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Petromanas Energy Inc (PMI, TSX) *the Next Bankers?*

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By James Winston

In my earlier heads up alerts on Petromanas, I've made reference to another Albanian oil play we got involved with a few years ago called Bankers Petroleum. Today Bankers is probably the most followed foreign oil play listed with the TSX. Having gone from 50 cents in the early days, the stock recently hit a high of \$8.31. For those of us who were lucky enough to get in early with Bankers, we are now up an incredible 1,600 % with the "free" shares we are holding.

Bankers Petroleum took a big jump in price just recently after they announced their year-end reserve numbers and their proved reserve numbers as of December 31, 2009. Reserves went up 35% to 92 million barrels and the proved plus probable reserves increased 19% to 213 million barrels.

With some of the same backers of Bankers involved with PMI, I'm betting that they will again have continued success in Albania.

What makes this deal prospective is an estimated contingent resource of 6.0 billion of barrels of oil recoverable in the P50 case in the prospects under PMI's lands. This is an estimate that was provided by an independent valuation.

However, that's the working theory. What PMI needs to do now is execute their business plan and shoot seismic then drill to prove compliant resource numbers. Even if they were to prove one-tenth the reserves Bankers has, they could have a similar market cap.

The Opportunity

Albania is a former Soviet bloc country where the oil and gas industry was terribly mismanaged by former communist bureaucrats. As we have seen with Bankers through revisiting Albania's very rich oil fields and implementing modern Western technology, the full potential of Europe's richest onshore oil field can be fully realized.

Petromanas is exploring for giant-sized oil and gas prospects that could hold upwards of 6 billion barrels of oil from those areas as predicted by both seismic and an independent valuation (Gustavson). Their work will focus on deep sub-thrust targets as well as shallow prospects.

Petromanas has three Albanian onshore oil and gas production sharing contracts (PSC's) containing six licenses or blocks. These blocks are labeled A&B, D&E and 2&3. Patos Marinza – the largest onshore oil field in Europe— is located in selected exclusion zones within PMI blocks 2&3. The blocks cover 1.7 million net acres with 100% working interest.

Blocks A, B, D and E have 11 large oil structures which have been identified by work done by Shell, Coparex and Manas. Blocks 2&3 have an additional three structures identified by

Manas. One of these structures was drilled with no commercial light oil discovered by Occidental Petroleum.

Block 2 is located around the area where Bankers' shallow oil wells are located. Petromanas will be targeting the deeper targets in the Block 2 area below and adjacent to the Bankers field.

Blocks A & B

The first phase of exploration work done on Blocks A & B started in December of 2007. The company has accumulated significant data on these blocks by integrating 800 km of reprocessed seismic from their own work plus data from Shell and Coparex.

\$2.1 million has been spent to date on geology and geophysics, 2D processing of seismic and 189 km of seismic acquisitions. By year end or by Q1 of next year, the company expects that the first exploration well will be drilled.

Within Block A is a prospect called Jubani. The oil target is 1,300 meters to 1,400 m below the surface considered to be a shallow target. Consequently the relative exploration cost is low at a projected US \$3.5 million to US \$4.5 million.

Within Block B are three prospects called Rinasi, Giurica and West Giurica. The respective target depths are at 3,500 m, 4,000 m and 3,900 m and are part of an oil target system called the Ionian Carbonate.

Blocks D & E

The first phase of exploration work done on Blocks D & E started in December of 2007 as well.

To date, \$550,000 has been spent on geology, geophysics and processing of 200 km of 2D seismic. The company plans on spending another \$875,000 on acquiring more 2D this year.

Starting in May or June, Petromanas will be starting a seismic program for Block E. An exploratory drill well is planned by yearend or Q1. Management is also considering hiring a Canadian firm to establish a resource evaluation.

There are seven prospects on Blocks D & E but two are particularly prospective. The top prospects are West Rova which is at a depth of 3,400 m and Papri at 3,900 m (4,000 m in depth.) The total cost of this future program is budgeted for U.S. \$20 million.

Blocks 2 & 3

A phase I work program started on these Blocks in July of 2009 and will carry on until July of 2012. The total work commitment is \$8.5 million and includes geophysics, geology, 150 km of seismic processing, and a 4,000 m drill program.

Block 2 is currently one of the most interesting in Petromanas' portfolio. It could be one of the first blocks to be drill tested, perhaps by year-end or in Q1 of next year.

What makes Block 2 so prospective is that it holds the Shpiragu well: a light oil discovery found by Occidental Petroleum in 2001. A Gustavson report estimates there could be 1 billion

barrels of recoverable oil. The Shpiragu well found a 600 m column of reservoir. A future drilling program could re-enter the discovery well which has a good probability for success. Occidental's records indicate that oil flowed at an intermittent rate of 400 – 1,200 barrels per day from this well. Subsurface equipment issues prevented a sustained test. This oil was also very light (37° API), which lessens the refining costs and makes the oil much more valuable compared to the heavy oil produced by Bankers.

Occidental had many technical problems with the well therefore it was left damaged. Management believes that by utilizing the most modern drilling techniques, the flow rates could be dramatically improved.

The target depth of Shpiragu is 4,930 m. A drill program would cost approximately \$22 million.

Block 3 could also be drill-tested with a shallower target depth of 2,800 m - to 3,000 m.

Summary

Petromanas presents an opportunity to fully realize the potential of Albania's deep oil structures which very well could contain up to 6 billion barrels of oil. All of the blocks have large exploration targets out of which some are ready to drill.

An independent report from Gustavson has estimated 3.2 billion barrels of P50 prospective recoverable resources are located in Blocks: A, B, D and E which could contain up to 13.4 billion barrels of oil in place. Additionally, 2.8 billion barrels of P50 resources have been estimated in Blocks 2 & 3 and could contain up to 11.4 billion barrels of oil in place.

Bankers Petroleum has put Albania on the map and their success in that country has established Patos Marinza as Europe's biggest oil field. As a result, Bankers is now one of the most distinguished groups of successful foreign oil companies to be listed on the Toronto Stock Exchange over the last few years. Luckily, our subscribers were the early beneficiaries of this success story.

Now we return again to Albania's oil riches. And this time, the focus will be for deeper and lighter grade oil structures.

Petromanas has the benefit of literally millions of dollars worth of historic geological work going back decades. Shell, Coparex and others had established a good understanding of the deeper structures with the help of 2D seismic and advanced geotechnical work. Petromanas has added to their understanding with their own data gathered since 2007 and were the first to integrate all of this data into one comprehensive picture.

Albania is 50 km across the Adriatic Sea from Italy which is directly connected to the western European markets and all the advantages of the European Union and infrastructure. Albania has applied for EU membership and the ease of operations in the country is much improved from the soviet era.

Today Petromanas has an opportunity to explore the very large structures under its lands. What might be referred to as 'being in the right place at the right time', PMI picked up these assets after Shell and others abandoned Albania during a period of extreme unrest in that country and the conflict in neighbouring Kosovo. Albania has indicated they are now

stabilized and are aligning themselves with the West. As a current NATO member and possible new member of the European Union, this country's potential can now be brought forward.

For PMI shareholders, we have a unique opportunity where the company has "superbly defined giant, virtually drill ready prospects" to quote Gustavson's resource evaluation report from 2008.

We bought Bankers at 50 cents and a few years later one well-known analyst is giving it a \$20 target. In the 40 cent range, Petromanas presents another great opportunity in our opinion.