



Management's Discussion and Analysis

Greentree Gas & Oil Ltd. ("Greentree" or the "Company") is a Canadian-based oil and natural gas company whose common shares are traded on the TSX Venture Exchange (TSX-V) under the symbol "GGO".

The Company's business is the acquisition, exploration, development and operation of oil and gas properties. During 2008 it conducted its activities in the province of Ontario, Canada.

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements and MD&A for the years ended December 31, 2008 and 2007 contained in the 2008 consolidated financial statements of Greentree and is based on information to April 28, 2009. The reader should be aware that historical results are not necessarily indicative of future performance. Additional information relating to Greentree can be found at www.sedar.com and www.greentreegas.on.ca

This MD&A contains certain forward-looking statements. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements. Forward looking statements may be identified, without limitation, by the use of such words as "anticipates", "expects", "intends", "plans", "predicts", "projects", "believes" or words or phrases of similar meaning. In addition, any statement that may be made concerning future performance, strategies or prospects and possible future corporate activities are also forward-looking statements. Forward-looking statements are based on the Company's expectations and are subject to a number of risk and uncertainties that could materially affect the results. Actual results achieved during the forward-looking period may differ materially from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; competitive action by other companies; fluctuations in oil and gas prices; the ability to produce and transport crude oil and natural gas to markets; the results of exploration and development drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by government authorities including increases in taxes; decisions or approvals of administrative tribunals; change in environmental and other regulations; risks associated with oil and natural gas operations; impact of weather in areas of operation and production; and other factors, many of which are beyond the control of Greentree Gas & Oil Ltd.. The Company disclaims any intention or obligation to publicly update or revise any forward-looking statements or information whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

The financial data contained herein is presented in Canadian dollars and has been prepared in accordance with Canadian Accepted Accounting Principles ("GAAP"). In conformity with Canadian Securities Administrators National Instrument 51-101, natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("Mcf") to one boe. Readers are cautioned that boes may be misleading, particularly if used in isolation.

NON-GAAP MEASURES

The Company uses certain measures of financial reporting in the MD&A that are commonly used as benchmarks within the oil and natural gas production industry. They are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities.

These measures and their underlying calculations are not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and consequently are referred to as non-GAAP measures. These measures may not be comparable to a similarly titled measure of another entity. When these measures are used, they should be given careful consideration by the reader.

Included in the MD&A are references to the following non GAAP terms:

Funds flow from operations, which is determined before changes in non-cash working capital is used as a key measure of performance and liquidity

Field level cash flow refers to oil and gas sales revenue less royalties, and less operating expenses. It does not include other income or any of the other company expenses that are used to calculate net income.

Operating netback is a benchmark used in the crude oil and natural gas industry to measure the BOE contribution of oil and natural gas sales subsequent to the deduction of royalties, operating and transportation costs.

OVERALL PERFORMANCE

For the year ended December 31, 2008, the Company had a net loss of \$223,444 compared to a loss of \$746,074 for 2007. As a result of recurring losses over the Company's history, the Company had a deficit of \$12.46 million as at December 31, 2008 and had a net working capital deficiency of \$1.92 million at that date. Despite the continued losses, the Company did generate positive cash flow from operating activities of \$536,304 for 2008 compared to negative cash flow of \$359,899 in 2007. The increase in cash flow from operations was largely due to increased revenues due to higher commodity prices for oil and natural gas throughout most of the year.

The going concern assumption 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 will be dependent upon the ability of the Company to raise additional financing to complete various low risk production opportunities and, to achieve profitable operations sufficient to meet all its obligations.

Bank indebtedness at December 31, 2008 declined to \$1,429,274 from \$2,099,470 at December 31, 2007. The reduction of \$670,196 was due to the improvement of cash provided by operating activities together with residual deposits relating to financings completed during the year. A large part of these residual deposits will assist in funding the Company's flow-through commitments for 2009, which are approximately \$652,000. Presently, the Company's operating facility agreement requires that the Company meet certain covenants including one relating to working capital ratio. As at December 31, 2008, the Company is compliant with the working capital ratio covenant.

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 six months ended December 31, 2008, all payments were made in accordance with this agreement. This arrangement will remain in effect throughout 2009 subject to a periodic review scheduled for December 2009.

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 to date. New oil production was realized in the fourth quarter of 2008 from two new producers placed online and additional production is expected from three wells recently placed online in Q1-2009 and from the remaining five wells which are anticipated to be onstream by the end of the 2nd quarter. Production proceeds from the new wells are expected to contribute towards achieving profitable operations.

RESULTS OF OPERATIONS

Operating highlights:

- 24% increase in net revenues
- 11% increase in oil production
- \$517,000 increase in *funds flow from operations*
- 47% increase in *field level cash flow*
- 55% increase in *operating netbacks*

The Company averaged 92 boe (barrels of oil equivalent) sold per day for the period compared to 96 boe per day for the same period in 2007. The decline was the result of a 6% drop in natural gas production due to expected field declines, which was modestly offset by an 11% increase in oil production. Greentree drilled six wells in 2008, resulting in five oil producers and one dry hole for a success rate of 83%. The Company focussed its development efforts on its Rodney Unit 3 pool and evaluated its Rodney North prospect with an unsuccessful exploration attempt.

SELECTED QUARTERLY INFORMATION

	2008				2007			
(\$000's), except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue (net of royalties)	386	563	567	444	351	395	445	388
Funds flow from operations Per share - basic & diluted (\$)	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net earnings (loss) Per share - basic & diluted (\$)	282 0.00	(114) 0.00	(171) 0.00	(220) 0.00	(48) 0.00	(222) (0.01)	(161) 0.00	(315) (0.01)
BOE Production	8,675	8,218	8,235	8,398	8,234	9,379	8,960	8,465
Total assets	11,311	11,395	12,174	11,642	11,839	10,963	11,218	11,502
Bank indebtedness	1,429	1,230	1,870	2,064	2,099	2,175	2,236	2,252

SELECTED ANNUAL INFORMATION

Year ending December 31	2008	2007	2006
Revenue (net of royalties) - (\$)	1,960,186	1,578,963	1,631,214
Funds flow from operations (\$) Per share - basic & diluted (\$)	500,055 0.01	(16,532) 0.00	208,397 0.01
Net (loss) - (\$) Per share - basic & diluted (\$)	(223,444) 0.00	(746,074) (0.02)	(2,740,785) (0.08)
Total assets (\$)	11,310,827	11,838,823	11,859,717
Bank indebtedness (\$)	1,429,274	2,099,470	2,282,780

Over the past two years Greentree's production volumes have varied from a high of 9,379 Boe in Q3-2007 to as low as 8,218 Boe in the Q3-2008. The fluctuation results from a number of variables which include positive response from the initial flush production from new wells or reworks to the negative impact of field depletion and periodic production shutdowns due to equipment failure and weather-related incidents (freeze-offs). Overall the Company's production has been relatively stable over the past eight quarters. Greentree's revenue over the past eight quarters, however, demonstrated a much higher degree of variability, which was primarily the result of the high volatility in commodity pricing in both oil and natural gas over the period.

FUNDS FLOW FROM OPERATIONS

Funds flow from operations increased \$516,587 in 2008 to \$500,055, or \$0.01 per share on a diluted basis from (\$16,532), or \$0.00 per share on a diluted basis for 2007. This is primarily a result of increased commodity prices experienced during the first three quarters of 2008. Funds flow from operations is calculated as follows:

Year ending December 31 (\$)	2008	2007	2006
Cash provided by operating activities	536,304	(359,899)	(827,481)
Change in non-cash working capital	(36,249)	(343,367)	(1,035,878)
Funds flow from operations	500,055	(16,532)	208,397

FIELD LEVEL CASH FLOW

Year ending December 31 (\$)	2008	2007	2006
Oil and natural gas sales	2,230,108	1,796,596	1,851,955
Royalty expense	(269,922)	(217,633)	(220,741)
Net sales	1,960,186	1,578,963	1,631,214
Operating and transportation expenses	(811,421)	(795,454)	(770,532)
Field level cash flow	1,148,765	783,509	860,682
Per share - basic & diluted (\$)	0.02	0.02	0.02

OPERATING NETBACKS

Year ending December 31 (\$/boe)	2008	2007	2006
Oil sales	98.67	74.78	71.94
Natural gas sales	60.72	47.42	50.47
Total sales	66.04	50.73	52.22
Royalty expense - (\$/boe)	(8.05)	(6.21)	(6.30)
%	12%	12%	12%
Operating and transportation expenses	(23.86)	(22.45)	(21.82)
Netback	34.13	22.07	24.10

PETROLEUM AND NATURAL GAS SALES

All of the Company's production is sold within Canada, and revenues are received in Canadian dollars. The commodities produced and sold are sensitive to both worldwide (crude oil) and North American (natural gas) price fluctuations and the Canada/U.S. exchange rate. An increase in the value of the Canadian dollar negatively impacts price realizations. There was a marginal increase in the value of the Canadian dollar versus the U.S. dollar in 2008 compared to 2007. The average Canada/U.S. exchange rate was \$1.06/\$1.00 in fiscal 2008 compared to \$1.08 during fiscal 2007.

Production sales of petroleum and natural gas in 2008 averaged 91.60 boe/day, and realized an average gross price/boe of \$66.04. This compares to 95.99 boe/day in 2007 with an average price/boe of \$50.73, an increase of 30%.

Natural gas production sales averaged 78.76 boe per day and realized \$60.72 per boe compared to 84.38 boe per day and \$47.42 per boe in 2007, a 28% increase in dollars per boe. Production volumes of natural gas declined by 6% in 2008 compared to 2007 due to natural expected field depletion, which was partially offset by production increases in the Company's Innerkip gas well. Although production volumes were down in 2008 the average natural gas price received in 2008 was up 28%, resulting in a 20% increase in natural gas revenues for 2008.

Oil revenues increased due to an 11% increase in production volumes in 2008 combined with an average commodity price increase of 32%. Oil production sales averaged 12.84 boe per day and realized \$98.67 per boe compared to 13.94 boe per day and \$74.78 per boe, a 32% increase in dollars per boe.

Year ending December 31	2008	2007	2006
Oil volumes - bbl	4,698	4,239	2,861
Oil price - \$/bbl	98.67	74.78	71.94
Gross oil sales (\$)	463,600	317,000	211,448
Natural gas volumes - Mcf	172,966	184,787	193,125
Natural gas price - \$/Mcf	10.12	7.90	8.41
Gross natural gas sales (\$)	1,750,356	1,460,561	1,621,344

bbl = one barrel of oil cf = ft³ of natural gas M = one thousand

ROYALTIES

Royalty burdens are exclusively freehold and overriding amounts calculated as a percentage of production revenue dollars. Freehold royalties are paid to landowners at a rate of 12.5% for oil production and, on a sliding scale for natural gas production varying between 6% and 12.5%. For the year ended December 31, 2008, overall royalty rates remained relatively flat at approximately 12%. The increase in royalties on a boe basis in 2008 compared to 2007 can be entirely attributed to the increase in commodity prices experienced during the year.

Year ending December 31	2008	2007	2006
Royalties (\$)	269,922	217,633	220,741
- \$/boe	8.05	6.21	6.30
- rate %	12.1	12.1	11.9

CASH COSTS

Cash costs (operating, general and administrative and interest) decreased by 3% to \$44.58/boe in 2008 from \$46.15/boe in 2007 due to reduced interest expenses as a result of lower bank indebtedness, reduced general and administrative costs resulting from various rationalization and cost containment measures and, a marginal increase in operating costs.

Operating Expenses

Operating expenses for 2008 increased to \$799,899 compared to \$786,400 for the same period in 2007 representing, a 2% increase. The increase was due primarily to ongoing repairs and maintenance initiatives in the Rodney Unit #3 oil field. On a boe basis, 2008 operating costs were \$23.86/boe compared to \$22.45/boe in 2007. During 2009, the Company is anticipating that operating expenses will remain similar in amount to those incurred during 2008.

General & Administrative Expenses

General and administrative expenses decreased 4% to \$519,168 in 2008 from \$543,207 in 2007. Throughout 2008, the Company continued to rationalize and contain expenditure levels, which resulted in the decrease of approximately \$25,000. General and administrative expenses are not expected to change in any material amount during the fiscal 2009 period.

\$, except as indicated	2008	2007	2006
Gross	519,168	543,207	616,903
Recoveries		-	-
Capitalized amounts			-
Net General & Administrative Expenses	519,168	543,207	616,903
- \$/boe	15.49	15.50	17.60

INTEREST EXPENSE

Interest expense decreased to \$175,403 in 2008 from \$287,219 in 2007. The decrease is primarily a result of using cash generated from operations together with the impact of having funds on deposit from financings completed during the year to reduce the bank indebtedness. Recent changes to borrowing rates may result in a continued reduction of interest costs for 2009.

\$, except as indicated	2008	2007	2006
Bank debt	119,353	184,133	149,844
Convertible debenture	31,285	13,910	
Capital lease and other	24,765	89,176	27,829
Interest Expenses	175,403	287,219	177,673
- \$/boe	5.23	8.20	5.07

NET EARNINGS

The Company realized a loss of \$223,444 (\$0.00 per share) for the 12 months ended December 31, 2008 compared to a loss of \$746,074 (\$0.02 per share) for the same period in 2007. Oil and gas revenues, less royalties, increased to \$1,960,186 in 2008 versus \$1,578,963 in 2007. The contributing factor for the 24% increase was the overall impact of higher commodity prices experienced throughout the year together with lower decline rates in natural gas production and moderate increases in oil production.

OTHER ITEMS

Depletion, Amortization & Accretion Expenses

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically when the related assets are acquired or installed. Amounts recorded for the related assets are increased by the amount of these obligations. Over time the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets.

Depletion, amortization and accretion decreased to \$1,047,238 in 2008 from \$1,083,722 in 2007. On a boe basis, depletion, amortization and accretion increased 1% from \$30.93 to \$31.24.

	2008		2007		2006	
	\$	\$/BOE	\$	\$/BOE	\$	\$/BOE
Depletion and amortization	1,047,238	31.24	1,083,722	30.93	3,501,721	100.09
Accretion - ARO	85,316	2.54	87,552	2.50	38,291	1.09
Total	1,132,554	33.78	1,171,274	33.43	3,540,012	101.18

Asset retirement obligation (ARO)

The undiscounted amount of expected cash flows required to settle the asset retirement obligation is estimated at \$1,841,671 (2007 - \$1,816,720). The liability for the expected cash flows, as reflected in the consolidated financial statements, has been discounted at 9% and includes a 2.0% inflation factor (2.0% - 2007).

Asset retirement obligation, beginning of year	955,220
Change in estimate	(72,564)
Liabilities settled	
Asset retirement costs incurred	
Accretion	85,316
Asset retirement obligation, end of year	<u>967,972</u>

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded primarily from the Company's cash provided by operating activities. Over the next 5 years, approximately 40% of the costs will be incurred and the remainder from 2014 to 2042. Although the ultimate impact of these matters on operations cannot be determined at this time, it could be material for any one-quarter or year.

TAX POOLS

At December 31, 2008, the Company had approximately \$3.6 Million of tax pools available for deduction against future earnings (2007 - \$3.5 Million). A breakdown of the tax pool balances is as follows:

Tax Pools (\$000's)	2008	2007	2006	Maximum Annual Rate of Deduction
Canadian Development Expenses				30%
Canadian Oil & Gas Property Expenses	1,298,105	1,189,837	1,144,541	10%
Undepreciated Capital Cost Allowances	1,834,808	1,844,709	1,781,507	20 - 45%
Canadian Exploration Expense	211,814	212,284	149,611	100%
Share Issue Costs	297,418	228,686	225,714	5 year straight line
Non-capital Losses				
Federal	1,644,949	1,893,156	1,795,180	
Provincial	2,221,497	2,254,054	2,013,558	100%
TOTAL	7,508,591	7,622,726	7,110,111	

INCOME TAXES

The effective rate of income tax varies from the statutory rate as follows:

	2008(\$)	2007(\$)
Statutory rate	33.50%	36.12%
Anticipated income tax recovery	243,543	473,379
Increase (decrease) in tax recovery resulting from:		
Resource allowance	30,190	19,953
Non-deductible tax and interest	(15,545)	(21,750)
Warrant and stock-based compensation	(31,749)	(52,665)
Adjustments to net future tax liabilities for tax rate reduction	31,436	153,801
Renunciation costs	186,162	
Application of loss carry forwards	79,057	
Other	(19,545)	(8,218)
	<u>503,549</u>	<u>564,500</u>

CAPITAL EXPENDITURES

Net capital expenditures totalled \$270,253 in 2008 compared to \$1,324,937, in 2007. The change in oil and gas properties for the period 2007 through 2008 is summarized below:

(\$)	2008	2007
Balance, December 31	23,508,466	22,183,529
Canadian expenditures:		
Lease and land acquisitions	108,268	45,296
Geological & geophysical	192,390	175,584
Drilling, completion and workovers	502,344	600,616
Equipping and facilities	11,277	17,491
Capitalized amounts and other	4,515	49,261
Subtotal	818,794	888,248
Asset retirement obligation adjustment	(72,564)	436,689
Disposition of non oil and gas properties	(475,977)	-
Net Canadian Expenditures	270,253	1,324,937
Total	23,778,719	23,508,466

The Company's capital expenditures were primarily related to the drilling, completion and tie-in costs in the Rodney Unit #3 pool in addition to geological and geophysical assessments of the Rodney North prospect and other projects in S.W. Ontario. A brief summary of the projects are as follows:

Rodney Unit 3 Property

In 2008, the Company completed the drilling of five infill development wells within Company's 100% working interest Rodney Unit 3 pool. The sixth well of the initial 6-well program was delayed due to adverse field conditions but was completed in February of 2009. As of year-end only two of the five completed wells were on production and contributed to a 28% increase in production from the pool in the fourth quarter as compared to the preceding quarter. To date five of the six wells have been placed on production. Subsequent to the initial 6-well program, Greentree commenced a 4-well program in February 2009 in a relatively undeveloped section of the pool located between Greentree's Unit 3 and Taqa North's Rodney Units 1 and 2. Greentree completed the drilling of the four wells in late April, 2009 and is in the process of placing the wells on production. The Company has identified an additional six locations it would like to complete in 2009, subject to the availability of capital.

Rodney North Prospect

The Rodney North Prospect is comprised of a lease block of approximately 500 acres, which is located approximately three kilometers north of Greentree's existing Rodney oil pools and less than a kilometer north of Taqa North's Rodney Units 1 & 2. The lands were acquired on the basis of being geologically located along a regional structural trend which hosts the main Rodney pool (Units 1, 2, 3) and the Company's Rodney South pool. Greentree's combined geological and geophysical gravity mapping indicated the potential for an unexploited structure of similar size to the pools to the south.

In April of 2008, Greentree drilled an exploration well into the identified potential shallow oil structure. The well encountered an oil show and porosity development in the Devonian "Columbus" zone but was abandoned due to insufficient structure. The Company has maintained its' acreage position in the area and a follow-up micro-gravity survey has indicated potential for sufficient structural development in proximity to the first unsuccessful test well.

Haldimand County

In the summer/fall of 2008, Greentree re-entered GGOL#67, and conducted sidewall core sampling over an approximate 200-meter section of shale in the Ordovician "Blue Mountain-Collingwood" formations and the samples were subsequently sent to a qualified shale gas analysis laboratory. Subsequent to sampling the open-hole shale section, the Company cased the well to total depth in the Cambrian formation. The well was subsequently perforated and a fracture stimulation was attempted on the perforation interval

located in the "Gull River" formation of the Ordovician Trenton-Black River section. Although the fracture stimulation was not successful, gas was recovered in initial testing and the well is currently undergoing an extended test period. The results of the shale gas sampling have remained confidential pending additional evaluation.

Rodney South Property

The "Pilot Phase" of the Rodney South project with Wavefront Energy and Environmental Services Inc. ("Wavefront") was completed in 2007 and the injection system was equipped with eight Wavefront "Powerwave" tools. Under the terms of the Wavefront/Greentree Agreement Wavefront provided \$2.25 million in capital expenditures related to the first phase of development. In consideration of Wavefront's capital investment it shall earn a 70% interest in net earnings from overall production in Rodney South until payout of Wavefront's initial \$2.25 million capital investment. Subsequent to payout, cash flow from operations will be allotted 50% to each of Wavefront and Greentree. Wavefront began earning 70% of the net earnings effective January 1, 2008. In 2008, gross production from the pool increased approximately 70% from 2007 levels, despite a number of problems with downhole-pumps in the three key horizontal producing wells and extreme weather conditions which impaired access to the wells and caused shutdowns due to freezing.

Agreement with Mooncor Oil & Gas Ltd.

On July 28, 2008, Greentree announced an agreement with Mooncor Oil & Gas Corp. wherein Mooncor would earn an interest in selected lands of Greentree's subject to Mooncor making qualifying expenditures of \$500,000 by December 31, 2008 and an option to expend an additional \$1,500,000 by December 31, 2009. The agreement also called for the leasing of properties in a selected region of Ontario at the direction of Greentree and at the expense of Mooncor. By the terms of the agreement, Greentree is to earn a 10% working interest for directing the leasing program. As of December 31, 2008, approximately 3,000 acres had been leased and the program is ongoing.

FOURTH QUARTER

Net revenues decreased in the fourth quarter compared to the preceding quarters due to the impact of declining commodity prices for both oil and natural gas. Sales volumes increased 4% for natural gas and 18% for oil in the fourth quarter as compared to the preceding quarter due to the impact of two new Rodney Unit #3 infill oil wells being placed on-stream. The increase in production was realized in spite of significant weather-related production curtailments experienced in December in both the Company's Rodney oil and Norfolk gas properties.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital deficiency decreased to \$1,920,765 at December 31, 2008 from \$3,407,950 at December 31, 2007. This decrease is the result of having funds on deposit from financings completed during 2008 and utilization of residual cash flow from operations to reduce a portion of the bank debt during the year.

As at December 31, 2008, the Company had \$495,726 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. Additional financing may be required to rectify the working capital deficiency.

On October 30, 2008, the Company renewed its loan facility. The renewed facility provides Greentree with a \$1,925,000 revolving demand loan bearing interest payable monthly at the bank's prime lending rate plus 3.00%. As at December 31, 2008, the bank's prime lending rate is 3.50 % and the entire facility is subject to the bank's further review on or before April 30, 2009.

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.

Bank indebtedness at December 31, 2008 declined to \$1,429,274 from \$2,099,470 at December 31, 2007. The reduction of \$670,196 was due to the improvement of cash provided by operating activities together with residual deposits relating to financings completed during the year. A large part of these residual deposits will assist in funding the Company's flow-through commitments for 2009, which are approximately \$652,000. Presently, the Company's operating facility agreement requires that the Company meet certain covenants including one relating to working capital ratio. As at December 31, 2008, the Company is compliant with the working capital ratio covenant. The bank has not waived its right to demand repayment of the outstanding principal balance prior to November 30, 2008. Consequently, the entire balance has been shown as a current liability.

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 six (6) months ended December 31, 2008, all payments were made in accordance with this agreement. This arrangement will remain in effect throughout 2009 subject to a periodic review scheduled for December 2009.

On April 10, 2008, the Company closed the first tranche of a Private Placement Offering in which 1,524,999 common shares were issued at \$0.12 per common share on a flow-through basis. Gross proceeds of \$183,000 are presented net of share issue costs of \$25,133, net of future income taxes of \$49,144 and fair value of warrants of \$37,267. As additional compensation, the Company issued 45,750 non flow-through common shares for no consideration plus 67,000 common share purchase warrants with a fair value of \$2,966.

On May 21, 2008, the Company closed the second tranche of a Private Placement Offering in which 720,000 common shares were issued at \$0.12 per common share on a flow-through basis. Gross proceeds of \$86,400 are presented net of share issue costs of \$25,661, net of future income taxes of \$18,908 and fair value of warrants of \$13,643.

On June 27, 2008, the Company closed the first tranche of a Private Placement Offering in which 4,848,485 common shares were issued at \$0.165 per common share on a flow-through basis. Gross proceeds of \$800,000 are presented net of share issue costs of \$101,123, net of future income taxes \$217,560 and fair value of warrants of \$22,313.

On July 9, 2008, the Company closed the second tranche of a Private Placement Offering in which 1,562,500 common shares were issued at \$0.16 per common share. Gross proceeds of \$250,000 are presented net of share issue costs of \$29,883, fair value of warrants of \$72,781 and, future incomes of (\$9,302)

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Subsequent to year-end 2008, the Company has the following commitments and contractual obligations:

Flow through share commitments

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

Office lease commitments

As at December 31, 2008, the Company is obligated to make future minimum lease payments under an operating lease (excluding additional rent for operating cost recoveries) for its administrative offices as follows:

Year	\$
2009	9,309
2010	6,289

Other Indemnifications

In the ordinary course of business, the Company and its subsidiaries enter into contracts which contain indemnification provisions, such as loan agreements, confidentiality agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, leasing agreements, land use agreements, and others. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have and is not expected to have during its 2009 fiscal year any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the year, 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.

	2008 (\$)	2007 (\$)
Balance due to related party, beginning of the year	104,924	117,820
Common shares for debt settlement		(80,000)
Administrative expenses and share issue costs incurred	95,146	129,483
Directors' fees incurred	6,563	
Payments made during the year	(98,982)	(62,379)
Balance due to related party, end of the year	107,651	104,924

During the year, the following transactions occurred in the normal course of business between the Company and non-management directors of the Company.

Directors' fees	2008 (\$)	2007 (\$)
Balance due to related parties, beginning of the year	-	20,500
Directors' fees recorded	20,250	24,800
Payments made in respect of directors' fees	-	-
Shares issued in respect of directors' fees owed	-	(45,300)
Balance due to related parties, end of the year	20,250	-

Notes payable	2008 (\$)	2007 (\$)
Balance, beginning of the year	25,000	-
Notes payable issued during the year		125,000
Accrued interest during the year		1,715
Payments made during the year	(10,000)	
Shares issued in respect of Notes payable		(101,715)
Balance, end of the year	15,000	25,000

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.

Transactions with directors/shareholders

On September 28, 2007, a non-brokered private placement of convertible debentures was closed in the amount of \$260,000. Included in the total is an amount of \$250,000 received from an individual related to a Director of the Company.

OUTLOOK

Since 2008, Greentree has focused its activities and directed available capital resources on relatively low risk and low cost activities with a goal to build a solid and growing base of low decline and long life production. Our recent focus has also been to improve the corporate balance of our oil versus natural gas production, as historically Greentree has been heavily - weighted to natural gas. This strategy, if successful, will enhance the Company's viability in this current market of premium priced oil relative to natural gas commodity pricing and will reduce risk in future pricing environments. Another goal for Greentree in 2009 is to reduce current debt levels.

In 2009, Greentree will prudently deploy available capital towards timely hook-up of five recently completed oil producers and other low risk operational activities that will provide increases in both cash flow and corporate reserves. The Company anticipates that commodity prices, although subject to volatility, will remain relatively weak for the remainder of the year. In this environment, Greentree recognizes that 2009 will be a challenging year for the Company but we believe over the long term that supply and demand fundamentals will result in significant upside for both natural gas and oil prices.

BUSINESS RISKS

The Company is engaged in the exploration, development and production of crude oil and natural gas. The oil and natural gas industry is highly competitive. In addition, the Company is exposed to a number of risks including:

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 period, the Company did not attempt to manage this risk with 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 period, the Company did not attempt to manage this risk with 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 December 31, 2008, the resulting increase or decrease in net earnings for each 1% change on floating rate debt is approximately \$15,000 annually (\$21,000 – 2007).

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 91% of accounts receivable are from these two customers (2007 - 46% were from these same 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.

Exploration Risks

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The cost of drilling, completing and operating wells may vary significantly from initial estimates. The Company's drilling operations may be unsuccessful or may be curtailed, delayed or cancelled as a result of numerous factors not within its control. These factors include, but are not limited to, title problems, weather conditions, compliance with governmental requirements, shortage of capital, mechanical difficulties and shortages or delays in the delivery of drilling rigs or other equipment. Accordingly, there can be no assurance that the Company's acquisition, development, exploitation and exploration activities will result in reserves being added at acceptable costs. There is no assurance that additional oil or natural gas reserves in commercial quantities will be discovered by the Company.

The Company mitigates these risks by contracting experienced and qualified consultants and using sound business practices. The Company follows all government regulations and has an up-to-date emergency response plan. Property and liability insurance in place provides a reasonable amount of protection from risk of loss due to a variety of insurable events.

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 December 31, 2008, the Company had \$495,726 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.

The following table summarizes the estimated timing of financial commitments for the next 5 years:

Item	3 months	12 months	2010	2011	2012	2013
Accounts payable	522,072					
Notes & other payables		15,000				
Income & other taxes payable	45,000	137,347	180,000	180,000	43,677	
Long term debt	21,023	65,417	93,743	49,430	260,000	

Operating Hazards

The oil and gas business involves a variety of operating risks, including the risk of fire, explosion, blow-out, pipe failure, casing collapse, stuck tools, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, pipeline ruptures and discharges of toxic gases, the occurrence of any of which could result in substantial losses to Greentree due to injury and loss of life, loss of or damage to wellbores and drilling or production equipment, costs of overcoming downhole problems, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Gathering systems and processing facilities are subject to many of the same hazards and any significant problems related to those facilities could adversely affect Greentree's ability to market its production. Insurance may not cover downhole operating risks, such as the costs of retrieving stuck equipment. Furthermore, Greentree cannot predict whether insurance will continue to be available at premium levels that justify its purchase or whether insurance will be available at all to cover the risks faced by the Company.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions have caused significant volatility to commodity prices. These conditions became evident in the latter part of 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global markets and resulting in the collapse of, and government intervention in major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Estimates of Reserves and Related Data

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures including many factors beyond the control of the producer. Oil and gas reserve engineering is a subjective process of estimating accumulations of oil and gas that cannot be measured in an exact manner and estimates of other engineers might differ materially from those shown. The accuracy of any reserve estimate is a function of the quality and quantity of available data, engineering and geological interpretation and judgment. In addition, the estimates of future net cash flow from proved reserves of the Company and the present value thereof are based upon certain assumptions about future production levels, prices, costs and participation, if any, by third parties in the development of the Company's reserves that may not prove correct over time for reasons which may or may not be under the control of or known to the Company. Any significant variance from these assumptions could materially affect the quantity and value of the Company's reserves as compared to the estimates contained in this MD&A.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financings, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt and equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on Greentree's business, financial condition, results of operations and prospects.

Environmental Regulation

The drilling for and production, handling, transportation and disposal of oil and gas and by-products are subject to extensive regulation under federal, provincial and local environmental laws. In most instances, the applicable regulatory requirements relate to water and air pollution control and solid waste management measures, permitting requirements, or restrictions on operations in environmentally sensitive areas. Environmental assessments have not been performed on all of Greentree's properties. To date, expenditures for environmental control facilities and for remediation have not been significant in relation to the results of operations of Greentree. Greentree believes, however, that the trend toward stricter standards in environmental legislation and regulation is likely to continue.

Political Risks

The Company's operations are subject to business risk inherent to the oil and natural gas industry. These risks can involve matters arising out of government policies, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, civil disturbances, deprivation or unenforceability of contract rights or the taking of property without fair compensation.

Dependence on Key Personnel

The Company is highly dependent on the continued service of and its ability to attract and retain qualified engineering and management personnel. The competition for such personnel is intense and the loss of particular persons, as well as the failure to recruit additional key personnel in a timely manner, could have a material adverse effect on the Company's business.

Changing Business Conditions

The Company's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. If the Company is unable to respond to and manage changing business conditions, the quality of the Company's services, its ability to retain key personnel and its results of operations could be materially adversely affected.

CRITICAL ACCOUNTING ESTIMATES

Oil and Gas Properties

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 6 Mcf of natural gas to 1 Bbl of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion by more than 20%.

The Company applies an impairment test (“ceiling test”) to determine if capitalized costs are not recoverable and exceed their fair value. Capitalized costs are not recoverable if they are greater than estimated undiscounted cash flows from future production of proved reserves plus the cost (net of impairment) of unproved properties. Commodity prices used in calculating estimated cash inflows are based on quoted benchmark prices. Costs used in estimating cash outflows are based on expected future production and other costs and include abandonment and site restoration costs. An impairment loss is recognized if capitalized costs are greater than their recoverable amount. The impairment loss is measured as the amount by which capitalized costs exceed the fair value of proved reserves plus the cost (net of impairment) of unproved properties. Fair value is determined based on the present value of future cash flows, after deducting abandonment and site restoration costs, discounted at a risk free interest rate. Any impairment loss is charged to earnings.

Reserves

Greentree engages independent qualified reserves evaluators to evaluate and provide a report in accordance with NI 51-101 on the Corporation's reserves for each year. Reserve determinations involve forecasts based on property performance, future price, future production and costs and the timing of expenditures; all of these are subject to uncertainty. The financial statement line items affected by this accounting estimate are property and equipment on the balance sheet (through the provision for accumulated depletion and depreciation) and depletion, depreciation and accretion on the income statement. Accordingly, changes to this estimate can have a significant impact on total assets and net income but no direct cash flow impact. Reserve estimates will change from one year to the next, thus causing changes in current year amounts booked to the balance sheet and income statement. Reserve revisions can change reported depletion and depreciation and earnings. Downward reserves revisions could result in a ceiling test write-down. The Corporation's reserves information may be referenced in The National Instrument 51-101 forms F1, F2 and F3 which have been filed on SEDAR at www.sedar.com.

Changes in Accounting Policy including Initial Adoption

As stated in Note 3 and note 4 of the financial statements.

Measured Uncertainty

The amounts recorded for depletion and depreciation of oil and gas properties, the provision for future site restoration and abandonment costs and the ceiling test calculation are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

International Financial Reporting Standards

In February 2008, the Canadian Institute of Chartered Accountants Accounting Standards Board confirmed the changeover to International Financial Reporting Standards ("IFRS) from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed.

The Company is currently in the process of developing a transition plan to establish timelines and assess the differences between Canadian GAAP and IFRS. The transition from current Canadian GAAP to IFRS may materially affect the Company's reported financial position and results of operations. Specific changes resulting from implementation of IFRS have not been determined at this time.

Financial Instruments

The Company's bank debt is a demand loan and therefore is considered to represent its fair value. Accounts payable, accruals and accounts receivables typically mature within 90 days of the balance sheet date and therefore represent their fair value. The details of a convertible debenture offering are as follows:

On September 28, 2007, a non-brokered private placement of convertible debentures was closed in the amount of \$260,000. The debentures bear interest at the rate of 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 during the third year, \$0.30 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 given in the fourth year, and \$0.65 per share if notice is given in the last year before maturity. The debentures are unsecured and represent their fair value when considering the company's creditworthiness and ability to raise similar debt.

CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares.

ISSUED

Common shares	Number of shares	Amount (\$)
December 31, 2006	38,364,247	15,277,945
Future income tax effect – prior year flow through shares		(283,588)
Issued to related party in share for debt settlement	320,000	78,900
Issued to related parties in settlement of Directors' Fees	554,477	60,992
Issued to related parties in settlement of Notes Payable	924,678	101,715
Issued in private placements	5,123,327	331,547
December 31, 2007	45,286,729	15,567,511
Future income tax effect – prior year flow through shares		(26,442)
Future income tax effect – current year flow through shares		(276,310)
Exercise of common share purchase warrants	50,000	9,472
Issued in private placements	8,701,734	988,630
December 31, 2008	54,038,463	16,262,861