The following management's discussion and analysis ("MD&A") is dated November 14, 2011 and should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes of Petromanas Energy Inc. (the "Company"), for the three and nine months ended September 30, 2011.

All currency references are to United States dollars unless otherwise specifically indicated. References to "CAD $" are to Canadian dollars. The purpose of this MD&A is to provide readers the ability to view Petromanas in much the same way as Company management. The following combination of historical and prospective information and financial and business analyses, together with the condensed consolidated financial statements, are intended to impart useful knowledge to investors and other readers.

References in text or tables throughout this document to "2011", "2010", and "2009" refer to the years ended December 31, 2011, 2010 and 2009, respectively. References in text or tables labeled "Q4", "Q3", "Q2" and "Q1" refer to the three month periods ended December 31, September 30, June 30 and March 31, respectively, of the year indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com or at www.petromanas.com.

Changes in Accounting Policies

On January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2010. The financial statements for the three and nine months ended September 30, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, First-time Adoption of International Financial Reporting Standards, and with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("CGAAP").

Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. The adoption of IFRS has not had an impact on the Company's operations, cash flows or strategic decisions. Further information on the IFRS impacts is provided in the Changes in Accounting Policies Section of this MD&A.

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 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 Petromanas Albania GmbH, ("Petromanas Albania"), formerly Manas Adriatic GmbH. Petromanas Albania holds a 100% interest in three onshore oil and gas production sharing contracts containing six exploration blocks covering an area in excess of 1.4 million acres in Albania.

As consideration for the acquisition, the Company paid DWM $3.6 million, including acquisition costs of $339,000 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. The common shares are held in escrow pursuant to the terms of an escrow agreement and will be released from escrow in stages over a period of three years after the date of the acquisition. As of the date of this MD&A, 90,000,000 shares remain in escrow with 30,000,000 shares being released from escrow on each of February 24, 2012, August 24, 2012 and February 24, 2013. The Company also issued 8,000,000 common shares as a finder's fee related to the acquisition. The Company also advanced Petromanas Albania $8.2 million 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 February 24, 2020:

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 Petromanas Albania 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.

Albanian Licenses

In December 2007, Petromanas Albania was granted two production sharing contracts ("PSCs" or "Licenses") 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, Petromanas Albania was granted another PSC by the Ministry of Economy, Trade and Energy of Albania covering the licenses for the areas referred to as Blocks 2 and 3.

These PSCs 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. Within 180 days of the end of each exploration phase, the Company must select an area equal to 25% of its remaining acreage to relinquish back to the Albanian Government. Exploration phases can be automatically extended to complete the drilling and evaluation of a well that is in progress at the time the current phase would normally lapse. Approximately 200,000 acres were relinquished on the completion Phase 1 of Blocks A/B and D/E. Any discovery areas are excluded from this requirement.

Blocks A/B and D/E

The two PSCs comprised of Blocks A/B and D/E cover approximately 2,290 km^2 (or approximately 566,000 acres). Under the original agreements, completion of the three phases is set to take seven years and will require minimum expenditures of $12.6 million over the remaining 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 cross sections, mapping, volumetrics and failure analysis of select wells previously drilled by other operators. The Company has commenced the second exploration period ending December 25, 2012. Drilling of the first commitment well is expected to be commenced in the first nine months of 2012.

During the first quarter of 2011, the Company provided the government with a standby letter of credit for $6.3 million for its Phase 2 performance guarantee.

Blocks D/E

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 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 105 km of 2D seismic as well as completed cross sections, mapping, volumetrics and failure analysis of select wells previously drilled by other operators. The majority of the new seismic was acquired utilizing heliportable rigs. Processing of the new seismic has been completed. The Company has commenced the second exploration period ending December 25, 2012. Drilling of the first commitment well is expected to be commenced in the fourth quarter of 2012.

During the first quarter of 2011, the Company provided the government with a standby letter of credit for $6.3 million for its Phase 2 performance guarantee.

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

$000's

License	Phase 2 2011-2012	Phase 3 2013 – 2014
Block A/B	$ 6,300	$ 6,300
Block D/E	$ 6,300	$ 6,300

Blocks 2-3

The PSC comprised of Blocks 2 and 3 covers approximately 3,443 km^2 (or approximately 851,000 acres). Under the original agreements, completion of the three phases is set to take seven years and will require minimum expenditures of $25.1 million. 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 million or until the Carbonates of the Eocene or Cretaceous is reached, whichever first occurs. The Company has provided the government with a standby letter of credit for $8.5 million for its Phase 1 performance guarantee.

Remaining commitments for Blocks 2-3 are as follows:

$000's

License	Phase 1 August 2010 – July 2012	Phase 2 August 2013 – July 2014	Phase 3 August 2015 – July 2016
Block 2/3	$ 8,500	$ 8,300	$ 8,300

In March, 2011, the Company concluded its seismic acquisition program on Blocks 2/3. To date, the Company has completed geological and geophysical studies, re-processed a total of 376 km of 2D seismic, acquired and processed 99 km of 2D seismic. During the second quarter, cross sections, mapping, volumetrics and failure analysis of select wells previously drilled by other operators was completed. The Block 2/3 program included the acquisition of 99 km of 2D seismic providing valuable data near the Shpiragu discovery drilled in 2001. The majority of the seismic work was carried out utilizing heliportable rigs and the remainder by conventional shallow drilling rigs. The Phase 1 commitment well is anticipated to be commenced in the second quarter of 2012.

Resource Assessment

As part of Company's re-evaluation the unrisked prospective resource volumes prepared in 2009 by Gustavson Associates LLC ("Gustavson"), the Company acquired and processed 202 km of new seismic, reprocessed 1,038 km of existing seismic, performed a failure analysis of wells that had previously been drilled on the Company's blocks and assembled a database of available well data including drilling reports and well logs. New seismic data and a more rigorous approach was expected to result in changes from the 2009 work once all the parameters were reviewed and validated.

During the quarter, an independent resource evaluation report (the "Report") was completed by Calgary-based GLJ Petroleum Consultants Ltd. ("GLJ"). This evaluation was done on six prospects/leads within the Company's three Production Sharing Contracts ("PSCs") onshore Albania. These six prospects are drill-ready; the Company's remaining prospects/leads require further data and/or technical evaluation. The results of the Report were released in a press release dated August 22, 2011 and highlight the potential of the Company's key prospects.

Outlook

The Company is currently developing its drilling program on the Albanian properties while continuing to seek additional opportunities in the region with near-term production potential. The completed seismic program and geological interpretations have been utilized to high grade the drill locations in the blocks. Drilling is expected to commence late in the first quarter of 2012.

Data Room

Consistent with its previously stated growth strategy, the Company engaged Macquarie Capital Markets Canada Ltd. to prepare a data room and marketing materials to seek potential joint venture partners. Several companies signed confidentiality agreements and have engaged in meetings, presentations and have accessed a virtual data room in September and October, 2011. Marketing efforts are expected to be completed by the end of November, with JV proposals due November 17, 2011. It is expected that additional partner capital could enable the Company to expand its exploration program to include additional wells. The Company's planned drilling program is not dependent on securing a joint venture partner.

Drilling Preparations

The Company has finalized the selection of locations to be drilled in 2012. Environmental impact and social assessment (EISA) is underway; this work is needed to obtain permits and licences. The Company is also in discussions with a number of service providers to secure drilling rigs and related equipment/services for its 2012 drilling program. The Company's 2012 work program and budget was presented to the Albanian regulatory body (AKBN) and approved in late September 2011.

Results of Operations

The Company recorded no revenues during the three and nine month periods ended September 30, 2011 and 2010.

The Company had profit and comprehensive income of $18.3 million for the nine months ended September 30, 2011 compared to a net loss and comprehensive loss of $5.4 million for the nine months ended September 30, 2010. For the three months ended September 30, 2011, the Company had profit and comprehensive income of $6.8 million compared to a net loss and comprehensive loss of $3.7 million for the quarter ended September 30, 2010. The income during the nine months ended September 30, 2011 resulted primarily from the fair value movement on warrants which have been recorded as derivative financial instruments, partially offset by exchange losses on Canadian dollar cash deposits and short term investments totaling $1,002,000. Since the Company's functional currency (US $) differs from the currency that the underlying share trades in (CAD $), the warrants do not meet the fixed for fixed criteria and must be recognized as a liability for IFRS purposes. The warrants were valued at the issuance date using the Black Scholes option pricing model and recorded as a liability. The warrants are revalued each reporting period and adjusted through income under IFRS. The carrying value was adjusted during the nine months ended September 30, 2011 which resulted in a gain of $23.6 million recognized during the period as compared to a gain of $1.0 million during the first nine months of 2010. The fair value movement on warrants resulted in a gain of $10.8 million for the quarter versus a loss of $3.7 million during the third quarter of 2010.

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

$000's	Quarter ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Expenses				
Salaries and benefits	$ 440	$ 633	$ 1,326	$ 1,162
Professional and advisory fees	339	145	658	530
Office and administration	161	88	500	208
Depreciation	43	5	112	10
Regulatory, transfer agent and listing fees	27	41	80	76
Stock-based compensation	809	763	1,652	6,510
Travel and accommodation	58	76	240	219
Finance charges	53	38	151	142
Other Item				
Fair value movement on derivative financial instruments	10,806	(3,668)	23,616	1,012

Salaries and benefits for the first nine months increased from $1,162,000 in 2010 to $1,326,000 in 2011. The Company had sixteen employees on the payroll as of September 30, 2011 as opposed to eleven at September 30, 2010. Salaries in the third quarter decreased from $633,000 in 2010 to $440,000 in 2011 due to severance that was paid in the third quarter of 2010.

Professional and advisory fees increased slightly during the third quarter of 2011 to $339,000 versus 145,000 during the third quarter of 2010, resulting in a similar year to date increase from $530,000 in 2010 to $658,000 in 2011. This increase was mainly due to fees paid to a consulting firm for services related to the establishment of a dataroom and for marketing services related to the Company's farm-out process, which began during the quarter. The year to date increase also resulted from additional consulting costs related to various business development initiatives and consulting costs related to the conversion to IFRS.

Office and administration costs for the first nine months increased from $208,000 in 2010 to $500,000 in 2011. Office and administration costs for the third quarter increased from $88,000 in 2010 to $161,000 in 2011. The increases were mainly due to costs related to commencing operations in Canada with the establishment of a head office and personnel.

Stock-based compensation for the first nine months of 2011 was $1.7 million while during the first nine months of 2010, it totaled $6.5 million. In connection with the completion of the acquisition of Petromanas Albania during the first quarter of 2010, the Company granted 24,000,000 options to directors, officers and employees of the Company, as well as consultants and charitable organizations. An additional 9,250,000 options were granted during the second and third quarters of 2010. During the first quarter of 2011, 2,400,000 options were granted to new employees of the Company and a further 12,840,000 options were granted to directors, officers and employees of the Company during the third quarter of 2011. Stock-based compensation for the third quarter of 2011 totaled $809,000 versus $763,000 for the third quarter of 2010.

For the nine months ended September 30, 2011 expenses for travel and accommodation increased to $240,000 compared to $219,000 for the same period during 2010 due to travel to Albania. Travel costs decreased for the third quarter from $76,000 in 2010 to $58,000 in 2011.

Finance charges related primarily to fees for the bank guarantees required under the terms of the PSC's and amounted to $151,000 for the first nine months of 2011 (2010 - $142,000). For the third quarter, finance charges increased from $38,000 in 2010 to $53,000 in 2011.

The most significant change from the conversion to IFRS which will affect the profit and loss of the Company on an ongoing basis is the fair value movement on derivative financial instruments. This new line item on the Statement of

Profit and Loss results from the Company's functional currency changing to US dollars under IFRS. Subsequent to the change in functional currency, unit financings were completed in Canadian dollars which included shares and warrants. Since the functional currency differs from the currency that the underlying shares trade in, the warrants do not meet the fixed for fixed criteria and must be recognized as a liability for IFRS purposes.

The warrants were valued at the issuance date using the Black Scholes option pricing model. As a result, a liability for derivative financial instruments of $14.3 million was recorded in conjunction with the February 24, 2010 financing and a further $7.6 million was recorded in conjunction with the May 27, 2010 financing. Share capital was reduced by the same amount. The above noted warrants are revalued at each reporting period and adjusted through income under IFRS. The carrying value was adjusted quarterly during 2010 for IFRS purposes with a resulting increase in the liability and a loss of $4 million recognized during the year. During the first nine months of 2011, a gain of $23.6 million was recorded as a result of the quarterly revaluation of the warrants (2010 – gain of $1.0 million). During the third quarter of 2011 a gain of $10.8 million was recorded, while a loss of $3.7 million was recorded during the third quarter of 2010.

These gains and losses primarily result from changes in the closing share price of the Company's shares at each measurement date. They do not impact cashflow and do not represent a legal obligation for the Company to pay out these amounts to warrant-holders.

Financial Position Information

Total assets remained consistent at $154.0 million at September 30, 2011 versus $156.4 million at December 31, 2010.

Liquidity

As of September 30, 2011 the Company had cash and cash equivalents of $11.0 million compared to $62.5 million as of December 31, 2010. The decrease in cash and cash equivalents was caused by the net purchase of short-term investments of $31.7 million, an increase in restricted cash of $12.4 million and expenditures of $4.9 million on exploration and evaluation assets through the conclusion of the seismic program on Blocks 2 and 3 and subsequent geological and geophysical work. Accounts payable was also reduced by $1.1 million mainly due to the conclusion of the seismic program. The restricted cash will be released gradually upon completion of the respective phases of the work programs on each of the PSC's.

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

The Company has no off-balance sheet arrangements, bank debt or banking credit facilities in place.

Related Party Transactions

During the nine month period ended September 30, 2011, the Company incurred costs of $34,000 (2010 - $134,000) to Manas Petroleum Corporation, which is a significant shareholder of the Company. At September 30, 2011, accounts payable of $2,000 were outstanding to Manas Petroleum Corporation (2010 – $61,000).

This transaction is in the normal course of operations and is measured at the amount of consideration established and agreed to by the related parties.

Outstanding Share Data

As at the date of this report, there were 630,991,466 common shares issued and outstanding.

As at the date of this report, there were 45,290,000 stock options and 201,740,000 warrants outstanding. Additionally, under the terms of the acquisition of Petromanas Albania, more fully described in the Company Overview, 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 of the acquisition of Petromanas Albania GmbH.

Proposed Transactions

The Company has no proposed asset or business acquisitions or dispositions.

Critical Accounting Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are discussed below:

a) Exploration and evaluation expenditure

   The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

b) Title to exploration and evaluation assets

   Although the Company has taken steps to verify title to the exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

c) Income taxes

   Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities. The Company's income tax provisions at January 1, 2010, December 31, 2010 and September 30, 2011 were $Nil.

d) Option Pricing Models

   The Company uses the Black Scholes option pricing model to calculate the fair value of stock options granted to directors, officers, employees and consultants and the derivative financial instruments. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes

in assumptions can materially affect the estimated fair value, and therefore, the existing models do not necessarily provide precise measure of fair value.

Recent Accounting Standards Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011 or later periods.

The Company has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment is effective for year-ends beginning on or after July 1, 2011, however, the Company has early adopted the amendment. The impact of the amendment and early adoption is that the Company only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

The following new standards, amendments and interpretations, that have not been early adopted in these interim financial statements, will or may have an effect on the Company's future results and financial position:

- IFRS 9 - 'Financial Instruments' is part of the IASB"s wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013.
- IFRS 10 – 'Consolidated Financial Statements' builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11 – 'Joint Arrangements' establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.
- IFRS 12 – 'Disclosure of Interest in Other Entities' provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.
- IFRS 13 – 'Fair Value Measurement' defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

The Company is in the process of evaluating the impact of the new standard on its financial statements.

The following new standards, amendments and interpretations that have not been early adopted in the interim financial statements will not have an effect on the Company's future results and financial position:

- IFRS 1 - 'Severe Hyperinflation' (Effective for periods beginning on or after July 1, 2011)
- IAS 12 - 'Deferred Tax: Recovery of Underlying Assets' (Amendments to IAS 12 (Effective for periods beginning on or after January 1, 2012))

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 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 production 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 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 Company as part of its operations carries a number of financial instruments including cash and short-term deposits, restricted cash, accounts receivable, accounts payable and accrued liabilities and derivative financial instruments. The Company is exposed to the following risks related to its financial assets and liabilities:

a) Interest rate risk

The Company maintains its cash and cash equivalents, short term investments and restricted cash in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon.

b) Credit risk

The Company's cash and cash equivalents, short term investments and restricted cash are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash, cash equivalents and restricted cash.

Accounts receivable as at September 30, 2010 consists of commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits for which credit risk is assessed as being low.

c) Market risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Euro and the United States dollar. At September 30, 2011 and December 31, 2010, the Company's primary currency exposure related to Canadian dollar denominated working capital and cash balances.

(CAD $000's)	September 30, 2011	December 31, 2010
Cash and cash equivalents	7,676	48,336
Short term investments	32,774	-
Accounts receivable and prepaid expenses	133	106
Accounts payable and accrued liabilities	(193)	(172)
Net foreign exchange exposure	40,390	48,270

For the nine months ended September 30, 2011, based on the net foreign exchange exposure at the end of the period, if the Canadian dollar had strengthened or weakened by 10% compared to the U.S. dollar and all other variables were held constant, there would have been an net after tax impact of $4.0 million on an annualized basis (December 31, 2010 - $4.8 million).

d) Liquidity risk

The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its exploration and evaluation assets or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programs to retain concession licenses, farm-out arrangements and securing new equity or debt capital.

e) Fair value risk

The Company classifies the fair value of its financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments that are carried at fair value include derivative financial instruments which are classified as Level 2 in accordance with the fair value hierarchy.

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.

Changes in Accounting Policies

Adoption of International Financial Reporting Standards (IFRS)

The Company has prepared its September 30, 2011 Condensed Interim Consolidated Financial Statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and with IAS 34, Interim Financial Reporting, as issued by the IASB. Previously, the Company prepared its financial statements in accordance with Canadian GAAP (CGAAP). The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flows and capital expenditures.

The Company's IFRS accounting policies are provided in Note 3 to the Condensed Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011 and are referenced in Note 2 to the Condensed Interim Consolidated Financial Statements as at and for the three and nine months ended September 30, 2011. In addition, Note 20 to the Condensed Interim Consolidated Financial Statements for the three and nine months ended September 30, 2011 presents reconciliations between the Company's 2010 CGAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2010 and a reconciliation of equity at September 30, 2010.

The following summary provides reconciliations of Petromanas' 2010 CGAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes.

($000's)	Annual	Q4	Q3	Q2	Q1
Net Loss – CGAAP (CAD $)	(10,312)	(1,437)	(2,192)	(443)	(6,240)
Effect of Change in Reporting Currency	4,683	2,220	2,140	(694)	1,017
Fair value movement on derivative financial instruments	(4,002)	(5,014)	(3,668)	28,332	(23,652)
Future income tax expense	31	-	-	31	-
Profit and Comprehensive Income – IFRS	(9,600)	(4,231)	(3,720)	27,226	(28,875)

IFRS is applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under CGAAP taken to retained earnings unless certain exceptions and exemptions are applied.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", permits first time adopters of IFRS a number of exemptions. The Company has elected to utilize the following exemptions for first time adoption of IFRS:

i. IFRS 2, Share-based payments, whereby stock options that vested prior to January 1, 2010 are not required to be retrospectively restated. Therefore, IFRS requirements apply only to those options that were unvested at the date of transition;
ii. IFRS 3, Business Combinations, which allows for an implementation of the IFRS business combination rules on a prospective basis, therefore, business combinations entered into prior to January 1, 2010 have not been retrospectively restated;

The impact to the Company of applicable exceptions and exemptions on transition to IFRS, and of changes in accounting policies under IFRS are as follows:

The Company has assessed its functional currency for each entity in the group and determined that the functional currency for each of the company is the US dollar. This change in functional currency under IFRS took place in conjunction with the acquisition of the Albanian assets. As a result, the company has determined that the reporting currency will also be changed to the US dollar. As a result, the effects of the change to US dollar reporting are quantified in the first column of each of the above reconciliations.

The impacts of the remaining changes of adopting IFRS are as follows:

(1) In 2006, the Company sold substantially all of its assets to a related party. As it was a sale to a related party, the gain of $3,008,000 (CAD $3,412,000) was credited to Contributed Surplus. This gain was reclassified to retained earnings because the gain would have been recorded as income under IFRS.

(2) In 2009, the Company extended the term of 15,000,000 warrants. Under IFRS, the Company's accounting policy is to record equity instrument based on the initial recognition. As a result, the $913,000 (CAD $1,003,000) contributed surplus recognized under previous GAAP was reversed under IFRS with a corresponding decrease in the deficit.

(3) On the acquisition of Petromanas Albania, deferred taxes of $63,571,000 (CAD $67,118,000) were recorded which resulted from the amount paid for the assets acquired in excess of their tax base. Under IFRS, a deferred tax liability is not recognized on a temporary difference that arises from the initial recognition of an asset when the initial transaction is not a business combination and does not affect accounting or tax profit. As a result, the $63,571,000 deferred income tax liability recognized under previous GAAP was reversed under IFRS with a corresponding decrease to exploration and evaluation assets. The deferred tax expenses of $31,000 which were recorded in 2010 were also reversed.

(4) As mentioned above the Company's functional currency changed to US dollars under IFRS. Subsequent to the change in functional currency unit financings were completed in Canadian dollars which included shares and warrants. Since the functional currency differs from the currency that the underlying shares trade in, the warrants do not meet the fixed for fixed criteria and must be recognized as a liability for IFRS purposes. The

warrants were valued at the issuance date using the Black Scholes option pricing model. As a result, a liability for derivative financial instruments of $14,314,000 was recorded in conjunction with the February 24, 2010 financing and a further $7,596,000 was recorded in conjunction with the May 27, 2010 financing. Share capital was reduced by the same amount.

(5) The above noted warrants are revalued at each reporting period and adjusted through income under IFRS. The carrying value was adjusted quarterly during 2010 for IFRS purposes with a resulting increase in the liability and income of $4,680,000 recognized during the year.

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.

	2011			2010					2009 [(1)]	
$000's unless otherwise noted	**Q3**	**Q2**	**Q1**	Full year	Q4	Q3	Q2	Q1	Full year	Q4
Total revenue	**-**	**-**	**-**	-	-	-	-	-	-	-
Fair value movement on warrants	**10,806**	**5,537**	**7,273**	(4,002)	(5,014)	(3,668)	28,332	(23,652)	-	-
Comprehensive income (loss)	**6,803**	**4,200**	**7,333**	(9,600)	(4,231)	(3,720)	27,226	(28,875)	(276)	(33)
Earnings (loss) per share ($/share) - Basic and diluted	**$ 0.01**	**$ 0.01**	**$ 0.01**	$ (0.02)	(0.01)	(0.01)	0.06	(0.14)	0.00	0.00
Working capital excluding derivatives	**42,590**	**46,430**	**47,605**	62,522	62,522	68,107	72,117	15,907	4,389	4,389
Working capital	**40,294**	**33,328**	**28,966**	36,610	36,610	47,208	54,887	(22,059)	4,389	4,389
Total assets	**153,970**	**157,207**	**158,181**	156,430	156,430	156,084	152,800	87,783	5,445	5,445
Long-term debt	**-**		**-**	-	-	-	-	-	-	-

(1) As the Company's IFRS transition date was January 1, 2010, 2009 comparative information is prepared under previous GAAP has not been restated under IFRS and is presented in $ CAD.

Quarterly results are directly related to the development of the Company's business over the past year as the Company embarked on its new business in Albania and the development of the key infrastructure and personnel necessary to execute its business plan. The largest impact on quarterly earnings is the fair value movement of warrants recorded as a liability under IFRS. These gains and losses primarily result from changes in the closing share price of the Company's shares at each measurement date. They do not impact cashflow and do not represent a legal obligation for the Company to pay out these amounts to warrant-holders. The carrying value negatively impacts the Company's working capital position. The above table also presents the working capital position excluding the derivatives as this more accurately reflects the Company's ability to satisfy financial obligations as they come due.

Results have also varied largely due to stock based compensation, which resulted in a non-cash expense of $5,677,000 in Q1 2010 and $763,000 during Q3 2010. Additionally, Q3, 2010 had non-recurring severance costs of approximately $440,000.

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 of expenditures on exploration and evaluation assets is presented below:

($000's)	Nine Months Ended September 30, 2011				Nine Months Ended September 30, 2010			
	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	$ 585	149	165	271	$ 331	67	111	153
Capitalized exploration costs	4,321	182	394	3,745	5,669	110	4,995	564
Total capitalized exploration costs	$ 4,906				$ 6,000			