Financial Statements of

MADALENA VENTURES INC.

For the periods ended March 31, 2007 and 2006 (unaudited)

MADALENA VENTURES INC.

Balance Sheets (unaudited)

As at March 31, 2007 and December 31, 2006	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 18,359,334	$ 19,059,715
Accounts receivable	110,471	279,063
Prepaid expenses	32,425	23,157
	18,502,230	19,361,935
Property and equipment (note 4)	7,617,992	7,064,158
	$ 26,120,222	$ 26,426,093
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 789,133	$ 1,052,499
Asset retirement obligations (note 5)	81,867	80,262
Shareholders' equity:		
Share capital (note 6)	31,429,218	31,190,593
Contributed surplus (note 6)	2,219,444	1,392,406
Deficit	(8,399,440)	(7,289,667)
	25,249,222	25,293,332
Commitments (note 9)		
	$ 26,120,222	$ 26,426,093

See accompanying notes to the financial statements

MADALENA VENTURES INC.

Statements of Operations and Deficit (unaudited)

	Three months ended March 31, 2007	Restated Three months ended March 31, 2006
Revenue:		
Petroleum and natural gas	$ 145,408	$ -
Royalties	(22,000)	-
	123,408	-
Interest	190,056	26,520
	313,464	26,520
Expenses:		
Operating	54,217	-
General and administrative	393,023	89,033
Stock based compensation	823,391	913,526
Depletion, depreciation and accretion	152,605	-
	1,423,237	1,002,559
Loss before the undernoted	(1,109,773)	(976,039)
Gain on sale marketable securities (note 3)	-	27,588
Income (loss) from continuing operations	(1,109,773)	(948,451)
Loss from discontinued operations (note 3)	-	-
Net income (loss) for the period	(1,109,773)	(948,451)
Deficit - beginning of the period	(7,289,667)	(1,923,069)
Dividend paid in kind (note 3)	-	(29,710)
Deficit - end of the period	$ (8,399,440)	$ (2,901,230)
Net income (loss) per common share - basic and diluted		
Continuing operations	$ (0.01)	$ (0.06)
Discontinued operations (note 3)	$ -	$ -
	$ (0.01)	$ (0.06)
Weighted Average number of shares:		
Basic and diluted	106,598,713	17,002,471

See accompanying notes to the financial statements

MADALENA VENTURES INC.

Statements of Cash Flows (unaudited)

	Three months ended March 31, 2007	Restated Three months ended March 31, 2006
Cash provided by (used in):		
Operations:		
Net income (loss) for the period	$ (1,109,773)	$ (948,451)
Add (deduct) Items not involving cash:		
Gain on sale of marketable securities	-	(27,588)
Stock based compensation expense	823,391	913,526
Depletion depreciation and accretion	152,605	-
Loss from discontinued operations (note 3)	-	-
	(133,776)	(62,513)
Changes in non-cash working capital items (note 8)	112,150	179,401
	(21,627)	116,888
Discontinued operations:		
Net income (loss) from discontinued operations	-	-
Changes in non-cash working capital items (note 8)	-	-
	-	-
Financing:		
Issue of common shares	238,625	6,020,999
	238,625	6,020,999
Investing:		
Mineral Resource Properties	-	(18,184)
Property and Equipment	(701,188)	(1,162,874)
Change in non-cash working capital items (note 8)	(216,192)	-
	(917,379)	(1,181,058)
Change in cash and cash equivalents	(700,381)	4,956,829
Cash and cash equivalents, beginning of the period	19,059,715	1,753,204
Cash and cash equivalents, end of the period	$ 18,359,334	$ 6,710,033

See accompanying notes to the financial statements

1. Nature of business and basis of presentation

Madalena Ventures Inc. ("Madalena" or the "Company") is incorporated under the laws of the Province of Alberta. 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".

Presently, Madalena has limited production and therefore limited cash flow from operations. The Company currently relies on equity financing to pay for exploration activities and overhead expenses. Continuing operations and the recovery of property and equipment costs is dependent on Madalena's ability to identify commercial oil and gas reserves, generate profitable operations and access sufficient funds to complete development activities.

The unaudited interim financial statements of the Company are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), following the same accounting policies and using the same methods of computation as those set out in Note 2 to the audited financial statements of Madalena for the year ended December 31, 2006, except as noted below. The disclosures provided below are incremental to those included in the audited financial statements for the year ended December 31, 2006. Accordingly, these interim financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2006.

2. Significant accounting policies

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1506 "Accounting Changes", 1530 "Comprehensive Income", 3251 "Equity", 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Disclosure and Presentation", and 3865 "Hedges". Financial statements for prior periods have not been restated as a result of the adoption of these policies except as described below.

Accounting changes

On January 1, 2007 the Company adopted the new Canadian accounting standard for "Accounting Changes". The standard provides expanded disclosures for changes in accounting policies, accounting estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or when the change results in more relevant and reliable information. During the period ended March 31, 2007 there were no changes in accounting policies, or accounting estimates that have a material impact on the Company's financial statements.

The Company has applied the new standard for correction of errors to the comparative information for the three months ended March 31, 2006. The comparative information for the three months ended March 31, 2006 has been retrospectively restated to correct an error in the calculation of the Company's stock based compensation. The original calculation failed to reflect the correct vesting period for recognition of the stock based compensation expense. The following table provides information on the amount of the correction for the March 31, 2006 comparative information.

Restated March 31, 2006 amounts		Amount Reported For March 31, 2006	*Adjustments*		Adjusted Balance For March 31, 2006
Stock based compensation	$	2,744,135	(1,830,609)	$	913,526
Loss before the undernoted	$	(2,806,648)	1,830,609	$	(976,039)
Net income (loss) for the period	$	(2,779,060)	1,830,609	$	(948,451)
Deficit - end of period	$	(4,731,839)	1,830,609	$	(2,901,230)
Net income (loss) per common share - basic and diluted					
Continuing operations	$	(0.16)	(0.10)	$	(0.06)

Comprehensive income and equity

On January 1, 2007, the Company adopted the new accounting standards for "Comprehensive Income" and "Equity". The new standards require a separate statement of comprehensive income to be recorded separate from the income statement, and a separate category of accumulated comprehensive income in shareholder's equity on the balance sheet. The new statements of comprehensive income and accumulated comprehensive income include gains and losses arising from changes in the fair value of certain financial instruments. The application of this standard did not result in any comprehensive income or loss that is different from the Company's net income or loss for the period ended March 31, 2007.

Financial instruments

On January 1, 2007, the Company adopted the new accounting standards for "Financial Instruments – Recognition and Measurement", and "Financial Instruments – Disclosure and Presentation". The new standards require all financial instruments, including derivatives, to be included in the Company's balance sheet and measured, in most cases, at fair value upon initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans or receivables, or other financial liabilities. Financial assets and financial liabilities held-for-trading are measured at fair value with changes in the fair values recognized in net earnings. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Financial assets available-for-sale are measured at fair value with changes in the fair values recognized in other comprehensive income.

The Company's accounts receivable are classified as loans or receivables and are measured at amortized cost. Accounts payable are classified as other liabilities and are measured at amortized cost. Cash and cash equivalents includes cash deposited with recognized financial institutions which is classified as held-for-trading and measured at fair value.

The Company has invested cash in asset backed debt securities, which are included in cash and cash equivalents. The Company has designated these financial assets as held-for-trading at January 1, 2007 on the basis that the fair value of these instruments is readily measured by reference to traded market values published by chartered financial institutions, and the assets were not transferred to the Company in a related party transaction. The debt securities have been measured at fair value at March 31, 2007 by reference to quoted market prices. Changes in the fair value of these debt securities have been reflected in interest income in the Company's income statement for the period ended March 31, 2007. The Company's investment in debt securities is considered to be a regular way purchase and sale of a financial asset in accordance with contract terms which require the delivery of the financial asset within a time frame established by the market place. The Company has accounted for these financial assets using the settlement date method of accounting which recognizes the asset on the date it is received by the Company, and de-recognizes the asset and recognizes any gain or loss on disposal on the day it is delivered by the Company. The Company had no transaction cost related to any of its financial instruments.

Hedging

The Company is exposed to market risks resulting from fluctuations in commodity prices in the normal course of its business. The Company may (but has not to date) use commodity contracts to manage to manage these exposures. The Company has reviewed the new Canadian accounting standard for "Hedges" and has determined that the Company has no derivative instruments to which the new standard would apply.

3. Plan of arrangement and discontinued operations

In March of 2006, the Company distributed its' mineral exploration business, and certain marketable securities associated with the business, to a related company under a plan of arrangement ("the Plan"). The Plan 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 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 using the continuity of interest method of accounting. Under this method, the accounting basis of the assets distributed under the plan of arrangement was removed from Madalena's balance sheet in 2006 and charged to retained earnings. The accounting basis of the assets removed from the balance sheet and charged to retained earnings during 2006 was $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 Company has calculated a loss from discontinued operations in the amount of $ nil for the period ended March 31, 2007 and the comparative period ended March 31, 2006. $58,662 was calculated as the loss from discontinued operations for the year ended December 31, 2006.

4. Property and equipment

		March 31, 2007		December 31, 2006
Canadian petroleum and natural gas properties	$	9,892,372	$	9,223,341
Argentina development Costs		505,525		490,149
Tunisia development Costs		60,922		41,286
Furniture, equipment & leaseholds		97,945		97,153
		10,556,763		9,851,929
Accumulated depletion		(2,915,341)		(2,768,341)
Accumulated depreciation		(23,431)		(19,430)
Net book value	$	7,617,992	$	7,064,158

At March 31, 2007 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 $31,365 and $3,646, respectively that were directly related to exploration and development activities have been capitalized for the three months ended March 31, 2007. $502,381 of general and administrative expenses and $28,781 of stock based compensation was capitalized for the year ended December 31, 2006. The depletion calculation included future development costs of proved reserves of $326,000 (2006 - $472,000).

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 March 31, 2007, 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:

		March 31, 2007		December 31, 2006
Balance, beginning of the year	$	80,262	$	-
Accretion expense		1,605		5,945
Obligations incurred				74,317
Balance, end of period	$	81,867	$	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, 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 exercised	477,250		290,325
Balance, March 31, 2007	106,868,699	$	28,939,218
Warrants			
Balance, December 31, 2006	-		2,541,700
Warrants exercised	-		(51,700)
Balance, March 31, 2007	-	$	2,490,000
Total March 31, 2007	106,868,699	$	31,429,218

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 shares 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 period ended March 31, 2007:

	Number of Options	Weighted Average Exercise Price ($)
Stock options outstanding, December 31, 2006	8,400,000	0.59
Re-distributed	1,000,000	0.12
Relinquished	(1,000,000)	(0.12)
Stock options outstanding, March 31, 2007	8,400,000	0.59
Stock options exercisable, March 31, 2007	4,000,000	0.45

In January of 2007, a director of the company relinquished 1,000,000 fully vested options to acquire common stock at $0.12 per share which were re-distributed equally to two other directors of the Company under the same terms and conditions. The stock based compensation associated with the relinquished options remains in contributed surplus and additional stock based compensation of $678,800 was expensed in the first quarter to reflect the fair value of the re-distributed options.

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	3.52	1,500,000
$0.41	300,000	3.75	300,000
$0.66	4,300,000	3.91	1,633,333
$0.73	1,100,000	3.98	566,667
$0.85	1,200,000	4.55	-
	8,400,000	3.93	4,000,000

Stock based compensation and contributed surplus

The fair value of options are estimated using the Black-Scholes option pricing model, at grant date for directors, officers and employees, and at measurement date for consultants using the following weighted average assumptions.

	March 31, 2007	December 31, 2007
Expected life (in years)	4.0	4.8
Risk-free interest rate (%)	4.1	4.1
Volatility (%)	50	50
Fair value of options	$ 0.29	$ 0.33

The Company records stock based compensation expense using the fair value method over the vesting period of the options with a corresponding increase to contributed surplus. The following table provides a summary of the stock based compensation and the Company's contributed surplus.

		March 31, 2007
Balance, beginning of the period	$	1,392,406
Stock based compensation expensed		823,392
Stock based compensation capitalized		3,646
Exercise of stock options		-
Balance, end of the period	$	2,219,444

Warrants

The Company issued the following warrants to shareholders and listing agents during 2006 and 2007.

Date Issued	Expiry Date	Number of Common Shares	Price ($)
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
		15,186,940	

The following table summarizes the warrant activity during for the period ended March 31, 2007.

	Number		Amount		Weighted Average Exercise Price
Balance, December 31, 2006	15,071,690	$	13,394,690	$	0.89
Converted to common stock	(477,250)		(238,625)		0.50
Expired	(7,500)		(3,750)		0.50
Balance, March 31, 2007	14,586,940	$	13,152,315	$	0.90

7. 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. Revenues and expenses of the Company are all earned in Canada.

As at March 31, 2007		Canada		Argentina		Tunisia		Total
Property and equipment	$	669,823	$	15,490	$	15,875	$	701,188
Total Assets	$	25,516,775	$	505,525	$	60,922	$	26,083,222

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

8. Supplemental cash flow information

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

		Three months ended March 31, 2007		Three months ended March 31, 2006
Accounts receivable	$	168,592	$	(105,144)
Prepaid expenses and deposits		(9,268)		(23,958)
Accounts payable and accrued liabilities		(263,366)		308,503
Change in non cash working capital	$	(104,042)	$	179,401
Attributable to:				
Operating activities	$	112,150	$	179,401
Discontinued operations		-		-
Investing activities		(216,192)		-
	$	(104,042)	$	179,401

9. 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:

2007	$	89,359
2008		119,145
2009		119,145
2010		59,573
Total	$	387,223

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

10. Financial instruments

Fair value of financial instruments:

The Company's financial instruments consist of cash, asset backed debt securities, guaranteed investment certificates, accounts receivable, accounts payable, and accrued liabilities. At March 31, 2007, the carrying value of the cash, guaranteed investment certificates, accounts receivable, accounts payable, and accrued liabilities, approximated their fair value due to their short-term nature. The Company has no bank indebtedness.

The Company has designated its investments in asset backed debt securities, which are included in cash and cash equivalents, as held-for-trading financial assets at January 1, 2007. The fair value of these assets has been determined at March 31, 2007 based on trading prices for these instruments. The following table provides information on the fair value, carrying value, maturity value, maturity date, and interest yield of the asset backed debt securities at March 31, 2007. The increase in fair value has been recorded as interest income in the statement of operations for the period ended March 31, 2007.

Asset backed securities As at March 31, 2007	Cost	Maturity Value	Yield	Fair Value at March 31, 2007	Interest Income
Ridge Trust discount note due April 18, 2007	$ 5,060,122	$ 5,098,000	4.27%	$ 5,086,504	$ 26,382
Care Trust discount note due May 2, 2007	3,577,776	3,592,000	4.27%	3,577,830	54
Stars Trust discount note due May 7, 2007	7,583,298	7,644,000	4.27%	7,629,129	45,831
	$ 16,221,196	$ 16,334,000		$ 16,293,462	$ 72,267

Interest rate risk

The Company is exposed to interest rate risk to the extent of interest rate fluctuations compared to fixed interest associated with the interest yield on its asset backed debt securities. Fluctuations in interest rates at maturity could affect future interest income.

Credit risk

Virtually all of the Company's accounts receivable 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.

The Company's investments in asset backed debt securities are subject to credit risk to the extent that the issuing entity is unable to repay the discount note. The Company mitigates this credit risk by entering into transactions with major institutions with investment grade credit ratings. The Dominion Bond Rating Service has rated all of the Company's asset backed securities as R-1high (AAA).

Commodity price contracts

The Company had no derivative financial instruments during the March 31, 2007 fiscal period.

Foreign currency exchange risk

The Company had no foreign exchange exposures at March 31, 2007.

11. 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 March 31, 2007 the Company has accounts payable due to this joint venture partner of $271,943 (December 31, 2006 - $858,625).

The Company utilizes the services of a law firm in which one of the directors is a partner. During the year period ended March 31, 2007 the Company expended $55,500 ($108,883 for the year ended December 31, 2007) on services obtained from this firm.