Financial Statements of

MADALENA VENTURES INC.

Years ended December 31, 2006 and 2005

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Madalena Ventures Inc. as at December 31, 2006 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for year ended December 31, 2005 were audited by another firm of chartered accountants.

KPMG LLP.

Chartered Accountants

Calgary, Canada
April 25, 2007

MADALENA VENTURES INC.

Balance Sheets

As at December 31,	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 19,059,715	$ 1,751,676
Accounts receivable	279,063	68,637
Prepaid expenses	23,157	869
Marketable securities	-	45,755
	19,361,935	1,866,937
Capital assets related to discontinued operations (note 3)	-	590,456
Property and equipment (note 4)	7,064,158	-
	$ 26,426,093	$ 2,457,393
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,052,499	$ 97,755
Asset retirement obligations (note 5)	80,262	-
Shareholders' equity:		
Share capital (note 6)	31,190,593	4,045,562
Contributed surplus (note 7)	1,392,406	237,145
Deficit	(7,289,667)	(1,923,069)
	25,293,332	2,359,638
Commitment (note 11)		
Subsequent event (note 14)		
	$ 26,426,093	$ 2,457,393

See accompanying notes to the financial statements

On behalf of the Board:

[signed] “Ray Smith”	[signed] “Mike Lock”
Ray Smith Director	Michael T. Lock Director

MADALENA VENTURES INC.

Statements of Operations and Deficit

For the years ended December 31,		2006		2005
Revenue:				
Petroleum and natural gas	$	290,348	$	-
Royalties		(45,180)		-
		245,168		-
Interest		286,533		26,396
		531,701		26,396
Expenses:				
Operating		59,712		
General and administrative		1,013,873		
Stock based compensation		1,312,249		237,145
Depletion, depreciation and accretion		2,793,717		
		5,179,551		237,145
Loss before the undernoted		(4,647,850)		(210,749)
Gain on sale marketable securities		45,016		890,033
Income (loss) from continuing operations		(4,602,834)		679,284
Loss from discontinued operations (note 3)		(58,662)		(211,910)
Net income (loss) for the period		(4,661,496)		467,374
Deficit - beginning of the year		(1,923,069)		(1,436,659)
Distribution of assets (note 3)		(653,386)		
Dividend paid in kind		(51,716)		(953,784)
Deficit - end of the year	$	(7,289,667)	$	(1,923,069)
Net income (loss) per common share - basic and diluted				
Continuing operations	$	(0.07)	$	0.02
Discontinued operations	$	-	$	(0.01)
		(0.07)		0.01
Weighted Average number of shares:				
Basic and Diluted		67,165,574		36,883,552

See accompanying notes to the financial statements

MADALENA VENTURES INC.
Statements of Cash Flows

For the years ended December 31,	2006	2005
Cash provided by (used in):		
Operations:		
Net income (loss) for the period	$ (4,661,496)	$ 467,374
Add (deduct) Items not involving cash:		
Gain on sale of marketable securities	(45,016)	(890,033)
Stock based compensation expense	1,312,249	237,145
Depletion depreciation and accretion	2,793,717	-
Loss from discontinued operations (note 3)	58,662	185,514
	(541,884)	-
Changes in non-cash working capital items (note10)	(50,018)	-
	(591,902)	-
Discontinued operations:		
Net income (loss) from discontinued operations	(58,662)	(185,514)
Changes in non-cash working capital items (note10)	(97,755)	(128,493)
	(156,417)	(314,007)
Financing:		
Issue of common shares	26,959,261	883,228
Withholding tax on dividends paid in kind	(3,443)	-
	26,955,818	883,228
Investing:		
Mineral Resource Properties	(20,432)	(194,789)
Property and Equipment	(9,748,830)	-
Change in non-cash working capital items (note10)	869,802	-
	(8,899,460)	(194,789)
Change in cash and cash equivalents	17,308,039	374,432
Cash and cash equivalents, beginning of year	1,751,676	1,377,244
Cash and cash equivalents, beginning of year	$ 19,059,715	$ 1,751,676

See accompanying notes to the financial statements

1. Nature of business and basis of presentation

Madalena Ventures Inc. ("Madalena" or the "Company") was formed under the laws of the Province of British Columbia on September 30, 2004 and was continued under the laws of the Province of Alberta on September 26, 2006. Madalena is in the business of acquiring, exploring for, and developing petroleum and natural gas properties in western Canada and in International market places including Tunisia, and South America. The company has operations in western Canada and a seismic drilling joint venture in Tunisia. Madalena is listed on the TSX Venture exchange under the symbol "MVN".

The financial statements of the Company are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), within the framework of the significant accounting policies summarized below.

2. Significant accounting policies

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These financial statements include amounts recorded for depletion, depreciation, accretion, and asset retirement obligations, which are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs, and other relevant assumptions. Accruals for revenues and expenses are based on estimates if actual results are not available, and stock based compensation amounts are calculated using certain assumptions as more fully described in Note 6. Actual results could differ from the assumptions and estimates used in determining these amounts.

Joint interests

Substantially all of the Company's operations are conducted jointly with others, and accordingly, the financial statements reflect only the Company's interest in such activities.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term money market instruments with a maturity of less than three months.

Marketable securities

Marketable securities are recorded at the lower of cost and market.

Property and equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenses. All costs associated with the exploration for and the development of oil and gas reserves in cost centers that are no longer in the preproduction stage, are capitalized. Such costs include land and lease acquisition, geological and geophysical, drilling costs, lease rentals on non-producing properties, tangible production equipment, retirement costs, and general and administrative expenses directly attributable to exploration and development activities.

Proceeds on sale or disposition of oil and gas properties are credited to the full cost pool unless this results in a change in the depletion and depreciation rate by 20 percent or more, in which case a gain or loss is recognized.

Capitalized costs, including estimated future costs to develop proved reserves, accumulated within a cost center are depleted and depreciated using the unit of production method, based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of petroleum based on relative energy content of six thousand cubic feet of natural gas to one barrel of petroleum. Costs of acquiring and evaluating significant unproved petroleum and natural gas interests are excluded from the depletion calculation until it is determined that proved reserves are attributable to such interests, or until impairment occurs.

All costs directly attributable to cost centers which are in the pre production stage of development have been capitalized. Costs accumulated in these country-by-country cost centers are evaluated in each reporting period to determine if the costs recorded are recoverable. Costs not likely to be recovered are expensed.

Petroleum and natural gas properties, in cost centers where there are proven reserves, are subject to a ceiling test, to determine if the costs accumulated, are recoverable from the estimated future value of the properties. The costs are considered to be recoverable if the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests net of impairments, exceeds the carrying amount of the cost centre. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows from the production of proved and probable reserves. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Office furniture, equipment and other assets are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using a 20% declining balance basis for office furniture and equipment, and a straight line basis over the term of the lease for leasehold improvements.

Asset retirement obligations

The Company recognizes an asset retirement obligation (“ARO”) in the period in which a well is drilled and a reasonable estimate of the fair value of the future costs associated with removal, site restoration and asset retirement, can be made. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of property and equipment. Asset retirement costs recorded in property plant and equipment are amortized using the unit of production method and included in depreciation and depletion and accretion. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized in the Company’s earnings in the period in which the settlement occurs.

Future income taxes

The Company uses the liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on the difference between the financial accounting and tax basis of the Companies assets and liabilities, and measured using the substantively enacted tax rates and laws anticipated to apply to the years in which the differences will reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period that the change is substantively enacted. The Company records a valuation allowance against any future tax assets where it anticipates that the likelihood of realizing the asset is not more likely than not.

Stock based compensation

The Company follows the fair value method of accounting for stock options. Under this method, an estimate of the fair value of the cost of all stock options granted to employees, directors and consultants, is calculated using the Black-Scholes option pricing model, and charged to income over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Upon exercise of the stock option, the consideration received by the company, and the amount previously recorded in contributed surplus is recorded as an increase to the share capital of the Company.

Stock based compensation paid to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period in the same manner as if the Company had paid cash instead of paying with our using equity instruments.

Revenue recognition

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser.

Per share amounts

Basic per share amounts are computed by dividing the earnings or loss by the weighted average shares outstanding during the reporting period. Diluted amounts are computed using the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of options and warrants where market price exceeds exercise price are used to repurchase shares at the average market price for the period. The difference between the number of shares that could have been purchase at market prices in the period and the number of options and warrants is added to the weighted average shares outstanding.

Comparative financial information

Certain prior year's comparative figures have been restated to conform to the current year's presentation.

3. Plan of arrangement and discontinued operations

In March of 2006, the Company adopted a "plan of arrangement" to distribute its' mineral exploration business, and certain marketable securities associated with the business, to a related company. The plan of arrangement was approved by the shareholders of the company at the Annual General Meeting on June 2, 2006 and by the Supreme Court of British Columbia on August 22, 2006, and became effective on August 22, 2006. A summary of the plan of arrangement follows:

(a) each shareholder of Madalena received one-fifteenth of a common share of Great Bear Resources Ltd. ("GBR") for each common share of Madalena owned by such shareholder at August 22, 2006;

(b) each shareholder of Madalena received one new common share of Madalena for each common share of Madalena owned by such shareholder on August 22, 2006;

(c) Madalena and GBR became "reporting issuers" under the B.C. Securities Act;

(d) Madalena retained all cash, accounts receivable, prepaid expenses, and the petroleum and natural gas assets, owned at the time of the plan of arrangement. Madalena is responsible for all accounts payable and accrued liabilities of the company at the time of the plan of arrangement;

(e) GBR acquired the mineral property interests, all shares of Planet Exploration Ltd. ("Planet"), and all shares of Medi-Hut Company, Inc., owned by Madalena at August 22, 2006. GBR assumed all of Madalena's obligations in respect of a dividend in specie declared by the Company on November 15, 2004, payable in the form of Planet shares.

The Company accounted for the disposition of the assets under the plan of arrangement using the continuity of interest method of accounting. Under this method, the accounting basis of the assets distributed under the plan of arrangement is removed from Madalena's balance sheet and charged to retained earnings. The accounting basis of the assets removed from the balance sheet and charged to retained earnings is $653,386, which consisted of mineral resource assets with a carrying value of $610,888, and marketable securities with a carrying value of $42,498.

The carrying value of Madalena's mineral property interests at December 31, 2005, in the amount of $590,456, has been reclassified as capital assets related to discontinued operations. The Company has calculated a loss from discontinued operations in the amount of ($58,662) for the year ended December 31, 2006, and ($211,910) for the year ended December 31, 2005, and has classified these as separate items in the statements of operations and deficit, and cash flows.

4. Property and equipment

As at December 31,	2006	2005
Canadian Petroleum and natural gas properties	$ 9,223,341	$ -
Argentina Development Costs	490,149	-
Tunisia Development Costs	41,286	-
Furniture, equipment & leaseholds improvements	97,153	-
	9,851,929	-
		-
Accumulated depletion	(2,768,341)	-
Accumulated depreciation	(19,430)	-
Net book value	$ 7,064,158	$ -

At December 31, 2006 the above noted cost centers for Argentina and Tunisia were considered to be in the preproduction stage and all costs directly attributable to these centers were capitalized and excluded from costs subject to depletion and depreciation. There have been no revenues to date from these cost centers.

General and administrative expenses and stock based compensation totaling $502,381 and $28,781, respectively (2005 – nil) that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2006.

At December 31, 2006, management performed a ceiling test calculation in order to determine if there was impairment in the Canadian cost center. In undertaking the ceiling test calculation the Company relied on the net present value of expected future cash flows from proved plus probable reserves discounted at a risk free interest rate of 5% and calculated using forecast prices as determined by independent petroleum consultants. As a result of the ceiling test calculations, the Company reduced the carrying value of the Canadian cost center to it's expected present value of $6,455,000, and has recorded the write down of $2,480,341 in it's expenses for the year.

The benchmark prices for which the ceiling test was based, are as follows:

Year	Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton Then Current $Cdn/bbl	Alberta Natural Gas Liquids (Then Current Dollars) Edmonton Butane $Cdn/bbl	Alberta Natural Gas AECO-C Spot Then Current $Cdn/Mcf)
2007	70.25	58.36	7.88
2008	68.00	52.71	8.19
2009	65.75	51.60	8.58
2010	64.50	50.59	8.63
2011	64.50	50.58	8.69
2012	65.00	50.83	9.03
2013	66.25	51.84	9.20
2014	67.75	53.32	9.46
2015	69.00	54.04	9.68
2016	70.50	55.29	9.85
2017	71.25	56.05	10.08
2018+	+2.0%/yr	+2.0%/yr	+2.0%/yr

Note – prices for natural gas and natural gas liquids are based on GLJ product price and market forecasts at January 1, 2007 adjusted for transportation and BTU value of the gas.

5. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. As at December 31, 2006, the Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $235,746 which will be incurred over the next 15 years. A credit-adjusted risk-free rate of 8% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

As at December 31,		2006		2005
Balance, beginning of the year	$	-	$	-
Accretion expense		5,945		-
Obligations incurred		74,317		-
Balance, end of the year	$	80,262	$	-

6. Share capital

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without nominal or par value.

Issued

Common shares	Number		Amount
Balance, December 31, 2004	35,420,949	$	3,162,334
Issued for cash	15,750,000		945,000
Issued for mineral resource properties	250,000		25,000
Issue costs			(86,772)
Balance, December 31, 2005	51,420,949	$	4,045,562
Issued for cash	38,155,250		24,904,500
Options exercised	1,700,000		262,000
Warrants exercised	15,115,250		1,257,626
Contributed surplus associated with options exercised			185,769
Issue costs			(2,006,564)
Balance, December 31, 2006	106,391,449	$	28,648,893
Warrants	-		2,541,700
		$	31,190,593

On November 28, 2004 the Company issued 15,000,000 units at a value of $0.06 per unit for gross proceeds of $900,000, pursuant to a non-brokered private placement. Each unit consists of one common share and one warrant. Each warrant is convertible into a common share of the Company at $0.08 per share until November 28, 2006. The Company did not attribute any value to the warrants issued. All warrants were converted into common shares by November 28, 2006. Finder's fees in the form of 750,000 common shares were issued in connection with the private placement. The value attributed to the finder's fees was $0.06 per share for total fees and share capital of $45,000.

On March 2, 2006 the Company issued 12,000,000 common shares at a price of $0.50 per share for total proceeds of $6,000,000 pursuant to a brokered private placement. The broker of the private placement received a cash commission of 5% or $300,000 and 600,000 warrants. Each warrant is convertible into a common share of the Company at $0.50 per share until March 2, 2007. The estimated fair value of the broker warrants is $64,000 using the Black-Scholes option pricing model. The estimated value was calculated assuming a volatility of 50%, a risk-free interest rate of 4%, and an expected life of one year. The estimated value of the broker warrants and the cash commission is recorded as issue costs.

On May 16, 2006 the Company issued 1,000,000 units at a value of $1.00 per unit for gross proceeds of $1,000,000 pursuant to a brokered private placement. Each unit consists of one common share and one-half of a warrant. Each whole warrant is convertible into a common share of the Company at $1.25 until May 16, 2007. The estimated fair value of the warrants is $134,000 using the Black-Scholes option pricing model. The estimated value was calculated assuming a volatility of 50%, a risk-free interest rate of 4%, and an expected life of one year.

In two separate closings on November 2, 2006 and November 16, 2006, the Company issued 12,530,750 and 93,750 units respectively at a value of $0.80 per unit for gross proceeds of $20,049,200 and $75,000 respectively, pursuant to brokered private placement. Each unit consists of one common share and one-half of a warrant. Each whole warrant is convertible into a common share of the Company at $0.90 until November 2, 2007 and November 16, 2007 respectively. The estimated fair value of the warrants is $2,420,000 using the Black-Scholes option pricing model. The estimated value was calculated assuming a volatility of 50%, a risk-free interest rate of 4%, and an expected life of one year. The broker of the private placement received a cash commission of 6% or $1,207,452 and 1,509,315 warrants. Each broker warrant is convertible into common shares of the Company at $0.80 per share until November 16, 2007. The estimated fair value of the broker warrants is $258,000 using the Black-Scholes option pricing model. The estimated value was calculated assuming a volatility of 50%, a risk-free interest rate of 4%, and an expected life of one year. The estimated value of the broker warrants and the cash commission is recorded as issue costs.

Stock options

Under the Companies stock option plan directors, officers, employees and consultants are eligible to receive options to acquire common stock, with terms not to exceed five years. The exercise price of each stock option is the average market price of the Company's stock for the five trading days prior to the grant date. The Company may only grant options equal to a total of 10% of the issued and outstanding common share of the Company.

Options granted to directors of the Company have a term of five years to expiry and vest immediately upon grant of the option. Options granted to officers, employees, and consultants of the Company have a term of five years to expiry, and vest equally over three years, on each anniversary of the grant date.

The following table provides information with respect to stock option transactions for the year ended December 31, 2006:

	Number of Options	Weighted Average Exercise Price ($)
Stock options outstanding, beginning of year	6,800,000	0.20
Granted	6,600,000	0.71
Exercised	(1,700,000)	0.15
Cancelled or expired	(3,300,000)	0.23
Stock options outstanding, end of year	8,400,000	0.59
Stock options exercisable, end of year	2,400,000	0.30

The following table provides information on the estimated timing and number of shares that may be issued under the Company's stock option plan:

	Outstanding		Exercisable
Exercise Price	Number	Weighted Average Remaining Life (years)	Number
$0.12	1,500,000	3.76	1,500,000
$0.41	300,000	4.00	300,000
$0.66	4,300,000	4.16	300,000
$0.73	1,100,000	4.22	300,000
$0.85	1,200,000	4.79	0
	8,400,000	4.18	2,400,000

The fair value of each option has been estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	2006	2005
Expected life (in years)	4.8	5.0
Risk-free interest rate (%)	4.1	3.0
Volatility (%)	50	90
Fair value of options granted	$ 0.33	$ 0.14

Warrants

During 2005 and 2006 the Company issued the following warrants to shareholders and listing agents to purchase common shares

Date Issued	Expiry Date	Number of Common Shares	Price ($)
28-Nov-05	28-Nov-06	15,000,000	0.08
02-Mar-06	02-Mar-07	600,000	0.50
16-May-06	16-May-07	500,000	1.25
02-Nov-06	02-Nov-07	12,530,750	0.90
02-Nov-06	02-Nov-07	1,503,690	0.80
16-Nov-06	16-Nov-07	46,875	0.90
16-Nov-06	16-Nov-07	5,625	0.80
		30,186,940	

The following table summarizes the warrant activity during for the years ended December 31, 2005 and 2006.

	Number		Amount
Balance, December 31, 2004	-		-
Issued	15,000,000	$	1,200,000
Balance, December 31, 2005	15,000,000	$	1,200,000
Issued	15,186,940		13,452,315
Converted to common stock	(15,115,250)		(1,257,625)
Balance, December 31, 2006	15,071,690	$	13,394,690

7. Contributed surplus

As at December 31,		2006			2005
Balance, beginning of the year	$	237,145		$	-
Stock based compensation		1,341,030			237,145
Options exercised		(185,769)			-
Balance, end of the year	$	1,392,406		$	237,145

8. Income taxes

Income taxes differ from the amounts that would be obtained by applying the Canadian statutory income tax rates to the income (loss) before income taxes as follows:

		2006		2005
Net income (loss) before income taxes	$	(4,661,496)	$	467,374
Combined federal and provincial tax rate		34.5%		38.9%
Computed "expected" income tax recovery	$	(1,608,216)	$	181,808
Non deductible crown charges		5,455		-
Resource allowance		23,365		-
Stock based compensation		452,726		92,249
Change in valuation allowance		949,539		(274,058)
Change in tax rates		180,085		-
Other		(2,955)		-
	$	-	$	-

At December 31, 2006 the Company had approximately $3,568,000 of non capital losses available to offset future years' taxable income, the benefit of which has not been recorded in these financial statements.

The major components of the Company's net future taxes are as follows:

	2006	2005
Future income tax assets:		
Capital losses	$ -	$ 148,336
Non capital losses	1,034,716	84,013
Share issue costs	405,917	-
Asset retirement obligations	23,276	-
Property and equipment	154,431	49,200
Attributed Alberta royalty deduction	4,535	-
Valuation allowance	(1,622,875)	(281,549)
Net future tax assets	$ -	$ -

9. Segmented information

Management has determined that the Company operates in one dominant industry segment, which involves the exploration and development of petroleum and natural gas products in the following areas:

As at December 31, 2006	Canada	Argentina	Tunisia	Total
Capital expenditures	$ 9,246,177	$ 470,961	$ 31,692	$ 9,748,830
Total Assets	$ 25,894,658	$ 490,149	$ 41,286	$ 26,426,093

10. Supplemental cash flow information

Changes in non cash working capital items are comprised of the following:

As at December 31,	2006	2005
Accounts receivable	$ (210,426)	$ (22,426)
Prepaid expenses and deposits	(22,288)	0
Accounts payable and accrued liabilities	954,744	(106,067)
Change in non cash working capital	$ 722,029	$ (128,493)
Attributable to:		
Operating activities	$ (50,018)	$
Discontinued operations	(97,755)	(128,493)
Investing	869,802	
	$ 722,029	$ (128,493)

11. Commitments

The Company entered into a lease agreement for office premises commencing April 15, 2006 to June 15, 2010. The minimum rentals payable including estimated operating costs are summarized in the following table:

2007	$	113,722
2008		113,722
2009		113,722
2010		52,123
Total	$	393,289

The Company as part of normal business operations has agreed to spend up to $2,270,000 on seismic exploration during 2007.

The Company entered into a lease agreement for the use of a copier commencing August 15, 2006 to December 15, 2010. The minimum lease payments are summarized as follows:

2007	$	3,722
2008		3,722
2009		3,722
2010		3,722
Total	$	14,888

12. Financial instruments

Fair value of financial instruments:

The Company's financial instruments consist of cash, short term discount bonds, Guaranteed Investment Certificates, accounts receivable, accounts payable, and accrued liabilities. At December 31, 2006, the carrying value of these financial instruments approximated their fair value due to their short-term nature. The Company has no bank indebtedness.

Credit risk

At December 31, 2006 the Company's accounts receivable consists of GST input tax credits receivable of $120,048, interest on GIC's and short term bonds of $131,121 and oil and gas trade receivables of $27,893 which are with customers involved in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's best estimate of the credit risk associated with these receivables.

Commodity price contracts

The Company had no derivative financial instruments outstanding during at December 31, 2006.

Foreign currency exchange risk

The Company had no foreign exchange exposures at December 31, 2006. The Company's activities in South America and Tunisia, have not required the advancement or investment in any foreign currency at December 31, 2006.

13. Related party transactions

Two directors of the Company are also directors of a public exploration company with which Madalena is in engaged in joint venture operations. All of the Company's oil and gas revenues, royalties and operating expenses are derived from this joint venture. At December 31, 2006 the Company has accounts payable due to this joint venture partner of $858,625.

The Company utilizes the services of a law firm in which one of the directors is a partner. During the year ended December 31, 2006 the Company expended $108,883 on services obtained from this firm.

14. Subsequent events

Subsequent to year end, 477,250 warrants to acquire common shares of the Company at $0.50 per share were exercised and 7,500 warrants to acquire common shares of the Company at $0.50 per share expired, resulting in the issuance of 477,250 common shares for proceeds of $238,625. In April of 2007 500,000 stock options to acquire common shares of the company at $0.12 per share were exercised for gross proceeds of $60,000.