



CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(Unaudited)

Interim Financial Statements

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

Six months ended June 30, 2009

The accompanying unaudited interim financial statements of Greentree Gas & Oil Ltd. for the six months ended June 30, 2009 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. There has been no review of these statements by the Company's external auditors.

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CONSOLIDATED BALANCE SHEETS

	June 30 2009	December 31 2008
	(Unaudited) (\$)	(Audited) (\$)
ASSETS		
Current		
Accounts receivable	146,201	183,236
Prepaid expenses and other receivables	77,450	93,302
Current portion of future income taxes	35,483	35,483
	<u>259,134</u>	<u>312,021</u>
Property, plant and equipment (Note 4)	11,197,110	10,925,063
Asset retirement trust fund (Note 5)	70,012	73,743
	<u>11,526,256</u>	<u>11,310,827</u>
LIABILITIES		
Current		
Bank indebtedness (Note 6)	1,898,101	1,429,274
Accounts payable and accrued liabilities	996,330	522,072
Notes and other payables	15,000	15,000
Current portion of income and other taxes payable (Note 8)	183,083	182,347
Current portion of long-term debt (Note 7)	103,627	86,440
	<u>3,196,141</u>	<u>2,235,133</u>
Long-term debt (Note 7)	357,234	403,173
Income and other taxes payable (Note 8)	360,614	403,677
Asset retirement obligations (Note 9)	1,007,716	967,972
Future income taxes (Note 10)	1,894,635	1,894,635
	<u>6,816,340</u>	<u>5,904,590</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	16,262,861	16,262,861
Warrants (Note 11)	195,508	195,508
Contributed surplus (Note 12)	1,402,952	1,402,952
Deficit	(13,151,405)	(12,455,084)
	<u>4,709,916</u>	<u>5,406,237</u>
	<u>11,526,256</u>	<u>11,310,827</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)	
	2009 (\$)	2008 (\$)	2009 (\$)	2008 (\$)
Revenue				
Gas sales	185,495	509,863	474,081	887,193
Oil sales	122,361	131,503	183,405	252,627
Other	2,194	5,734	3,403	8,096
	<u>310,050</u>	<u>647,100</u>	<u>660,889</u>	<u>1,147,916</u>
Royalties	45,913	79,722	86,010	137,151
	<u>264,137</u>	<u>567,378</u>	<u>574,879</u>	<u>1,010,765</u>
Expenses				
Operations	183,384	207,762	430,524	419,395
Transportation	3,655	2,698	6,396	6,087
Depletion and depreciation	262,465	249,547	499,563	511,244
General and administrative	114,035	237,727	203,664	400,314
Interest expense	38,277	46,867	73,017	101,692
Other taxes and related interest	6,983	13,485	18,292	28,856
Accretion of asset retirement obligations	19,872	21,888	39,744	43,776
	<u>628,671</u>	<u>779,974</u>	<u>1,271,200</u>	<u>1,511,364</u>
Loss before income taxes	(364,534)	(212,596)	(696,321)	(500,599)
Recovery of income taxes (note 10)		42,076		110,086
	<u>(364,534)</u>	<u>(170,520)</u>	<u>(696,321)</u>	<u>(390,513)</u>
Deficit, beginning of period	(12,786,871)	(12,451,633)	(12,455,084)	(12,231,640)
Deficit, end of period	(13,151,405)	(12,622,153)	(13,151,405)	(12,622,153)
Basic and diluted earnings/(loss) per share	(0.01)	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)	
	2009 (\$)	2008 (\$)	2009 (\$)	2008 (\$)
Operating activities				
Net income/(loss)	(364,534)	(170,520)	(696,321)	(390,513)
Items not affecting cash:				
Depletion and depreciation	262,465	249,547	499,563	511,244
Gain on disposal of assets		-	(6,190)	-
Accretion of asset retirement obligations	19,872	21,888	39,744	43,776
Stock-based compensation		112,200		166,522
Future income taxes		(42,076)		(110,086)
Asset retirement costs		2,242		-
	<u>(82,197)</u>	<u>173,281</u>	<u>(163,204)</u>	<u>220,943</u>
Net change in non-cash working capital				
accounts receivable	4,423	1,543	22,723	(5,131)
prepaid expenses	10,484	19,751	15,852	28,532
accounts payable and accruals	91,592	262,788	161,683	175,541
income and other taxes payable	(8,018)	(6,478)	(42,327)	8,892
	<u>16,284</u>	<u>450,885</u>	<u>(5,273)</u>	<u>428,777</u>
Financing activities				
Increase/(decrease) in bank indebtedness	173,744	(193,925)	468,827	(229,305)
Repayment of long-term debt	(7,728)	1,096	(28,752)	(1,891)
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
	<u>166,016</u>	<u>19,104</u>	<u>440,075</u>	<u>(18,069)</u>
Investing activities				
Acquisition of property, plant and equipment	(326,830)	(109,207)	(771,610)	(153,980)
Change in non-cash working capital relating to property, plant and equipment	140,799	(360,667)	326,887	(256,359)
Proceeds from sale of assets		-	6,190	
Reclamation bonds	3,731	(115)	3,731	(369)
	<u>(182,300)</u>	<u>(469,989)</u>	<u>(434,802)</u>	<u>(410,708)</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, 2009

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, 2009, the Company had a net loss of \$696,321 (net loss of \$390,513 for the six-month period ended June 30, 2008) and cash flow from operating activities of \$9,039 (cash flow from operating activities of \$428,777 for the six-month period ended June 30, 2008). As a result of recurring losses over the Company's history, the Company has a deficit of \$13.15 million as at June 30, 2009 (\$12.62 million as at June 30, 2008) and has a net working capital deficiency of \$2.94 million at that date (\$1.85 million as at June 30, 2008).

The ability of the Company to continue as a going concern will depend on raising additional capital and achieving profitable operations sufficient to meet its obligations, to that extent, the Company reports the following:

- Funds raised in private placements during 2008 allowed the Company to complete a drilling program of 10 development wells in the Rodney Unit #3 pool and one unsuccessful exploration well on the Company's Rodney North prospect. Initial results of new oil production were realized in the fourth quarter of 2008 from two of the Rodney development wells. Further new production was realized late in Q1-2009 from two more of the Rodney development wells and, the remaining development wells have commenced production early in the 3rd quarter. Once fully optimized, the production proceeds from this entire drilling program are anticipated to contribute towards achieving profitable operations and a stronger financial position.
- The Company's operating facility agreement (see Note 6) requires that the Company meet certain covenants including one relating to an adjusted working capital ratio. As at June 30, 2009, the Company is in violation of the working capital ratio covenant. The bank has not provided a continuing waiver of the non-compliance and,
- On June 27, 2008, the Company and the Canada Revenue Agency agreed to an instalment repayment of not less than \$15,000 per month towards arrears commencing in July 2008. During the nine months ended March 31, 2009, all payments were made in accordance with this agreement. In April 2009, the Canada Revenue Agency agreed to a reduced monthly instalment of \$5,000 per month for a three-month period ending June 30, 2009. All payments were made in accordance with this amendment to the original agreement. In July 2009, the Company was unable to make any reduction in the arrears balance. The Canada Revenue Agency and the Company have agreed to review the account on a monthly basis until such time as the Company can demonstrate the ability to make regular instalments towards the arrears balance.

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. As noted above, Management continues its plan to deploy available cash resources to lower-risk opportunities in an effort to yield increased production revenue, maintain a strong and respectful relationship with suppliers and key financial partners and, continue a diligent effort to contain and reduce cash costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 in the exploration for and production of natural gas and petroleum reserves in southwestern Ontario.

3. CHANGE IN ACCOUNTING POLICIES

The CICA has issued the following new and amended Handbook Sections that became effective for the Company on January 1, 2008:

- Amended CICA Handbook Section 1400, "General Standards of Financial Presentation"
- 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. Refer to Note 1 for Going Concern disclosures.

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. Refer to note 16 for additional disclosures.

CICA Handbook Section 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. Refer to note 15 for additional disclosures.

Future accounting pronouncements

The CICA has issued the following new Standards that will become effective for the Company:

- CICA Handbook Section 3064, Goodwill and Intangible Assets; and
- Adoption of International Financial Reporting Standards.

In February 2008, the CICA issued new CICA 3064, Goodwill and Intangible Assets, replacing CICA 3062, Goodwill and Other Intangible Assets, and CICA 3450, Research and Development Costs. New

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted section 3064. The objectives of the changes are to reinforce a principle-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in CICA 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and U.S. GAAP by eliminating the practice of recognizing as assets a variety of start-up, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. Consequently, such costs will be expensed as incurred. The effective date of adopting this new standard for the Company is January 1, 2009. This standard will have no effect on the Company's financial statements.

The CICA's Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective January 1, 2011 and therefore will commence in the first quarter of the Company's 2011 fiscal year with comparative figures. The Company will be developing a plan for the implementation of IFRS and will assess the impact of the differences in accounting standards on the Company's consolidated financial statements. It is not practically possible at this time to quantify the impact of these differences. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS for comparative purposes in the 2011 financial year reporting.

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2009		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
	(\$)	(\$)	(\$)
Petroleum and natural gas properties and equipment	23,898,856	12,950,224	10,948,632
Production equipment under capital lease	220,000	88,335	131,665
Furniture and equipment	368,936	252,123	116,813
	24,487,792	13,290,682	11,197,110

Petroleum and natural gas properties and equipment included costs of \$4,878,057 related to unproved properties, which have been excluded from the calculation of depletion.

Future asset retirement costs of \$595,965 have been capitalized as part of the cost of petroleum and natural gas properties.

5. ASSET RETIREMENT TRUST FUND

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, 2009, sufficient funds were on deposit with a Trustee related to a Trust Agreement showing the Ontario Ministry of Natural Resources as beneficiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. BANK INDEBTEDNESS

On October 30, 2008, the Company renewed its loan facility. The renewed facility provides the Company with a \$1,925,000 revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 3.00%. As at June 30, 2009, the bank's prime lending rate is 2.25%.

The Company's operating facility agreement requires that the Company meet certain covenants including one relating to an adjusted working capital ratio. As at June 30, 2009, 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.

7. LONG TERM DEBT

	June 30, 2009
	(\$)
Convertible debentures	260,000
Obligation under capital lease	104,248
Vehicle loans	96,613
	460,861
Less current portion:	
obligation under capital lease	(58,227)
vehicle loans	(45,400)
	357,234

On September 28, 2007, a non-brokered private placement of convertible debentures was completed raising gross proceeds of \$260,000. The debentures 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.

The estimated fair value of the equity conversion feature embedded in the convertible debentures was attributed a value of \$nil. This is based upon management's assessment that the 12% interest rate attached to the convertible debentures at the date of issue approximated the market value at that date for similar debentures without a conversion feature. Presently, interest payments to a subscriber related to a non-arm's length party are two instalments in arrears. Interest payments to all arm's length subscribers have been paid in accordance with the terms and conditions of the convertible debenture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 were payable monthly commencing June 30, 2008 followed by 29 blended payments of \$4,451 payable monthly commencing January 31, 2009. Presently, the Company is four months in arrears on monthly instalments of \$4,451. The rate of interest remains unchanged at 12.5% per annum.

On July 15, 2008, the Company purchased four (4) vehicles for use in its field operations. The total amount of \$136,717 was financed over 36 months with blended monthly payments of principal and interest that total \$4,030. Payments commence on August 14th, 2008 and carry a rate of interest ranging from .99% per annum to 4.99% per annum. The loans are collateralized with these vehicles and there are no arrears in repayment.

The following table summarizes the principal amount due for the long-term debt commitments of the Company:

(\$)	2009 (6 mos.)	2010	2011	2012	2013
12% Convertible Debenture Obligations under capital lease	35,212	47,453	21,583	260,000	-
Vehicle financing	22,476	46,290	27,847		-
	57,688	93,743	49,430	260,000	-

8. INCOME AND OTHER TAXES PAYABLE

	June 30, 2009 (\$)
Capital taxes payable	114
Current portion	
Other taxes payable – current year	2,969
Other taxes payable – prior years	180,000
	183,083
Long term portion	
Other taxes payable – prior years	360,614
	543,697

During the second quarter of 2006, the Company negotiated long-term payment terms with respect to special taxes and interest owing pursuant to an income tax matter relating to the 1996 through 2001 taxation years. During 2007, the Company was unable to fund the agreed-upon monthly instalments and only one monthly instalment was made pursuant to the long-term repayment plan. Interest on the outstanding debt continues to accrue and will vary based on the prescribed rates released on a quarterly basis by the Canada Revenue Agency. On June 27, 2008, the Company and the Canada Revenue Agency re-negotiated and agreed to an instalment repayment of not less than \$15,000 per month towards arrears commencing in July 2008. During the following nine months ended March 31, 2009, all payments were made in accordance with the agreement. In April 2009, the Canada Revenue Agency agreed to a reduced monthly instalment of \$5,000 per month for a three-month period ending June 30, 2009. All payments were made in accordance with this amendment to the original agreement. In July 2009, the Company was unable to make any reduction in the arrears balance. The Canada Revenue Agency and the Company have now agreed to review the account on a monthly basis until

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such time as the Company can demonstrate the ability to make regular instalments towards the arrears balance.

9. ASSET RETIREMENT OBLIGATIONS

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$1,841,671 (2008 - \$1,816,720) which has been discounted using a credit-adjusted risk-free rate of 8.5% and includes a 2.0% inflation factor.

	2009
	(\$)
Asset retirement obligations, beginning of the period	967,972
Liabilities incurred	-
Accretion expense	39,744
Revisions in estimated cash flows	-
<u>Asset retirement obligations, end of the period</u>	<u>1,007,716</u>

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, the Company anticipates that approximately 40% of the costs will be incurred and the remainder will likely occur from 2014 to 2042.

10. INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward for future years for tax purposes that are more likely than not to be realized. Future assets and liabilities are measured using the substantively enacted tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse.

For the six months ended June 30, 2009 no provision for the benefit of losses available to be carried forward for future years for tax purposes has been made since they are more likely to expire before being utilized.

11. SHARE CAPITAL
Authorized

Unlimited common voting shares without par value.

Issued and outstanding

	2009	
	Shares	Amount (\$)
<u>Common shares</u>	<u>54,038,463</u>	<u>16,262,861</u>

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Stock Options:

The following table outlines information related to the outstanding and vested stock options at March 31, 2009:

Exercise Price (\$)	Options outstanding	Weighted average remaining contractual life (yrs)
0.35	575,000	1.78
0.30	50,000	2.34
0.25	525,000	2.59
0.18	125,000	3.08
0.12	450,000	3.70
0.14	1,000,000	3.90
	2,725,000	3.38

Under the terms of the Plan, the Board of Directors may authorize the granting of options to purchase up to 3,868,424 common shares, provided that no individual may be granted options exceeding 5% of the issued and outstanding common shares of the Company. The option price per common share granted under the plan may not be less than the closing market price on the date the option is granted less allowable discounts as permitted under the policies of the TSX Venture Exchange. The maximum term of any option is five years from the date the option is granted. Options are immediately exercisable upon granting.

There were no stock options granted by the Company during the three months ended June 30, 2009.

Warrants:

The following table outlines information related to the outstanding common stock purchase warrants at June 30, 2009:

Exercise Price (\$)	Number of warrants outstanding	Fair Value of warrants outstanding (\$)	Weighted average remaining contractual life (yrs)
0.18	500,000	46,461	.08
0.15	762,500	37,267	.28
0.20	2,500	208	.39
0.15	360,000	13,643	.39
0.12	67,000	2,966	.39
0.16	484,849	22,313	.99
0.20	937,500	72,573	1.02
	3,114,349	195,431	0.60

There were no common share purchase warrants issued by the Company during the three months ended June 30, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basic and diluted share amounts

In calculating diluted earnings per common share for the six months ended June 30, 2009, the Company excluded 2,725,000 options, as the exercise price was greater than the average market price of its common shares in those months. In the case of a loss, the effect of stock options potentially exercisable on diluted net loss per share is anti-dilutive. Therefore basic and diluted net loss per share is the same.

12. CONTRIBUTED SURPLUS

	2009
	(\$)
Balance, end of period	1,402,952

13. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2009, the following transactions occurred in the normal course of business between the Company and a law firm of which a director and shareholder of the Company is an executive officer and shareholder of the law firm.

	2009
	(\$)
<i>Transactions during the period:</i>	
Balance due to related party, beginning of period	107,651
Administrative expenses incurred	24,499
Directors' fees incurred	7,088
Payments made during the period	-
Balance due to related party, end of period	139,238

During the six months ended June 30, 2009, the following transactions occurred in the normal course of business between the Company and non-management directors of the Company, excluding those noted above.

	2009
	(\$)
<i>Transactions during the period:</i>	
Directors' fees due to non-management directors, beginning of period	20,250
Directors' fees recorded (excl. fees noted above)	12,000
Due to non-management directors	32,250



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>Transactions during the period:</i>	2009
	(\$)
Notes payable due to non-management directors, beginning of period	15,000
Issued during the period	-
Payments made during the period	-
Notes payable due to non-management directors, end of period	15,000

The notes payable are unsecured and payable on demand with interest payable monthly at the rate of 12% per annum.

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.

14. COMMITMENTS**Flow through share commitments**

Pursuant to the terms of private placements that closed during the year ended December 31, 2008, the Company had a remaining obligation to incur \$652,080 in qualified exploration and/or development expenditures by December 31, 2009. As at June 30, 2009 the Company has fulfilled this commitment.

Office lease commitments

Pursuant to an operating lease agreement, the Company is obligated to make future minimum lease payments of \$1,191 per month (excluding additional rent for operating cost recoveries) until August 1, 2010.

15. FINANCIAL INSTRUMENTS**Classification and fair values**

The Company has classified all financial instruments as one of; held-for trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Subsequent measurement of changes in the value of financial instruments depends on their initial classification.

Financial assets and liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Derivatives are classified as held for trading and recorded at fair value.

Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the assets are removed from the balance sheet.

Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at fair value and subsequently measured at amortized costs using the effective interest method. Investments in equity instruments classified as available-for-sale that do not have quoted market prices in an active market are measured at cost. The Company has implemented the following classifications:



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Accounts receivable and other receivables are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, the convertible debentures and the note payable, are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

Commodity price risk

The Company is exposed to risks related to fluctuations in the market price for the sale of natural gas and crude oil. During the year, the Company did not attempt to manage this risk with the acquisition of any derivative financial instruments.

Foreign currency risk

The Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. Natural gas and crude oil prices are based upon reference prices that are denominated in U.S. dollars. During the year, the Company did not attempt to manage this risk with the acquisition of any derivative financial instruments.

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its operating facility. The floating rate debt is based on the bank's prime lending rate plus 3%. As at March 31, 2009, the resulting increase or decrease in net earnings for each 1% change on floating rate debt is approximately \$17,000 annually. The related disclosures regarding this debt instrument are included in Note 6 of these financial statements.

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. Substantially all of the Company's oil revenues are from one customer and all of the Company's gas revenues are from one other customer. Approximately 80% of accounts receivable are from these two customers. All of the accounts receivable balances are unsecured and as such, the entire balance in accounts receivable represents the Company's maximum exposure to credit risk.

Liquidity risk

Liquidity risk represents the risk that the Company will not be in a position to meet its financial obligations as they come due. As at March 31, 2009, the Company had \$200,643 available from its revolving credit facility. The Company's accounts payable and accrued liabilities will come due within 90 days of the balance sheet date. Given the available liquid resources, management anticipates having sufficient funds to meet the Company's short-term commitments. In respect of the maturity profile of all the Company's financial instruments, the bank loan is due on demand while accounts payable and accrued liabilities generally mature within 3 months of the balance sheet date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

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

The Company monitors capital on a basis consistent with others in the industry based on total debt to shareholders' equity. Capital is defined as shareholders' equity as presented on the balance sheet and total debt is defined as the sum of the interest-bearing debt. The Company reviews its capital structure quarterly and, based upon economic conditions and planned requirements, makes necessary adjustments accordingly. The Company is not subject to any external capital requirements.

A summary of the key components as defined above is as follows:

Item	Amount (\$)
Shareholders' Equity	4,700,916
Interest bearing debt	
Bank indebtedness	1,898,101
Notes payable	15,000
Income and other taxes payable	543,697
Long term debt	460,861
	2,917,659

17. SUBSEQUENT EVENTS

In July 2009, the Company was unable to make any reduction in the arrears balance related to the indebtedness due to the Canada Revenue Agency. The Canada Revenue Agency and the Company have agreed to review the account on a monthly basis until such time as the Company can demonstrate the ability to make regular instalments towards the arrears balance.

On August 13, 2009, the Company announced that it intends to undertake a non-brokered private placement to raise funding up to \$600,000. The private placement offering will consist of up to \$300,000 of Flow-through units and up to \$300,000 of non Flow-through units. Each Flow-through unit will be priced at \$0.05 and will consist of one (1) flow-through common share and one (1) common share purchase warrant. Each non Flow-through unit will be priced at \$0.04 and will consist of (1) common share and one (1) common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share for \$0.10 within 12 months after closing. The Company will pay finders fees up to 10% of the gross proceeds of the Offering in cash and/or other compensation subject to compliance with regulatory requirements.