effective for the Company on January 1, 2008:

- CICA Handbook Section 1400, “Going Concern”
- CICA Handbook Section 1535, “Capital Disclosures”
- CICA Handbook Section 3862, “Financial Instruments – Disclosures”
- CICA Handbook Section 3863, “Financial Instruments – Presentation”

The Accounting Standards Board (“AcSB”) amended CICA handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. The entity’s disclosure should include information about its objectives, policies and processes for managing capital and disclose whether or not it has complied with any capital requirements to which it is subject and the consequences of non-compliance.

CICA Handbook 3862 modifies the disclosure requirements for CICA Handbook Section 3861, “*Financial Instruments – Disclosure and Presentation*”, including required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861.

These recommendations had no significant effect on the Company’s consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2008		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	(\$)	(\$)	(\$)
Petroleum and natural gas properties and equipment	22,972,165	12,122,029	10,850,136
Production equipment under capital lease	220,000	64,284	155,716
Furniture and equipment	361,074	324,058	37,016
	23,553,239	12,510,371	11,042,868

Petroleum and natural gas properties and equipment included costs of \$4,266,261 related to unproved properties, which have been excluded from the calculation of depletion.

Future asset retirement costs of \$668,529 have been capitalized as part of the cost of petroleum and natural gas properties.

5. BANK INDEBTEDNESS

The loan facility provides Greentree with a \$2,250,000 revolving reducing demand loan bearing interest payable monthly at the bank's prime lending rate plus 2.00%. Presently, the bank's prime lending rate is 4.75%. Commencing February 1, 2008 the credit facility reduces at the rate of \$50,000 per month. The Company's operating facility agreement requires that the Company meet certain covenants including one relating to working capital ratio. As at March 31, 2008, the Company is in violation of the working capital ratio covenant. The bank has not provided 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 March 31, 2008, \$2,064,090 of funds had been drawn against the aggregate credit facility of \$2,150,000. The available credit was approximately \$86,000. 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. LONG TERM DEBT

	March 31, 2008
	(\$)
Convertible debentures	260,000
Obligation under capital lease	146,284
	406,284
Less: current portion of obligations under capital lease	-146,284
	260,000

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.

7. INCOME AND OTHER TAXES PAYABLE

	March 31, 2008
	(\$)
Capital taxes payable	124
Current portion	
Other taxes payable – current year	449
Other taxes payable – prior years	662,198
	662,771
Long term portion	
Other taxes payable – prior years	-
	662,771

8. ASSET RETIREMENT OBLIGATIONS

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,816,720 (2007 - \$1,400,182) which has been discounted using a credit-adjusted risk-free rate of 8.5% and includes a 2.0% inflation factor.

	2008 (\$)
Asset retirement obligations, beginning of the period	955,220
Liabilities incurred	(2,242)
Accretion expense	21,888
Revisions in estimated cash flows	-
Asset retirement obligations, end of the period	974,866

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.

9. INCOME TAXES

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

	2008 (\$)
Anticipated income tax recovery at a tax rate of 33.50%	87,050
Increase (decrease) in tax recovery resulting from:	
Non-deductible tax and interest	(842)
Stock-based compensation	(18,198)
Other	
	(68,010)

The future income tax liability is comprised of:

	2008 (\$)
Property, plant and equipment (excess of book value over tax value)	2,360,576
Share issue costs	(65,210)
Asset retirement obligations	(303,427)
Other taxes	
	1,991,939
Add: current portion of asset	24,312
	2,016,251

10. SHARE CAPITAL

Authorized

Unlimited common voting shares without par value.

Issued and outstanding

	2008	
	<u>Shares</u>	<u>Amount (\$)</u>
Common shares		
Balance, beginning of period	45,286,729	15,567,511
Costs in respect of private placements		(2,331)
	45,286,729	15,565,180

Stock Options:

On January 11, 2008, the Company granted 50,000 common share purchase options to Big Picture Geoscience Inc. in accordance with an agreement dated October 9, 2007 between the Company, Big Picture Geoscience Inc. and Capital Street Group Investment Services Inc. The options have an exercise price of \$0.11 per share and expire on December 19, 2008. They have been recorded as outstanding at December 31, 2007 pursuant to the agreement date and have the rights of exercise as follows:

- 12,500 fully vested
- 12,500 vest on April 10, 2008
- 12,500 vest on July 10, 2008
- 12,500 vest on October 12, 2008

On March 11, 2008, the Company granted 450,000 common share incentive stock options to 3 independent consultants to the Company. The options are exercisable at \$0.12 and expire on March 10, 2013.

At March 31, 2008, options to purchase 2,825,000 common shares were issued and exercisable at a weighted average exercise price of \$0.34. All options are fully vested except as noted above.

Warrants:

As at March 31, 2008, there were, 8,036,236 warrants outstanding with a fair value of \$349,876. During the three months ended March 31, 2008 there were no warrants granted.

Net loss per share

The calculation for weighted average diluted common shares outstanding includes all stock options and all share purchase warrants that are in the money from the date of grant or, the beginning of the year, and the convertible debentures converted to common shares as per the conversion terms of the debt. For the three months ended March 31, 2008, the weighted average shares for the basic and diluted calculations are the same, as the Company is in a loss position and any inclusions would be anti-dilutive.

11. CONTRIBUTED SURPLUS

	2008
	(\$)
Balance, beginning of period	927,577
Stock-based compensation on new options	54,322
Balance, end of period	981,899

12. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2008, 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.

	March 31, 2008	March 31, 2007
	(\$)	(\$)
<i>Transactions during the period:</i>		
Balance due to related party, beginning of period	104,924	117,820
Administrative expenses incurred	25,020	3,155
Common shares for debt settlement		(80,000)
Balance due to related party, end of period	129,944	40,975

During the three months ended March 31, 2008, the following transactions occurred in the normal course of business between the Company and non-management directors of the Company.

	March 31, 2008	March 31, 2007
	(\$)	(\$)
<i>Transactions during the period:</i>		
Directors' fees to non-management directors	-	20,500
Directors' fees recorded	6,000	30,750
Due to non-management directors	6,000	51,250

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.

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 fair values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and, notes and other payables approximates their carrying values due to their short terms to maturity.

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. CAPITAL MANAGEMENT

Effective January 1, 2008, Greentree adopted the recommendations of the CICA relating to Capital Disclosures (CICA Handbook 1535). Greentree's objectives when managing capital are:

- to maintain an industry credit rating that Greentree considers appropriate for its circumstances.
- to strengthen its financial position including, the achieving of specific lending covenants relative to its banking relationship.
- to provide an appropriate return to shareholders relative to the risk of Greentree's underlying assets.

Greentree reviews its capital structure quarterly and, based upon economic conditions and planned requirements, makes necessary adjustments accordingly.

15. SUBSEQUENT EVENTS

On April 10, 2008, the Company closed the first tranche of a Private Placement Offering initially announced on February 26, 2008. The closing consisted of 1,524,999 units at a price of \$0.12 per unit for aggregate proceeds of \$183,000. Each unit consists of one (1) flow-through common share and one-half (1/2) of one common share purchase warrant ("Warrant"). Each whole Warrant issued entitles the holder to purchase one common share of the Company at a price of \$0.15 at any time until October 9, 2009. All the securities issued pursuant to the first tranche of the private placement are subject to a four (4) month hold period expiring August 11, 2008.

Finder's fees of \$12,810 (7% of the gross proceeds of the Offering) are payable in cash to Howco Ventures Inc. and 45,750 common shares were issued to Howco Ventures Inc. (representing 3% of the number of Units sold).

On May 22, 2008, the Company closed the second tranche of a Private Placement Offering initially announced on February 26, 2008. The second closing consisted of 720,000 units at a price of \$0.12 per unit for aggregate gross proceeds of \$86,000. The first and second closing aggregated \$269,000. Each Unit

consists of one (1) flow-through common share and one-half (1/2) of one common share purchase warrant ("Warrant"). Each whole Warrant issued in the second tranche entitles the holder to purchase one common share of Greentree at a price of \$0.15 at any time until November 20, 2009. All the securities issued pursuant to the private placement are subject to a four (4) month hold period – for the second tranche, the hold period expires September 22, 2008.

Greentree agreed to pay finder fees of \$8,640 in cash (representing 10% cash of the gross proceeds of the Offering) and, subject to regulatory approval 67,000 broker compensation warrants (representing 10% of the number of Units sold). Each broker's warrant entitles the holder to purchase one Greentree common share at a price of \$0.12 at any time on or before November 20, 2009.