



**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**(Unaudited)**

Interim Financial Statements

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

**Six months ended June 30, 2008**

The accompanying unaudited interim financial statements of Greentree Gas & Oil Ltd. For the six months ended June 30, 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.

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## CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	\$ 1,032,731	307,600
Prepaid expenses and other receivables	133,008	161,540
Current portion of future income taxes (note 10)	32,414	36,620
	<u>1,198,153</u>	<u>505,760</u>
Property, plant and equipment (note 4)	10,902,528	11,259,792
Asset retirement trust fund	73,640	73,271
	<u>\$ 12,174,321</u>	<u>\$ 11,838,823</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank indebtedness (note 5)	\$ 1,870,165	2,099,470
Accounts payable and accrued liabilities	919,393	992,568
Notes and other payables	25,000	25,000
Income and other taxes payable (note 7)	180,000	647,401
Current portion of long-term debt	56,792	149,271
	<u>3,051,350</u>	<u>3,913,710</u>
Long-term debt (note 6)	350,589	260,000
Income and other taxes payable (note 7)	476,293	-
Asset retirement obligations (note 8)	998,996	955,220
Future income taxes (note 9)	2,246,141	2,096,569
	<u>7,123,369</u>	<u>7,225,499</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 10)	16,158,544	15,567,511
Warrants (note 10)	420,462	349,876
Contributed surplus (note 11)	1,094,099	927,577
Deficit	(12,622,153)	(12,231,640)
	<u>5,050,952</u>	<u>4,613,324</u>
	<u>\$ 12,174,321</u>	<u>\$ 11,838,823</u>

Going concern

Subsequent events

### 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)	
	2008	2007	2008	2007
<b>Revenue</b>				
Gas sales	509,863	429,076	887,193	823,765
Oil sales	131,503	65,351	252,627	107,847
Other	5,734	10,559	8,096	12,847
	<u>647,100</u>	<u>504,986</u>	<u>1,147,916</u>	<u>944,459</u>
Royalties	79,722	60,249	137,151	111,854
	<u>567,378</u>	<u>444,737</u>	<u>1,010,765</u>	<u>832,605</u>
<b>Expenses</b>				
Operations	210,460	190,087	425,482	393,624
Depletion and depreciation	249,547	292,812	511,244	572,869
General and administrative	237,727	122,746	400,314	356,803
Interest expense	46,867	53,837	101,692	105,514
Other taxes and related interest	13,485	24,445	28,856	51,605
Accretion of asset retirement obligations	21,888	7,043	43,776	16,079
	<u>779,974</u>	<u>690,970</u>	<u>1,511,364</u>	<u>1,496,494</u>
<b>Loss before income taxes</b>	<b>(212,596)</b>	<b>(246,233)</b>	<b>(500,599)</b>	<b>(663,889)</b>
<b>Recovery of income taxes (note 10)</b>	<b>42,076</b>	<b>85,215</b>	<b>110,086</b>	<b>188,276</b>
<b>Net income/(loss)</b>	<b>(170,520)</b>	<b>(161,018)</b>	<b>(390,513)</b>	<b>(475,613)</b>
<b>Deficit, beginning of period</b>	<b>(12,451,633)</b>	<b>(11,800,160)</b>	<b>(12,231,640)</b>	<b>(11,485,565)</b>
<b>Deficit, end of period</b>	<b>(12,622,153)</b>	<b>(11,961,178)</b>	<b>(12,622,153)</b>	<b>(11,961,178)</b>
Basic and diluted earnings/(loss) per share	0.00	0.00	(0.01)	(0.01)



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ending	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2008	2007	2008	2007
<b>Operating activities</b>				
Net income/(loss)	(170,520)	(161,018)	(390,513)	(475,613)
Items not affecting cash:				
Depletion and depreciation	249,547	292,812	511,244	572,869
Gain on disposal of assets	-	-	-	(1,000)
Accretion of asset retirement obligations	21,888	7,043	43,776	16,079
Stock-based compensation	112,200	-	166,522	99,500
Future income taxes	(42,076)	(85,215)	(110,086)	(188,276)
Asset retirement costs	2,242	(650)	-	(8,908)
	<u>173,281</u>	<u>52,972</u>	<u>220,943</u>	<u>14,651</u>
Net change in non-cash working capital				
accounts receivable	1,543	126,961	(5,131)	298,621
prepaid expenses	19,751	(200)	28,532	21,314
accounts payable and accruals	262,788	(291,921)	175,541	(250,860)
notes and other payables	-	260,000	-	260,000
income and other taxes payable	(6,478)	18,669	8,892	27,066
	<u>450,885</u>	<u>166,481</u>	<u>428,777</u>	<u>370,792</u>
<b>Financing activities</b>				
Increase/(decrease) in bank indebtedness	(193,925)	(16,057)	(229,305)	(46,664)
Repayment of long-term debt	1,096	(9,906)	(1,891)	(31,771)
Change in non-cash working capital relating to issuance of common shares	(715,881)	-	(712,356)	-
Net proceeds on issuance of common shares	857,228		854,897	
Issuance of common share purchase warrants	70,586		70,586	
Share issuance costs on shares-for-debt settlement	-	-	-	(1,100)
	<u>19,104</u>	<u>(25,963)</u>	<u>(18,069)</u>	<u>(79,535)</u>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(109,207)	(140,199)	(153,980)	(254,410)
Change in non-cash working capital relating to property, plant and equipment	(360,667)	-	(256,359)	(37,217)
Proceeds from sale of assets	-	-	-	1,000
Reclamation bonds	(115)	(319)	(369)	(630)
	<u>(469,989)</u>	<u>(140,518)</u>	<u>(410,708)</u>	<u>(291,257)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	-	-	-	-
<b>Cash and cash equivalents, beginning of period</b>	-	-	-	-
<b>Cash and cash equivalents, end of period</b>	-	-	-	-



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 six-month period ended June 30, 2008, the Company had a net loss of \$390,513 (net loss of \$475,613 for the six-month period ended June 30, 2007) and cash flow from operating activities of \$428,777 (cash flow from operating activities of \$370,792 for the six-month period ended June 30, 2007). As a result of recurring losses over the Company's history, the Company has a deficit of \$12.62 million as at June 30, 2008 (\$12.23 million as at June 30, 2007) and has a net working capital deficiency of \$1.85 million at that date (\$3.18 million as at June 30, 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 June 30, 2008, the Company is within the working capital ratio covenant.
- 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. Each unit consisted of one 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 October 9, 2009.
- On May 22, 2008, the Company closed the second tranche of a Private Placement Offering consisting of 720,000 units at a price of \$0.12 per unit for aggregate gross proceeds of \$86,000. Each Unit consisted 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.
- 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. On June 27, 2008, the Company and the Federal Department of Finance agreed to an instalment repayment of not less than \$15,000 per month towards arrears commencing in July 2008. This arrangement is subject to a periodic review scheduled for December 2008.
- On June 27, 2008, the Company closed the first tranche of a Private Placement Offering consisting of 4,848,485 flow-through shares at a price of \$0.165 per share for aggregate gross proceeds of \$800,000. On July 9, 2008, the Company closed the second tranche of the Private Placement Offering (see Note 15).

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

	<b>June 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated Depletion and Depreciation</b>	<b>Net Book Value</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Petroleum and natural gas properties and equipment	<b>23,081,372</b>	<b>12,361,839</b>	<b>10,719,533</b>
Production equipment under capital lease	<b>220,000</b>	<b>69,458</b>	<b>150,542</b>
Furniture and equipment	<b>361,074</b>	<b>328,621</b>	<b>32,453</b>
	<b>23,662,446</b>	<b>12,759,918</b>	<b>10,902,528</b>

Petroleum and natural gas properties and equipment included costs of \$4,322,800 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

On June 6, 2008, the Company renewed its loan facility. The renewed facility provides Greentree with a \$2,000,000 revolving reducing demand loan bearing interest payable monthly at the bank's prime lending rate plus 3.00%. This represents an incremental risk premium of 1%. Presently, the bank's prime lending rate is 4.75%. Commencing July 01, 2008 the credit facility reduces at the rate of \$25,000 per month. The Company's operating facility agreement requires that the Company meet certain covenants including one relating to a bank-calculated working capital ratio. As at June 30, 2008, the Company is within the working capital ratio covenant.

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, 2008, \$1,870,465 of funds had been drawn against the aggregate credit facility of \$2,000,000. The available credit was approximately \$129,500. 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

	<b>June 30, 2008</b>
	<b>(\$)</b>
Convertible debentures	260,000
Obligation under capital lease	147,381
	<b>407,381</b>
Less: current portion of obligations under capital lease	-56,792
	<b>350,589</b>

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.

On June 24, 2008, the Company exercised its option to renew and extend a capital lease due on September 15, 2008. Under the renewed terms of the capital lease, 7 blended payments of \$7,461 are payable monthly commencing June 30, 2008 followed by 29 blended payments of \$4,451 payable monthly commencing January 31, 2009. Interest remains unchanged at 12.5% per annum.

## 7. INCOME AND OTHER TAXES PAYABLE

	<b>June 30, 2008</b>
	<b>(\$)</b>
Capital taxes payable	114
Current portion	
Other taxes payable – current year	46
Other taxes payable – prior years	180,000
	180,160
Long term portion	
Other taxes payable – prior years	476,133
	<b>656,293</b>

On June 27, 2008, the Company and the Federal Department of Finance agreed to an instalment repayment of not less than \$15,000 per month towards arrears commencing in July 2008. This arrangement is subject to a periodic review scheduled for December 2008. In accordance with this arrangement, an amount attributed to the repayment of principal arrears has been recorded as a current liability with the balance attributed to repayment in future years.

## 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.

	<b>2008</b> <b>(\$)</b>
<b>Asset retirement obligations, beginning of the period</b>	955,220
<b>Liabilities incurred</b>	-
<b>Accretion expense</b>	43,776
<b>Revisions in estimated cash flows</b>	-
<b>Asset retirement obligations, end of the period</b>	<b>998,996</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. Over the next 5 years, approximately 38% of the costs will be incurred and the remainder from 2013 to 2053.

In respect of future abandonment commitments, the Company is required by statute to establish a bond in favour of the Ontario Ministry of Natural Resources. As at June 30, 2008, sufficient funds were on deposit with a Trustee, with the Ontario Ministry of Natural Resources as beneficiary.

## 9. INCOME TAXES

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

	<b>2008</b> <b>(\$)</b>
Anticipated income tax recovery at a tax rate of 33.50%	166,949
Increase (decrease) in tax recovery resulting from:	
Non-deductible tax and interest	(1,078)
Stock-based compensation	(55,785)
Other	
	<b>(110,086)</b>

The future income tax liability is comprised of:

	<b>2008</b> <b>(\$)</b>
Property, plant and equipment (excess of book value over tax value)	2,624,388
Share issue costs	(54,585)
Asset retirement obligations	(310,938)
Other taxes	(45,138)
	2,213,727
Add: current portion of asset	32,414
	<b>2,246,141</b>

## 10. SHARE CAPITAL

### Authorized

Unlimited common voting shares without par value.

### Issued and outstanding

	<b>2008</b>	
	<b><u>Shares</u></b>	<b><u>Amount (\$)</u></b>
Common shares		
Balance, beginning of period	45,286,729	15,567,511
Future income tax effect, flow-through shares		(263,864)
Issued in private placements	7,139,234	845,425
Exercise of Class G Warrants	50,000	9,472
	<b>52,475,963</b>	<b>16,158,544</b>

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 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. Greentree agreed to pay finder fees of \$8,640 in cash (representing 10% cash of the gross proceeds of the Offering) and, 67,000 commission warrants were issued, representing 10% of the number of Units sold.

On June 27, 2008, the Company closed the first tranche of a Private Placement Offering consisting of 4,848,485 flow-through shares at a price of \$0.165 per share for aggregate proceeds of \$800,000. The Company agreed to pay finder's fees of \$80,000 (10% of the gross proceeds of the Offering) and, will issue 484,849 commission warrants (each broker warrant entitling the holder to purchase one common share at a price of \$0.16 until June 26, 2010).

**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:

- 25,000 fully vested
- 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 per common share and expire on March 10, 2013.

On June 25, 2008, the Company granted 1,000,000 common share incentive stock options, 200,000 to each of its Directors of the Company. The options have an exercise price of \$0.14 per share and expire on June 24, 2013.

At June 30, 2008, options to purchase 3,825,000 common shares were issued and exercisable at a weighted average exercise price of \$0.29 per common share. All options are fully vested except as noted above.

**Warrants:**

	Number of Warrants	Amount (\$)
<b>Outstanding, December 31, 2006</b>	2,333,352	334,500
Flow through share purchase warrants expired during the year	(833,333)	(193,500)
Non flow through share purchase warrants issued during the year	6,536,217	208,876
<b>Outstanding, December 31, 2007</b>	8,036,236	349,876
Flow through share purchase warrants issued during the period	1,122,500	48,444
Non flow through share purchase warrants issued during the period	551,849	23,614
Non flow through share purchase warrants exercised during the period	(50,000)	(1,472)
<b>Outstanding, June 30, 2008</b>	<b>9,660,585</b>	<b>420,462</b>

On April 10, 2008, as part of a private placement, the Company issued a total of 762,500 share purchase warrants. Each of the share purchase warrants entitles the holder to acquire one common share of the Company at a price of \$0.15 per common share until October 9, 2009.

On May 22, 2008, as part of a private placement, the Company issued a total of 360,000 share purchase warrants to subscribers. Each of the share purchase warrants entitles the holder to acquire one common share of the Company at a price of \$0.15 per common share until November 20, 2009. In addition, the Company issued a total of 67,000 broker compensation warrants that entitle the holders to acquire one common share of the Company at a price of \$0.12 until November 20, 2009.

On June 27, 2008, as part of a private placement, the Company issued a total of 484,849 broker compensation warrants that entitles the holder to acquire one common share of the Company at a price of \$0.16 until June 26, 2010.

### Basic and diluted share amounts

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 six months ended June 30, 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

	<b>2008</b> <b>(\$)</b>
Balance, beginning of period	927,577
Stock-based compensation, options expensed during the period	166,522
Balance, end of period	<b>1,094,099</b>

## 12. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 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.

	<b>June 30, 2008</b> <b>(\$)</b>
<i>Transactions during the period:</i>	
Balance due to related party, beginning of period	104,924
Administrative expenses incurred	84,143
Directors' fees incurred	6,038
Payments made during the period	(10,000)
Balance due to related party, end of period	<b>185,105</b>

During the six months ended June 30, 2008, the following transactions occurred in the normal course of business between the Company and non-management directors of the Company, excluding those noted above.

	<b>June 30, 2008</b> <b>(\$)</b>
<i>Transactions during the period:</i>	
Directors' fees due to non-management directors, beginning of period	-
Directors' fees recorded	10,500
Due to non-management directors	10,500

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 approximate 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 July 9, 2008, the Company closed the second tranche of a Private Placement Offering. The closing consisted of 1,562,500 units at a price of \$0.16 for gross proceeds of \$250,000. Each unit consisted of one (1) common share of the Company and one-half of one common share purchase warrant. Each whole warrant issued entitles the holder to purchase one common share of the Company at a price of \$0.20 at any time on or before July 8, 2010. Greentree agreed to pay finders fees of \$25,000 in cash (representing 10% of the gross proceeds of the Offering) and, subject to regulatory approval, 156,250 broker compensation warrants (representing 10% of the number of Units sold). Each broker warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 at any time on or before July 8, 2010.

On July 23, 2008, the Company signed an amendment to an existing operating agreement with the United States Steel Corporation (U.S. Steel) whereby U.S. Steel will provide funding for additional evaluation work on a deep test well initially drilled by Greentree on U.S. Steel property in 2006.

On July 28, 2008, the Company announced the signing of a joint venture agreement with Mooncor Oil & Gas Corp. (through its wholly owned operating subsidiary Mooncor Energy Inc.) (TSXV:MOO), an Alberta based junior oil and gas explorer. The agreement provides Mooncor to farm into a selected portion of the existing land base in Southwestern Ontario currently held by Greentree. Pursuant to the terms of the Agreement, Mooncor shall expend \$2,000,000 on qualifying expenditures on or before December 31, 2009 subject to surface access, regulatory approval and rig availability. In consideration, Mooncor shall earn a 100% working interest before payout and, a 60% working interest after payout.

In addition, pursuant to the terms of the Agreement, Mooncor will undertake to use commercially reasonable best efforts to acquire up to 100,000 acres of petroleum and natural gas rights in the South Western Ontario Basin for which Greentree will be entitled to an undivided 10% working interest. Subject to the terms of the Agreement, Greentree may elect to expend \$1,000,000 per year (to earn 60%) on qualifying expenditures on the new land acquired by Mooncor. Greentree is appointed operator. Mooncor will review and approve all earning projects and expenditures related to the joint venture.