

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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The following management's discussion and analysis ("MD&A") is dated November 25, 2010 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Petromanas Energy Inc. (the "Company"), formerly WWI Resources Ltd. for the three and nine months ended September 30, 2010 and the audited financial statements and MD&A for the year ended December 31, 2009.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or at [www.petromanas.com](http://www.petromanas.com).

The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

## **Forward-Looking Statements**

Certain statements contained in this MD&A are forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", or the negative of these terms or other comparable terminology. In addition, statements relating to reserves or resources are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described can be profitably produced in the future.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- Our expectations regarding our cost structure.
- Factors upon which we will decide whether or not to undertake a specific course of action.
- Our expectations regarding our ability to raise capital or bank debt and the currency of any such capital or bank debt.
- The sale, farming-in, farming-out or development of certain exploration properties.
- The realization of anticipated benefits of acquisitions and dispositions.
- Our expectations regarding our ability to obtain certain government and regulatory approvals.
- Our expectations regarding tax treatment under foreign government taxation regimes.
- Our expectations regarding our cash requirements and funding for the next year.
- Our corporate strategies, the criteria to be considered in connection therewith and the benefits to be derived therefrom.

The Company's actual results could differ materially from those anticipated in these forward-looking statements.

Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will prove inaccurate. Certain of these risks are beyond our control, including: political instability in the countries in which we operate, the impact of general economic conditions in the areas in which we operate, civil

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

---

unrest, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. In addition there are risks and uncertainties associated with oil and gas operations.

## **Company Overview**

Petromanas Energy Inc. is a junior oil and gas exploration company engaged in the acquisition and exploration of oil and gas properties. As of the date of this report, the Company's core area of interest is in Albania.

The Company was originally incorporated under the Business Corporations Act (Alberta) on March 6, 1998 and its shares are listed for trading on the TSX Venture Exchange under the symbol PMI.

On February 24, 2010, the Company completed the acquisition from DWM, a wholly-owned subsidiary of Manas Petroleum Corporation, of all of the issued and outstanding securities of Manas Adriatic GmbH ("Manas Adriatic"), which holds a 100% interest in three onshore oil and gas production sharing contracts containing six licenses located in Albania.

As consideration for the acquisition, the Company paid DWM \$3,689,181, including acquisition costs of \$357,868 and issued 200,000,000 common shares to DWM. 100,000,000 common shares were issued into escrow at the closing date and the remaining 100,000,000 common shares were issued into escrow on May 26, 2010 with a restricted hold period expiring June 24, 2011. 50,000,000 shares have been released from escrow of which 25,000,000 continue to have the restricted hold period. The Company also issued 8,000,000 common shares as a finder's fee related to the acquisition. The Company also advanced Manas Adriatic \$8,774,550 to settle its outstanding debt to DWM.

The Company may be required to issue an additional 50,000,000 shares to DWM upon the achievement of certain goals on or before the expiration of ten years from the closing date:

1. 25,000,000 common shares upon receipt of a report prepared pursuant to National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" confirming that the Licenses have proven and probable ("2P") reserves of not less than 50,000,000 barrels of oil equivalent ("boe"); and
2. Upon Manas Adriatic being in receipt of a report prepared pursuant to National Instrument 51-101 confirming that the Licenses have 2P reserves in excess of 50,000,000 boe. For each 50,000,000 boe over and above the initial 50,000,000 boe, an additional 500,000 common shares will be issued to a maximum of 25,000,000 common shares.

In connection with the acquisition, on February 24, 2010, the Company closed a private placement of 100,000,000 units at a price of \$0.25 per unit for gross proceeds of \$25,000,000. Each unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase a further common share at a price of \$0.45 per share for a period of 5 years expiring February 23, 2015. Share issuance costs for the private placement were \$1,304,703.

On May 27, 2010 the Company closed a private placement, which consisted of 187,500,000 units at a price of \$0.40 per unit for gross proceeds of \$75,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

---

holder to acquire one additional common share of the Company at a price of \$0.60 per share on or before May 26, 2012.

## **Albanian Licenses**

In December 2007, Manas Adriatic was granted two production sharing contracts (PSCs) by the Ministry of Economy, Trade and Energy of Albania; one of which covers licenses for the areas referred to as Blocks A and B, and one of which covers licenses for the areas referred to as Blocks D and E.

In July 2009, Manas Adriatic was granted another production sharing contract by the Ministry of Economy, Trade and Energy of Albania covering the licenses for the areas referred to as Blocks 2 and 3.

These production sharing contracts set out minimum work and expenditure requirements for three phases that must be complied with in order to maintain exploration rights. Failure to comply with the work and financial requirements in any one phase would lead to the termination of the exploration rights on that specific contract. After each phase, the Company has the option to either continue or relinquish the exploration rights.

### **Blocks A-B-D-E**

The two production sharing contracts comprised of Blocks A, B, D, and E cover approximately 3,100 km<sup>2</sup> (or approximately 766,000 acres). Under the original agreements, completion of the three phases is set to take seven years and will require minimum expenditures of US \$15,620,000 over the life of each of the two contracts.

#### ***Blocks A-B***

The Company has completed its work commitment for phase 1, which required geological and geophysical studies, re-processing of at least 200 km of seismic data and the acquisition and processing of either 190 km of 2D seismic, or the drilling of an exploration well to a depth of at least 3,000 meters.

To date, the Company has completed geological and geophysical studies, re-processed a total of 328 km of 2D seismic, acquired and processed 190 km of 2D seismic, as well as completed mapping and volumetrics.

#### ***Blocks D-E***

The Company has completed its work commitment for phase 1, which requires geological and geophysical studies, re-processing of at least 200 km of seismic data and the acquisition and processing of either 105 km of 2D seismic, or the drilling of an exploration well to a depth of at least 3,000 meters.

To date, the Company has completed geological and geophysical studies, re-processed a total of 334 km of 2D seismic, acquired 136.5 km of 2D seismic as well as completed mapping and volumetrics. Processing of the new seismic is currently in progress.

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

Remaining commitments for Blocks A-B and D-E are as follows:

License	Phase 1 2010		Phase 2 2011-2012		Phase 3 2013 – 2014	
	US \$	CAD \$ Equivalent	US \$	CAD \$ Equivalent	US \$	CAD \$ Equivalent
Block A&B	-	-	6,300,000	6,485,220	6,300,000	6,485,220
Block D&E	-	-	6,300,000	6,485,220	6,300,000	6,485,220

The majority of the seismic work was carried out with heliportable rigs. This new seismic data will improve the quality of the existing prospect data, and hence increase the chances of success of the exploration program.

## Blocks 2-3

The production sharing contract comprised of Blocks 2 and 3 covers approximately 3,439 km<sup>2</sup> (or approximately 849,795 acres). Under the original agreements, completion of the three phases is set to take seven years and will require minimum expenditures of US \$25,100,000. The Company has until July 30, 2012 to complete the phase 1 requirements of Blocks 2 and 3.

The phase 1 minimum work and financial program requires the undertaking of a minimum of \$400,000 in geological and geophysical studies, the re-processing of 150 km of seismic data at a minimum cost of \$100,000 and drilling of an exploration well to a depth of at least 4,000 meters at a minimum cost of \$8,000,000 or until the Carbonates of the Eocene or Cretaceous is reached, whichever first occurs.

Remaining commitments for Blocks 2-3 are as follows:

	Phase 1 August 2010 – July 2012		Phase 2 August 2013 – July 2014		Phase 3 August 2015 – July 2016	
	US \$	CAD \$ Equivalent	US \$	CAD \$ Equivalent	US \$	CAD \$ Equivalent
Block 2&3	8,500,000	8,749,900	8,300,000	8,544,020	8,300,000	8,544,020

The Company is currently acquiring 128 km of 2D seismic. All operating licenses and permits have been received and the contractor's personnel and equipment are on site. Geological and geophysical studies are in progress. The majority of the seismic work will be carried out with heliportable rigs and the remainder through conventional shallow drilling rigs. This new seismic data will improve the quality of the existing prospect data, and hence increase the chances of success of the exploration program. The phase 1 commitment well is anticipated to be drilled in early to mid-2012.

## Outlook

The Company is currently developing its exploration program on the Albanian properties while continuing to seek additional opportunities in the oil and gas industry. The Company has notified the Albanian government of its intent to enter into the second exploration period (2 year term) of the PSC's for Block A-B and D-E effective December 25, 2010 requiring a well to be drilled under each PSC by December 25, 2012.

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

---

During the fourth quarter of 2010 and the first quarter of 2011, the Company is planning to complete the seismic program on Block 2 and 3. This is to further refine the geological models of the Shpiragu, South Shpiragu and Krasi prospects based on seismic data acquired by previous exploration activities. As a major part of this area is mountainous, the Company is planning to apply conventional seismic techniques with helicopter support. The Company will utilize the new seismic data to evaluate options for drill locations in the blocks.

## Results of Operations

For the three and nine months ended September 30, 2010 and 2009, the Company recorded no revenues.

The Company had a net loss of \$8,875,030 for the nine months ended September 30, 2010 compared to a net loss of \$242,572 for the nine months ended September 30, 2009. For the three months ended September 30, 2010, the Company had a net loss of \$2,191,829, compared to a net loss of \$40,895 in the comparable period in 2009.

The Company's most significant expenses, excluding currency translation adjustments, were as follows:

	For the three months ended September 30	
	2010	2009
<b>Expenses</b>		
Salaries and benefits	\$785,911	\$ -
Professional and advisory fees	200,754	27,720
Office and administration	140,074	3,057
Depreciation	5,170	-
Regulatory, transfer agent and listing fees	44,319	3,398
Stock-based compensation	801,419	-
Travel and accommodation	74,417	27,374

	For the nine months ended September 30	
	2010	2009
<b>Expenses</b>		
Salaries and benefits	\$1,278,753	\$ -
Professional and advisory fees	586,948	72,274
Office and administration	258,267	9,194
Depreciation	10,796	-
Regulatory, transfer agent and listing fees	79,305	14,393
Stock-based compensation	6,850,668	212,524
Travel and accommodation	223,944	27,374

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

---

In the first nine months of 2010 salaries and benefits increased from \$ Nil to \$1,278,753 for the same period of 2009. Due to the acquisition of Manas Adriatic, the Company had eleven employees on the payroll as of September 30, 2010 as opposed to nil at September 30, 2009. The executive team was augmented by the new CEO and CFO in September and severance costs of approximately \$430,000 were incurred.

Professional and advisory fees increased in the first nine months of 2010 to \$586,948 from \$72,274 for the first nine months of 2009. This increase is a result of increased operating activity related to the new core business of the Company.

Stock-based compensation for the first nine months of 2010 amounted to \$6,850,668. In connection with the completion of the acquisition of Manas Adriatic, the Company granted 24,000,000 options to directors, officers, employees of the Company, consultants and charitable organizations. An additional 7,250,000 options were granted during the third quarter to the new officers and a new director of the Company. For the first nine months of 2009 stock-based compensation expense was \$212,524, of which \$119,288 related to a grant of 1,000,000 stock options and \$93,236 related to a repricing of 3,350,000 stock options.

For the nine months period ended September 30, 2010 expenses for travel and accommodation increased to \$223,944 compared to \$27,374 for the comparable period of the previous year due to travel to Albania by the new executive team and expenditures related to the acquisition of Manas Adriatic and the two private placements.

The restricted cash for the Albanian work program is held in US dollars. The fluctuations in the US dollar resulted in a foreign exchange gain of \$482,523 during the nine month period ended September 30, 2010, compared to \$nil in the comparable period in 2009.

## **Financial Position Information**

Total assets increased from \$5,444,521 at December 31, 2009 to \$169,971,146 at September 30, 2010. The increase in assets was mainly due to the proceeds of the first private placement of \$25,000,000, the newly acquired oil and gas interests valued at \$82,562,006 and the second private placement of \$75,000,000.

## **Liquidity**

As of September 30, 2010 the Company had cash and cash equivalents of \$71,441,249 compared to \$439,988 as of December 31, 2009.

An additional \$10,101,035 was deposited as a security to the Albanian government, which will be released gradually upon completion of the respective phases of the work programs. \$1,351,135 of this pledged amount is expected to be released by the end of 2010 with the completion of phase 1 in Block D and E.

The Company has sufficient cash to settle outstanding liabilities and to complete the previously described exploration and development programs.

The Company has no bank debt or banking credit facilities in place.

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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## **Related Party Transactions**

During the nine months ended September 30, 2010, the Company incurred management fees of and other charges of \$140,047 (2009 - \$Nil) to Manas Petroleum Corporation, which is a significant shareholder of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **Outstanding Share Data**

As at the date of this report, there were 621,381,466 common shares issued and outstanding.

As at the date of this report, there were 32,650,000 stock options and 208,750,000 warrants outstanding.

## **Critical Accounting Policies and Estimates**

### ***(a) Principles of consolidation***

The unaudited interim consolidated financial statements include the accounts of the Company and its subsidiary companies. The Company consolidates the operations of its wholly owned subsidiary Manas Adriatic GmbH. Intercompany transactions and resulting balances with the Company's subsidiaries have been eliminated.

The Company has no interest in entities other than its wholly owned subsidiary Manas Adriatic GmbH.

### ***(b) Use of estimates***

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Significant estimates used in the preparation of these interim consolidated financial statements include, but are not limited to, the recoverability of property and equipment, income taxes and fair value of stock-based compensation.

### ***(c) Property and equipment***

The Company follows the full cost method of accounting for oil and gas operations whereby all costs incurred in connection with the acquisition, exploration for and development of oil and gas reserves, including certain overhead and dry-hole expenditures are capitalized and accumulated by cost centers on a country-by-country basis. Such capitalized amounts include land acquisition costs, geological and geophysical expenditures, cost of drilling both productive and non-productive wells, gathering and production facilities and equipment, and overhead expenses directly related to exploration and development activities.

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

---

## ***(d) Impairment assessment***

The Company defers expenditures related to the acquisition, exploration and development of its exploration properties. If an exploration property is abandoned, continued exploration is not planned in the foreseeable future or when other events and circumstances indicate that the carrying amount may not be recovered, the accumulated costs and expenditures are written down to estimated fair value. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. Development projects include those projects where development alternatives are in progress and/or studies have been completed suggesting that the properties are economically viable. The Company reviews the carrying amount of development projects when events or circumstances suggest that the carrying amount may not be recoverable.

Indications that the net carrying amount of the capitalized costs on the exploration properties may not be recovered would include when:

- Exploration activities have ceased;
- Exploration results are not promising such that exploration will not be planned for the foreseeable future;
- Lease ownership rights expire;
- Sufficient funding is not expected to be available to complete the exploration program; or
- Other indications of impairment exist.

Oil and Gas properties and related expenditures are recorded at cost. These net costs are deferred until the properties to which they relate are placed into production, sold or abandoned. The costs will be amortized using the unit-of-production method over the proved crude oil and natural gas reserves of the properties following the commencement of production or written off, if the properties are sold, impaired or abandoned.

## ***(e) Asset Retirement Obligation***

Asset retirement costs and liabilities associated with site restoration and abandonment of long lived assets are initially measured at fair value which approximates the cost a third party would incur in performing the tasks necessary to retire such assets. Such costs are capitalized as part of the cost of oil and gas properties and amortized to expense through depletion over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as accretion expense in the statement of operations. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flow is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset.

At September 30, 2010, the Company has only performed preliminary exploratory work on its oil and gas properties, and has not incurred significant reclamation obligations. As such, no asset retirement obligation accrual has been made in these consolidated financial statements.

## ***(f) Foreign currency translation***

The measurement currency of the Company and its foreign operations is the Canadian dollar and therefore the operating results of the Company's foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date, non-monetary assets denominated in foreign currencies and measured at other than fair value are translated using the rates of exchange at the transaction dates, non-monetary

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

---

assets denominated in foreign currencies that are measured at fair value are translated using the rates of exchange at the dates those fair values are determined and revenue and expenses are translated at the exchange rate in effect on the date they occur. Depreciation or amortization of assets translated at historical exchange rates is translated at the same exchange rate as the assets to which it relates.

Foreign exchange gains and losses from transactions denominated in currencies other than the functional currency are included in operations. Unrealized gains and losses due to movements in exchange rates on cash and cash equivalent balances held in foreign currencies are shown separately on the consolidated statements of cash flows.

## ***(g) Restricted cash***

Cash that is subject to restrictions that limit its use to specified current purposes is classified as restricted cash in current assets. Cash that is subject to restrictions that limit its use to specified non-current purposes is classified under restricted cash in non-current assets.

## **Recent Accounting Standards Not Yet Effective**

### **Business Combinations**

In December 2008, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replace CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. The Company chose to early adopt Sections 1582, 1601 and 1602 effective January 1, 2010. The adoption of these sections did not have an impact on the unaudited interim consolidated financial statements.

### **International Financial Reporting Standards (“IFRS”)**

In February 2008 the Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company's first mandatory filing under IFRS, which will be the first quarter of 2011, will contain IFRS-compliant information on a comparative basis, as well as reconciliations for that quarter and as at the January 1, 2010 transition date.

Due to the early stage of the Company's operations, the changeover to IFRS is not as complex as it would be had the Company developed a long history of operation under Canadian GAAP. There will, however, be some implications on accounting, financial reporting, information technology and business systems. Consequently, senior management will utilize external consultants as necessary to provide assistance in considering various accounting policy decisions which will be required throughout the transition period. Company personnel involved with the transition project have also received appropriate training and education.

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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The Company expects the following areas to be significantly affected by its transition to IFRS:

- **Property and equipment**  
Under IFRS, the Company will be required to apply componentization concepts to its property and equipment, and will be required to perform an annual review of the estimates of useful life, residual value, depreciation methods, in addition to the annual review for impairment. The Company expects to use only the historical cost accounting method to value its assets under IFRS.
- **Impairment of assets**  
The Company will be required under IFRS to perform an annual assessment of impairment for all long-lived assets, whether or not there are indications of impairment. If the assessment is done using a cash flow model, the use of discounted cash flows is required in order to calculate the asset's carrying value. IFRS also permits the reversal of impairments for long-lived assets in certain circumstances, which could lead to increased volatility in the recognition of impairments as compared with Canadian GAAP.
- **Foreign currency transactions**  
The Company currently translates its integrated foreign subsidiaries into Canadian dollars using the temporal method, whereby monetary assets and liabilities are translated using the current rate method, non-monetary assets are translated at historical exchange rates, with resulting foreign exchange differences shown in earnings. Under IFRS, the functional currency for Petromanas and its subsidiary is expected to be US dollars and all transactions will be converted to US dollars at the rate in effect at the date of the transactions. Monetary assets and liabilities will be translated at the rate in effect on the financial statement date.
- **Stock-based compensation**  
Under IFRS, the Company will be required to estimate the percentage of options that are expected to vest, which could alter the expense that is to be applied over the vesting period. At the end of each period, the Company will then assess the actual number vested as compared to the estimated number vested and adjust the expense as required. In addition, there may be some small measurement differences under IFRS that will need to be considered.
- **Presentation and disclosure**  
The overall presentation and disclosure of the Company's financial statements will change under IFRS, as a result of implementing the IFRS presentation and disclosure requirements. These changes could result in significant differences in the presentation of the Company's statement of cash flows, balance sheet and statement of operations. In addition, it is expected that the Company will have additional disclosures in the notes to the consolidated financial statements in order to comply with the requirements of IFRS.
- **Taxes**  
The Company expects the accounting for income taxes to differ in some areas and continues to assess the impact of accounting for income taxes under IFRS.

During the remainder of 2010 and the first quarter of 2011, the Company will complete the next phase of the transition project. Full implementation of IFRS will be completed on time for first quarter reporting as required by the Canadian Securities Administrators. Management is currently developing recommendations for IFRS policy decisions which are based on appropriately documented consideration of the following factors:

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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- Impact on financial and key performance indicators;
- Impact on information technology and systems;
- Impact on the internal control and disclosure control frameworks;
- Transition and maintenance costs; and
- Other general business impacts.

## ***Transition balance sheet***

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. Adjustments that arise on retrospective conversion to IFRS from other GAAP are recognized directly to retained earnings. However, certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1.

Management has conducted a preliminary detailed analysis of IFRS 1, 6, and 16 and has identified the impact of the available policy alternatives to the Company's financial reports. Upon management discussion and approval of the recommendations from the IFRS project team, the recommendations will be submitted to the Audit Committee for approval and to the Company's external auditors for review. Management expects to internally approve the Company's transition balance sheet and accounting policies governing accounting for oil and gas assets prior to the end of 2010.

The Company has not formally approved specific IFRS policies and consequently has not quantified the impact of such policies on individual elements of the financial statements. As the Company adopts IFRS policies, management will quantify the impact of these policies on the financial statements.

Implementation of the necessary changes to business process, financial systems and accounting policies will also be executed as policy choices are finalized.

The Company has begun assessing whether the transition to IFRS will have an impact on business activities. While management has not identified any instances where IFRS would have major implications on existing contractual arrangements or other business activities, formal conclusions on this matter have not been completed.

In respect of information technology systems implications, management has concluded that systems in place are sufficient to enable the IFRS transition

## **Business Risks and Uncertainties**

The Company's business is subject to risks inherent in oil and gas exploration and development operations. In addition, there are risks associated with the current and future operations in foreign jurisdictions in which the Company's subsidiaries operate. The Company has identified certain risks pertinent to its business including:

- a) Exploration and Reserve Risk** - Exploration, appraisal and development of oil and gas reserves are speculative and involve a significant degree of risk. There can be no assurances that exploration or appraisal of the properties in which the subsidiaries hold rights will be successful.
- b) Drilling and Operating Risk** - Exploration and development activities may be delayed or adversely affected by factors beyond the control of the Company. These include adverse climate conditions, availability of materials and competent labor to perform services and

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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compliance with current and future government regulations. Drilling may result in dry holes or wells that do not produce sufficiently to justify commercial production. Delays in drilling from such conditions can increase drilling expenditures.

- c) **Costs and Availability of Materials and Services** – The Company may face difficulties in obtaining adequate materials and services at an economical price in the region in which it operates.
- d) **Environmental Risk** – The oil and gas industry is subject to extensive environmental regulations within the jurisdictions in which it operates. The Company regularly discusses environmental practices to ensure regulatory compliance is maintained. The Company believes it fully complies with existing regulations; however, it cannot predict any changes to existing regulations and the impact they could have on the Company.
- e) **Capital Markets and the Requirement for Additional Capital** - The Company's main source of financing has been through the capital markets. The Company currently has access to sufficient capital to finance future operations; however, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.
- f) **Loss of or Changes to Production Sharing or Related Agreements** – The Company and its subsidiaries are subject to changes in product sharing or related agreements that could have a positive or negative impact on operations. Management will accept changes that are in the best interests of the Company and its subsidiaries.
- g) **Economic, Political and Legal Risk** – The Company's exploration activities are in foreign jurisdictions and as such, may be subject to economic, social and/or political risks including, but not limited to, terrorism, revolution, hyperinflation, change of laws affecting existing programs or foreign ownership, government participation, taxation, profit repatriation, working conditions, exploration licensing and petroleum export licensing and export duties. Some of the jurisdictions in which the Company operates have a less developed legal system than jurisdictions with more established economies which may result in risks such as: (i) effective legal redress in the courts of such jurisdiction, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint ventures, licenses, license applications or other such legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness and enforcement of such arrangements in this jurisdiction cannot be assured.
- h) **Market Risk** – In the event of successful development of oil and gas reserves, the marketing of the Company's subsidiaries' prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including roads, access to ports, shipping facilities, pipelines and the pipeline capacity at economic tariff rates which the Company's subsidiaries may have limited or no control.
- i) **Volatility of Future Oil and Gas Prices** - The demand for, and price of, oil and gas is highly dependent on a variety of factors beyond the control of the Company, such as international supply and demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue similar patterns going forward. The changes in these commodity prices will have an effect on future earnings as well as impact future business decisions in determining what programs to proceed with. The Company has not entered into any forward contracts to protect itself from fluctuations in oil and gas prices as it has not had any production revenue to date.

- j) **Foreign Currency Risk** – The Company's operations are exposed to fluctuations in foreign currency exchange rates. Variations in the foreign currency exchange rates could have a significant positive or negative impact. The Company manages its foreign currency exchange risk by maintaining foreign currency bank accounts and receivable accounts to offset foreign currency payables and planned expenditures. The Company does not engage in hedges to protect itself further from foreign currency exchange rate fluctuations.
  
- k) **Dependence on Key Personnel** – The Company relies extensively on the expertise of specific management personnel. The loss of key personnel could have a materially adverse effect on the Company.

## Financial Instruments and Other Instruments

### Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, restricted cash, receivables and accounts payable and accrued liabilities.

Cash and cash equivalents, restricted cash and short-term investments are designated as held-for-trading and therefore carried at fair value, with the unrealized gain or loss recorded in interest income. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The fair values of cash and cash equivalents, restricted cash, short-term investments, receivables, accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

### Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

#### *Credit Risk*

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk is on its cash and cash equivalents and restricted cash. The Company reduces its credit risk by maintaining its bank accounts at a large international financial institution. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

#### *Foreign currency risk*

The Company faces foreign currency risk arising from the wholly owned subsidiary's functional currency being denominated in US dollars. A substantial portion of our cash balance is

# **PETROMANAS ENERGY INC.**

**(Formerly WWI Resources Ltd.)**

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

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denominated and restricted in US dollars for setting up the bank guarantee for the work program to the Albanian government.

At September 30, 2010, the Company had restricted cash and cash and cash equivalents denominated in United States dollars of \$10,937,829 (2009 - \$nil). At September 30, 2010, with other variables unchanged, a 1% movement in the Canadian dollar against the United States dollar would impact the net loss by approximately \$109,000 on an annualized basis (2009 - \$nil).

The Company also has transactional currency exposure, as a significant portion of budgeted expenditures will be settled in currencies other than the Company's functional currency.

The Company manages this risk by actively monitoring forecasts of the currency market and shifting the currency holdings accordingly.

## *Liquidity Risk*

As of September 30, 2010, the Company does not hold short-term investments, and invests cash in business accounts and term deposits which are available on demand.

## *Market Risk*

The only significant market risk to which the Company is exposed is interest rate risk. The Company's bank accounts and term deposits earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

## **Management's Report on Internal Control over Financial Reporting**

In connection with National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

## **Subsequent Events**

Subsequent to quarter end, former employees and consultants of the Company exercised 2,000,000 stock options for total proceeds to the Company of \$600,000.

On November 19, 2010, the Board of Directors of the Company passed a resolution to change the name of its wholly owned subsidiary, Manas Adriatic GmbH to Petromanas Albania GmbH.

# PETROMANAS ENERGY INC.

(Formerly WWI Resources Ltd.)

Management's Discussion and Analysis

For the three and nine months ended September 30, 2010

## Selected Quarterly Information

The following is a summary of selected financial information for the Company for the periods indicated. The Company currently has no revenue to offset its expenses. The Company's expenses are more fully described in Results of Operations.

	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Interest income	\$99,542	\$282	\$9,639	\$5,635
Net loss for the period	<u>\$(2,191,829)</u>	<u>\$(442,658)</u>	<u>\$(6,240,542)</u>	<u>\$(33,637)</u>
Basic and diluted earnings (loss) per share	<u>\$(0.00)</u>	<u>\$(0.00)</u>	<u>\$(0.03)</u>	<u>\$(0.00)</u>

  

	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Interest income	\$20,654	\$36,326	\$36,207	\$37,967
Net earnings (loss) for the period	<u>\$(40,895)</u>	<u>\$6,641</u>	<u>\$(208,318)</u>	<u>\$2,133</u>
Basic and diluted earnings (loss) per share	<u>\$(0.00)</u>	<u>\$0.00</u>	<u>\$(0.00)</u>	<u>\$0.00</u>

## Additional Disclosure for Venture Issuers without Significant Revenue

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. In accordance with National Instrument 51-102, additional disclosure is presented below:

	Nine month Period Ended September 30, 2010				Nine month Period Ended September 30, 2009			
	Total	Block A-B	Block D- E	Block 2- 3	Total	Block A- B	Block D- E	Block 2-3
Overhead related to exploration activities	\$277,184	53,504	90,589	133,091	\$-	-	-	-
Capitalized exploration costs	<u>5,621,031</u>	56,347	5,084,555	480,129	<u>-</u>	-	-	-
Total capitalized exploration costs	<u>\$5,898,215</u>				<u>\$-</u>			