

A copy of this preliminary prospectus has been filed with the securities regulatory authorities in the Provinces of British Columbia, Alberta and Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

The Rights and Common Shares issuable upon the exercise of Rights offered hereby have not been and will not be registered under the United States Securities Act of 1933 as amended and accordingly may not be offered or sold in the United States.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.



PRELIMINARY PROSPECTUS

Rights Offering February 19, 2013

Estrella International Energy Services Ltd.

Rights to Subscribe for up to • Common Shares

Subscription Price: CDN\$ • per Common Shares

(upon the exercise of each • of a Right)

YOUR RIGHTS CERTIFICATE IS ENCLOSED. PLEASE READ THIS MATERIAL CAREFULLY AS YOU ARE REQUIRED TO MAKE A DECISION PRIOR TO 5:00 P.M. (TORONTO TIME) ON •. If you are in doubt as to how to deal with your rights, you should consult with your Investment Dealer, Stock Broker, Bank Manager or other professional advisor.

Estrella International Energy Services Ltd. (“**Estrella**” or the “**Corporation**”), with its registered office at 11 King Street West #700 Toronto, ON M5H 4C7 and with its head and principal office at Carlos Pellegrini 1023, 1st Floor, Buenos Aires, Argentina, C1009 ABU, is issuing to the holders of record (the “**Shareholders**”) of its outstanding common shares (the “**Common Shares**”), at the close of business (Toronto Time) on • (the “**Record Date**”), • transferable rights (the “**Rights**”) to subscribe for and purchase up to an aggregate of • Common Shares (the “**Offering**”) for gross proceeds of up to • (assuming the exercise of all Rights issued under the Offering). The Corporation currently has 299,476,450 Common Shares issued and outstanding. Each Shareholder at the close of business on the Record Date is entitled to receive one (1) Right for each Common Share held. Rights are fully transferable and divisible and will be evidenced by a rights certificate (the “**Rights Certificate**”). Each • of a Right entitles the holder thereof (“**Holder**”) to purchase one (1) Common Share at a price of CDN\$ • per Common Share (the “**Subscription Price**”) on or before 5:00 p.m. (Toronto Time) (the “**Expiry Time**”) on • (the “**Expiry Date**”). Holders of Rights who exercise their Rights in full are entitled to subscribe for additional Common Shares offered under the Offering that are not otherwise subscribed for by the Expiry Date, if any, pursuant to the Additional

Subscription Privilege (as hereinafter defined). See *“Details of the Offering – Additional Subscription Privilege”*. **Rights not exercised by the Expiry Time will be void and of no value.** Fractional Common Shares will not be issued.

This prospectus qualifies the distribution of the Rights and the Common Shares issuable upon the exercise thereof. The Corporation will apply to the TSX Venture Exchange (the **“TSXV”**) to have the rights listed for trading on the TSXV. Listing will be subject to the Corporation fulfilling the applicable listing requirements of the TSXV. The outstanding Common Shares are listed and posted for trading on the TSXV under the trading symbol **“EEN”**. The closing price for the Common Shares on the TSXV on February 15, 2013 was CDN\$0.06.

Ringo Holding L.P. (**“Ringo Holding”**), a current insider and significant Shareholder of the Corporation, has indicated that it will exercise each of the Rights issuable to it hereunder and may additionally exercise the Additional Subscription Privilege (as defined herein). Assuming all Basic Subscription Rights (as defined herein) were taken up by all Shareholders, Ringo Holding would subscribe for • Common Shares. See *“Principal Shareholder”* and *“Details of the Offering - Intention of Insiders to Exercise Rights.”*

	Price to public (\$CDN)
Per Security	•
Total	•

No underwriter has been involved in the preparation of this prospectus or performed any review or independent due diligence of the contents of this prospectus.

There are no underwriting discounts or commissions payable. A subscriber may subscribe for Common Shares by completing and signing Form 1 of the Rights Certificate and forwarding the Subscription Price for each Common Share subscribed for to Olympia Trust Company (the **“Subscription Agent”**), all in accordance with the instructions on Form 1. A Subscriber wishing to subscribe for additional Common Shares under the Additional Subscription Privilege must complete and sign Form 2 of the Rights Certificate prior to the Expiry Date, along with payment for the additional Common Shares requested. Any excess funds will be returned by mail, without interest or deduction.

If a Shareholder does not exercise, or sells, the Shareholder's Rights, then the value of the Common Shares held by that Shareholder will be diluted as a result of the exercise of the Rights. See *“Details of the Offering – Dilution of Existing Shareholders”*.

There are risks associated with an investment in Common Shares. An investment in and the ownership of the Common Shares should be considered speculative. See *“Risk Factors”* for a discussion of factors that should be considered by prospective investors and their advisors in assessing the appropriateness of an investment in Common Shares.

Certain legal matters in connection with the Offering will be passed upon on behalf of the Corporation by Aird & Berlis LLP. Olympia Trust Company has been appointed as the Subscription Agent to receive subscriptions and payments and to transfer Rights under the Offering. The Subscription Agent is also the registrar and transfer agent for the Common Shares.

The table below outlines the full use of proceeds of the Offering:

Description	CDN\$
Repayment of amounts owing to Ringo Holding	•
General Corporate Purposes	•
Total	•

The Corporation intends to use the proceeds of the Offering first to repay amounts advanced to the Corporation by Ringo Holding on or prior to the date hereof, together with accrued and unpaid interest thereon and the remaining proceeds will be allocated to general corporate purposes, as outlined in the above table. See *“Use of Proceeds”*.

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GLOSSARY OF TERMS

In this prospectus, the following terms shall have the meanings set forth below, unless otherwise indicated:

“Additional Common Shares” means the Common Shares available for additional subscriptions pursuant to the Additional Subscription Privilege;

“Additional Subscription Privilege” means the entitlement of Holders of Rights who exercise all of their Rights pursuant to the Basic Subscription Right to subscribe *pro rata* for Additional Common Shares;

“Basic Subscription Right” means the entitlement of Holders of the Rights to subscribe for one (1) Common Share at the Subscription Price for each • of a Right held;

“Board” means the board of directors of the Corporation;

“Common Share” means a Common Share in the capital of the Corporation;

“Corporation” or **“Estrella”** means collectively, Estrella International Energy Services Ltd. and each of its subsidiaries;

“Expiry Date” means • ;

“Expiry Time” means 5:00 p.m. (Toronto Time) on the Expiry Date;

“Ineligible Jurisdiction” means any jurisdiction other than a Qualified Jurisdiction;

“Ineligible Shareholder” means a Shareholder or transferee of Rights resident in an Ineligible Jurisdiction;

“Ringo Holding” means Ringo Holding L.P., a current insider and significant Shareholder of the Corporation;

“OBCA” means the *Business Corporations Act* (Ontario), as amended from time to time;

“Offering” means the distribution of Rights to Shareholders on the Record Date;

“Preferred Shares” means, together, the Series A Preferred Shares and the Series B Preferred Shares;

“Qualified Jurisdiction” means the Provinces of British Columbia , Alberta and Ontario, any other jurisdictions in which the Offering can lawfully be made;

“Record Date” means • ;

“Right” means an entitlement granted to Shareholders to subscribe for Common Shares in accordance with the terms of the Offering;

“Rights Certificate” means a fully transferable certificate in registered form evidencing the ownership of Rights;

“Series A Preferred Shares” means the series A preferred shares in the capital of the Corporation;

“Shareholder” means a holder of record on the Record Date of one or more Common Shares;

“Subordinated Loan Agreement” means the subordinated loan agreement dated December 17, 2012 between the Corporation and Ringo Holding;

“**Subscription Agent**” means Olympia Trust Company;

“**Subscription Price**” means \$ • per Common Share;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time;

“**TSXV**” means the TSX Venture Exchange.

GLOSSARY OF TECHNICAL TERMS

“**LWD**” means logging while drilling which is a technique of conveying well logging tools into the well borehole downhole as part of the bottom hole assembly;

“**MWD**” measurement while drilling which is a technique to perform drilling related measurements downhole that are transmit to the surface while drilling a well;

“**wellbore**” means any hole drilled for the purpose of exploration or extraction of natural resources such oil or natural gas or oil where a well may be produced and a resource extracted for a protracted period

CURRENCY

In this Prospectus are references to “CDN\$” are to Canadian dollars, and references to “\$” and “US\$” are to United States dollars.

The following table sets out the high and low rates of exchange for one U.S. dollar expressed in Canadian dollars in effect at the end of each of the following periods, the average rate of exchange for those periods and the rate of exchange in effect at the end of each of those periods, each based on the noon buying rate published by the Bank of Canada (the “**Noon Buying Rate**”). As of February 15, 2013 the Noon Buying Rate was US\$1.00 = CDN\$0.9939

	Year ended December 31		
	2012	2011	2010
High	1.009	1.0604	1.0778
Low	0.9710	0.9949	0.9946
Average for Period	0.9996	0.9890	1.0299
End of Period	0.9949	1.0170	0.9946

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking information and statements, including statements relating to matters that are not historical facts and statements of the Corporation's beliefs, intentions and expectations about developments, results and events which will or may occur in the future, which constitute "forward-looking information" within the meaning of applicable Canadian securities legislation (the "**forward-looking information and statements**"). Forward-looking information and statements are typically identified by words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "plan", "estimate", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook.

Forward-looking information and statements are included throughout this Prospectus include, but are not limited to, statements with respect to: performance of the oil and natural gas industry, including oil and natural gas commodity prices; the supply and demand for oil and natural gas; demand for the Corporation's equipment and services; the prospective impact of current or anticipated regulatory regimes and tax, environmental and other laws; the impact of climatic conditions; competition in markets where the Corporation competes; the amount of potential tax liabilities; and the Corporation's future growth potential.

All such forward-looking information and statements are based on certain assumptions and analyses made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Corporation believes are appropriate in the circumstances. These statements are, however, subject to known and unknown risks and uncertainties and other factors. As a result, actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking information and statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information and statements will transpire or occur, or if any of them do so, what benefits will be derived therefrom. These risks, uncertainties and other factors include, among others: fluctuations in the price and demand for oil and natural gas; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for contract drilling, well servicing and ancillary oilfield services; capital market liquidity available to fund customer drilling programs; availability of cash flow, debt and/or equity sources to fund the Corporation's capital and operating requirements, as needed; the effects of seasonal and weather conditions on operations and facilities; the existence of competitive operating risks inherent in contract drilling, directional drilling, well servicing and ancillary oilfield services; general economic, market or business conditions; changes in laws or regulations; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; and other unforeseen conditions which could impact the use of services supplied by the Corporation.

These and other risk factors are discussed in this Prospectus and the Corporation's annual financial statements on file with the Canadian securities commissions, and available on SEDAR at www.sedar.com. Except as required by law, the Corporation disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

The forward-looking information and statements contained in this Prospectus are expressly qualified by this cautionary statement.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with and is qualified in its entirety by the more detailed information and financial data and statements contained elsewhere in this prospectus.

The Offering

Issuer:	Estrella International Energy Services Ltd.
The Offering:	• Rights to subscribe for up to • Common Shares on the basis of one (1) Common Share for every • of a Right held.
Number of Rights:	•
Record Date:	•, 2013
Expiry Time and Expiry Date:	5:00 p.m. (Toronto Time) on •, 2013. Rights not exercised on or before the Expiry Time will be void and have no value.
Subscription Price:	CDN\$ • per Common Share.
Expected Net Proceeds:	CDN\$ • assuming the exercise of all of the Rights, and assuming estimated expenses of the Offering of CDN\$200,000. See "Use of Proceeds".
Basic Subscription Right:	Each Shareholder will receive one (1) Right for each Common Share held. • of a Right shall entitle a Holder to subscribe for one (1) Common Share at the Subscription Price. See "Details of the Offering – Description of Rights - Basic Subscription Right".
Additional Subscription Privilege:	Holders of Rights who exercise all of their Rights are entitled to subscribe pro rata for Additional Common Shares. See "Details of the Offering – Description of Rights - Additional Subscription Privilege".
Maximum Number of Common Shares to be Issued:	• Common Shares assuming exercise of all Rights issued.
Intention of Directors and Officers of Corporation:	To the knowledge of the Corporation, certain directors and officers of the Corporation intend to exercise all of the Rights issued to them to acquire an aggregate of approximately • Common Shares under the Basic Subscription Right. Such persons may subscribe for Common Shares under the Additional Subscription Privilege. See "Details of the Offering – Intention of Insiders to Exercise Rights".
Use of Proceeds:	The Corporation intends to use the proceeds from the Offering to repay a portion of its existing unsecured indebtedness and for general corporate purposes. See "Use of Proceeds".

The table below outlines the full use of proceeds:

Description	Minimum (CDN\$)
Repayment of amounts owing to Ringo Holding	•
General Corporate Purposes	•
Total	•

The Corporation intends to use the proceeds of the Offering first to repay amounts advanced to the Corporation by Ringo Holding on or prior to the date hereof, together with accrued and unpaid interest thereon and the remaining proceeds will be allocated to general corporate purposes, as outlined in the above table. See *"Use of Proceeds"*.

No Minimum Issue Size:

The completion of the Offering is not conditional upon the receipt by the Corporation of any minimum amount of subscription proceeds. The aggregate net proceeds from subscriptions for Common Shares will be available to the Corporation after payment of the fees and expenses of the Offering.

Listing and Trading:

The Corporation will apply to the TSXV to list the Rights and the Common Shares issuable on exercise of the Rights. Listing will be subject to the Corporation fulfilling the applicable listing requirements of the TSXV.

Risk Factors:

An investment in Common Shares is subject to certain risk factors that should be considered by prospective investors and their advisors. Such risks include, but is not limited to, those risks summarized below:

- if a Holder sells or does not exercise all of its Rights pursuant to the Basic Subscription Privilege, the Holder's percentage ownership in the Corporation will be diluted by the issuance of Common Shares upon the exercise of Rights by Holders;
- the Corporation has incurred significant losses to date, and there can be no assurance that future results will be profitable;
- there are no assurances that the Corporation will have sufficient funding and as a result there is significant doubt regarding the "going concern" assumption and, accordingly, the use of accounting principles applicable to a going concern and the ability of the Corporation to meet its obligations as they come due;
- the Corporation may fail to attract or retain the qualified and experienced personnel required to operate its business successfully;
- there are a number of key individuals in the Corporation who would be very difficult to replace in the short term and without whom the business would be adversely affected;
- the Offering is expected to be highly dilutive;
- the market price of the Common Shares has been volatile over various periods of time;
- until the Corporation pays dividends, which the Corporation may never do, you will not be able to receive a return on your Common Shares unless you sell them, which you may only be able to do at less than the price you paid for them; and
- the market price of the Common Shares could decline as a result of the issuances of additional Common Shares or sales by the Corporation's shareholders in the market after the Offering.

See "Risk Factors".

Eligibility for Investment:

In the opinion of Aird & Berlis LLP, counsel to the Corporation, provided the Rights are listed on a "designated stock exchange" (which currently includes Tiers 1 and 2 of the TSXV) at the relevant time, the Rights if issued on the date hereof, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan, registered disability savings plan or tax-free savings account (each a "**Registered Plan**"). See "*Eligibility for Investment*". Similarly, provided that the Common Shares issuable upon the exercise of Rights are listed on a designated stock exchange at the relevant time, the Common Shares so issuable, if issued on the date hereof, would be a qualified investment under the Tax Act for a trust governed by a Registered Plan.

Summary Financial Data

The following table sets forth selected financial information for the Corporation which has been derived from the financial statements of the Corporation. The table should be read in conjunction with “*Management's Discussion and Analysis*” and the financial statements of the Corporation and notes thereto appearing elsewhere in this prospectus. The financial information for the years ended December 31, 2011, 2010, and 2009 is based on the audited annual financial statements for the years ended December 31, 2011, 2010 and 2009 attached hereto as Appendix C and Appendix E. The financial information for the nine months ended September 30, 2012 is based on the unaudited interim financial statements for the nine months ended September 30, 2012 attached hereto as Appendix A.

Consolidated Statements of Operations and Comprehensive Loss and Deficits (in US\$ thousands, except per share amounts)

	Nine Months Ended September 30, 2012 (Unaudited)	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Total Assets	\$129,681	\$126,462	\$109,351	\$40,883
Total Liabilities	\$68,169	\$70,158	\$45,860	\$59,722
Total Shareholder Equity	\$61,512	\$56,304	\$63,491	(\$19,071)
Revenue				
Oilfield Services	\$ 47,362	\$ 58,785	\$ 33,577	\$ 31,078
Expenses				
Oilfield services	\$ 41,592	\$ 46,739	\$ 22,989	\$ 20,624
Depreciation of property plant and equipment	8,312	10,641	7,314	5,469
Amortization of intangible asset	-	2,547	172	-
Administrative expenses	8,029	13,241	6,834	4,885
Stock based compensation	-	821	-	-
Loss from associates	163	2,467	-	-
Interest and financial expenses, net	8,286	6,798	1,938	9,907
Other (income) expenses, net	(789)	1,809	(10,903)	903
Impairment	-	5,694	-	-
Foreign exchange loss	(706)	272	455	(1,747)
Earnings (loss) before income taxes	\$(17,525)	\$(32,244)	\$4,778	\$(12,457)
Income Taxes recovery (loss)	6	(2,273)	(1,925)	(1,110)
Net Income (Loss)	\$(17,519)	\$(29,971)	\$2,853	\$(11,347)
Currency translation reserve	617	(422)	502	-
Comprehensive Income (loss)	\$(16,902)	\$(30,393)	\$3,355	\$(11,347)

Net Income (loss) per share for loss attributable to the equity holders of the group during the year

Basic	\$(0.1054)	\$ (0.2447)	\$ 0.0467	\$ (0.7565)
Fully Diluted	\$(0.1012)	\$ (0.2447)	\$ 0.0465	\$ (0.7565)
Weighted average shares outstanding:				
Basic	167,564,953	123,265,519	60,403,811	15,000,001
Fully Diluted	173,103,207	123,265,519	61,299,861	15,000,001

DETAILS OF THE OFFERING

Description of Rights

Rights Generally

Each Shareholder is entitled to one (1) Right for each Common Share held on the Record Date. Rights are evidenced by Rights Certificates included with this mailing. Each Shareholder who is a resident of a Qualified Jurisdiction will receive a Rights Certificate evidencing the total number of Rights to which the Holder is entitled. Rights Certificates may not be held directly by and subscriptions for securities will not be accepted from Shareholders whose address of record is in a jurisdiction other than a Qualified Jurisdiction. Each • of a Right together with the payment of the Subscription Price entitles the Holder thereof to purchase one (1) Common Share.

Basic Subscription Right

Each • of a Right together with payment of the Subscription Price entitles the Holder thereof to purchase one (1) Common Share. The Rights may be exercised at any time prior to the Expiry Time on the Expiry Date. The Subscription Price payable on the exercise of the Rights is payable in Canadian funds by wire transfer, certified cheque, bank draft or money order payable to or to the order of the Subscription Agent or such other form of payment as is acceptable to the Corporation and the Subscription Agent.

Expiry Date and Time

The Rights will be eligible for exercise commencing on •. The Rights will expire at the Expiry Time on the Expiry Date. Rights not exercised prior to the Expiry Time on the Expiry Date will be void and of no value.

Additional Subscription Privilege

Any Holder of a Rights Certificate who subscribes for all of the Common Shares which such Rights Certificate (and any other Rights Certificate held by such Holder) entitles it to subscribe for has been granted an Additional Subscription Privilege to subscribe for Additional Common Shares at the Subscription Price on a pro rata basis with all other holders of Rights Certificates who exercised their Basic Subscription Right. The number of Common Shares available for such purpose, the Additional Common Shares, will be those Common Shares that have not been subscribed and paid for pursuant to the Basic Subscription Right.

Shareholders desiring to subscribe for Additional Common Shares pursuant to the Additional Subscription Privilege must indicate such desire and pay for any Additional Common Shares so subscribed for at the time they exercise their Rights to purchase Common Shares pursuant to the Basic Subscription Right in the manner hereinafter provided for.

If a sufficient number of Additional Common Shares are not available to satisfy all requests made pursuant to the Additional Subscription Privilege, each of the holders desiring to exercise their Additional Subscription Privilege will receive, on a *pro rata* basis with all other holders desiring to exercise the Additional Subscription Privilege, that number of Additional Common Shares described below. If all Rights offered are exercised, no Additional Common Shares will be available for the purposes of the Additional Subscription Privilege. See “*Additional Subscription Privilege*”.

Gross Proceeds

This Offering is not subject to receipt of any minimum gross proceeds. Assuming that all the Rights are exercised, the gross proceeds to the Corporation will be CDN\$ •

Eligible Shareholders

This Offering is made to all Shareholders whose last address as shown on the shareholders' register of the Corporation is in a Qualified Jurisdiction.

Dilution to Existing Shareholders

The Offering is expected to be highly dilutive. If a Shareholder wishes to retain its current percentage ownership in the Corporation and assuming that all Rights are exercised or if all unexercised rights are taken up under the Additional Subscription Privilege, it should purchase all of the Common Shares for which it may subscribe pursuant to the Rights delivered under the Offering. If that Shareholder does not do so and other holders of Rights exercise any of their Rights, that Shareholder's current percentage ownership in the Corporation will be diluted by the issue of Common Shares under this Offering.

Intention of Insiders to Exercise Rights

Ringo Holding, its affiliates and their related persons currently hold or exercise control or direction over 166,666,667 Common Shares which entitles it to receive 166,666,667 Rights to purchase approximately • Common Shares pursuant to the Offering. Ringo Holding has indicated it will subscribe for • Common Shares in accordance with the Basic Subscription Rights, and may additionally exercise the Additional Subscription Privilege.

To the knowledge of the Corporation, no director or officer of the Corporation has expressed their intention to exercise any of the Rights granted to them.

REGISTRATION AND DELIVERY OF SHARE CERTIFICATES

Certificates for the Common Shares subscribed for in accordance with this Offering will be mailed to the address of the subscriber as stated on the Rights Certificate, unless otherwise directed, as soon as practicable following the acceptance of such subscriber's subscription and the issuance of such Common Shares by the Corporation. Certificates for Common Shares will not be mailed to addresses outside of the Qualified Jurisdictions, except as described under "*Ineligible Shareholders*".

SUBSCRIPTION AND TRANSFER AGENT

Olympia Trust Company, at the following addresses (the "**Subscription Offices**"), has been appointed as the Subscription Agent to receive subscriptions and payments and to transfer Rights under the Offering. The Subscription Agent is also the registrar and transfer agent for the Common Shares.

Olympia Trust Company
120 Adelaide Street West, Suite 920
Toronto, Ontario M5H1T1

Attention: Corporate Services

The Subscription Agent can be reached by telephone at 1-800-727-4493 and by email at cssinquiries@olympiustrust.com.

HOW TO USE THE RIGHTS CERTIFICATE

By completing the appropriate form on the Rights Certificate in accordance with the instructions in this prospectus and on the back of the Rights Certificate, a Holder of Rights may:

- (a) Purchase Common Shares pursuant to the exercise of the Basic Subscription Right (Form 1). See *"How to Subscribe for Common Shares"*.
- (b) Purchase Additional Common Shares pursuant to the Additional Subscription Privilege (Form 2). See *"Additional Subscription Privilege"*.
- (c) Sell or transfer Rights (Form 3). See *"Sale and Transfer of Rights"*.
- (d) Divide or combine Rights Certificates (Form 4). See *"Dividing or Combining Rights Certificates"*.

HOW TO SUBSCRIBE FOR COMMON SHARES

1. **Basic Subscription Right.** Complete and sign Form 1 of the Rights Certificate in accordance with the instructions thereon. The number of Common Shares which may be subscribed for pursuant to the Basic Subscription Right is equal to the number of Rights set forth on the face of the Rights Certificate multiplied by $\frac{1}{10}$ (being one (1) Common Share for every $\frac{1}{10}$ of a Right). Subscriptions may be for whole Common Shares only. Fractional Common Shares will not be issued.
2. **Additional Subscription Privilege.** Complete and sign Form 2 of the Rights Certificate in accordance with the instructions thereon only if you wish to participate in the Additional Subscription Privilege. In order to participate in the Additional Subscription Privilege, a Holder of Rights must exercise all of its Rights in full. See *"Additional Subscription Privilege"*.
3. **Payment of the Subscription Price.** Enclose payment of the Subscription Price of \$ $\frac{1}{10}$ for each Common Share subscribed for under the Basic Subscription Right and, if applicable, the Additional Subscription Privilege, by wire transfer, certified cheque, bank draft or money order in Canadian funds payable to the order of "Computershare Investor Services Inc." Holders wishing to submit payment of the Subscription Price by wire transfer must contact the Subscription Agent for instructions. See *"Payment"*.
4. Mail or deliver the completed Rights Certificate together with the full payment of the Subscription Price in sufficient time to reach the Subscription Agent at one of the Subscription Offices before 5:00 p.m. (Toronto Time) on the Expiry Date. If mail is used for delivery of the subscription, sufficient time must be allowed to avoid late delivery. The use of registered mail is suggested. Rights Certificates and payments received after 5:00 p.m. (Toronto Time) on the Expiry Date cannot be accepted. See *"Subscription and Transfer Agent"* above and *"Expiry Date and Time"*.

A Holder of Rights who exercises their Rights in accordance with the foregoing will receive, as soon as practicable after the acceptance of such subscriber's subscription and the issuance of such Common Shares by the Corporation, a share certificate representing the Common Shares so subscribed for, unless they are a participant in the CDS Clearing and Depository Services Inc. book-based system. See *"Registration and Delivery of Share Certificates"* above.

If a Holder of Rights is unsure how to subscribe, they should contact the Subscription Agent at 1-800-727-4493.

The Corporation may, in its sole discretion, choose to accept subscriptions received and issue Common Shares subscribed for at any time and from time to time prior to the Expiry Date.

ADDITIONAL SUBSCRIPTION PRIVILEGE

Any Holder of a Rights Certificate who exercises the Basic Subscription Right to subscribe for all of the Common Shares that can be subscribed for with the Rights evidenced by that Rights Certificate (and all other Rights Certificates held by such Holder) is entitled to subscribe for Additional Common Shares at the Subscription Price on

a *pro rata* basis with all other holders of Rights Certificates who fully exercised their Basic Subscription Right. The Additional Common Shares will be those, if any, that have not been subscribed and paid for under the Basic Subscription Right.

To exercise the Additional Subscription Privilege, any Holder of a Rights Certificate who completes Form 1 for the maximum number of Common Shares that can be subscribed for with the number of Rights evidenced by that Rights Certificate must also complete Form 2 and specify the number of Additional Common Shares desired to be subscribed for. **The completion of Form 2 constitutes a binding commitment to subscribe for the number of Additional Common Shares specified. The aggregate Subscription Price for Additional Common Shares must accompany the Rights Certificate when it is delivered to the Subscription Agent, and is payable in Canadian funds by wire transfer, certified cheque, bank draft or money order payable to the order of "Computershare Investor Services Inc."**

Funds for the Additional Common Shares will be placed in a segregated non-interest bearing account pending allocation of the Additional Common Shares in the manner contemplated herein, and any funds in excess of the Subscription Price of the Additional Common Shares so allocated will be returned by mail without interest or deduction. If there are sufficient Additional Common Shares to satisfy all subscriptions by participants in the Additional Subscription Privilege, each such participant will be allotted the number of Additional Common Shares for which he or she has subscribed.

If the aggregate number of Additional Common Shares subscribed for by all holders who exercise the Additional Subscription Privilege exceeds the number of Additional Common Shares available, each Holder of Rights who exercises the Additional Subscription Privilege will be entitled to receive the number of Additional Common Shares that is the lesser of:

- (a) the number of Additional Common Shares subscribed for by the Holder under the Additional Subscription Privilege; and
- (b) the product (disregarding fractions) of the aggregate number of Additional Common Shares available through unexercised Rights, multiplied by a fraction, of which the numerator is the number of Rights exercised by the Holder under the Basic Subscription Right, and of which the denominator is the aggregate number of Rights exercised under the Basic Subscription Right by all holders of Rights who exercise the Additional Subscription Privilege.

If any Holder has subscribed for fewer Additional Common Shares than the number resulting from the application of the formula in (b) above, the excess Additional Common Shares will be allocated in the manner described above among the holders who were allocated fewer Additional Common Shares than they subscribed for.

As soon as practicable after the Expiry Date, the Subscription Agent will send to each subscriber who has exercised the Additional Subscription Privilege a certificate evidencing the number of Additional Common Shares allocated to such subscriber and will return to the subscriber any excess funds paid, without interest or deduction.

SALE AND TRANSFER OF RIGHTS

The Corporation will apply to the TSXV to have the rights listed for trading on the TSXV. Listing will be subject to the Corporation fulfilling the applicable listing requirements of the TSXV. The outstanding Common Shares are listed and posted for trading on the TSXV under the trading symbol "EEN".

Holders who do not wish to exercise their Rights may sell or transfer their Rights in Canada through the usual investment channels, such as investment dealers and brokers, at the Holder's expense. Holders of Rights Certificates may elect to exercise only a part of their Rights and sell or transfer the remainder.

To transfer the Rights, complete Form 3 on the Rights Certificate and have the signature guaranteed by a Canadian Schedule 1 chartered bank, a member of the Securities Transfer Agents Medallion Program (STAMP), a member of the Stock Exchange Medallion Program (SEMP) or a member of the New York Stock Exchange Inc. Medallion Signature Program (MSP) or otherwise guaranteed to the satisfaction of the Subscription Agent. Members of these programs are usually members of a recognized stock exchange in Canada or the United States, members of the Investment Industry Regulatory Organization of Canada, members of the Financial Industry Regulatory Authority or banks and trust companies in the United States. It is not necessary for a transferee to obtain a new Rights Certificate to exercise the Basic Subscription Right or the Additional Subscription Privilege, but the signature of the transferee on any one or more of the Forms must correspond in every particular with the name of the transferee shown on Form 3. If Form 3 is properly completed, then the Corporation and the Subscription Agent will treat the transferee (or the bearer if no transferee is specified) as the absolute owner of the Rights Certificate for all purposes and will not be affected by any notice to the contrary. Restrictions will apply to the ability of residents outside of the Qualified Jurisdictions (including residents of the United States of America and the United Kingdom) to receive and therefore to sell or transfer their Rights. See *"Ineligible Shareholders"*.

DIVIDING OR COMBINING RIGHTS CERTIFICATES

Rights Certificates may be divided or combined by completing Form 4 and delivering such Rights Certificates to the Subscription Agent at the Subscription Office listed under *"Subscription and Transfer Agent"*. This should be done in time for the new Rights Certificate(s) to be issued and used before the Expiry Time on the Expiry Date. Rights Certificates need not be endorsed if the new Rights Certificate(s) is issued in the same name.

VALIDITY AND REJECTION OF SUBSCRIPTIONS

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription will be determined by the Corporation in its sole discretion, whose determination shall be final and binding. All subscriptions are irrevocable. The Corporation reserves the absolute right to reject any subscription if such subscription is not in proper form or if the acceptance thereof or the issuance of Common Shares pursuant thereto could be deemed unlawful. The Corporation also reserves the right to waive any defect with regard to any particular subscription. Neither the Corporation nor the Subscription Agent will be under any duty to give any notification of any defect or irregularity in such subscriptions nor shall either of them incur any liability for failure to give such notification.

EXPIRY DATE AND TIME

The Rights expire at the Expiry Time on the Expiry Date.

To subscribe for Common Shares, a duly completed Rights Certificate and payment in full of the Subscription Price must be received at one of the offices of the Subscription Agent listed under *"Subscription and Transfer Agent"* by the Expiry Time on the Expiry Date. Rights not exercised by 5:00 p.m. (Toronto Time) on • will be void and of no value.

PAYMENT

The Subscription Price is payable in Canadian funds by wire transfer, certified cheque, bank draft or money order payable to the order of "Olympia Trust Company". Holders wishing to submit payment of the Subscription Price by wire transfer must contact the Subscription Agent for instructions.

The entire Subscription Price for all Common Shares subscribed for, including Additional Common Shares subscribed for under the Additional Subscription Privilege, must be paid at the time of subscription.

SIGNATURES

When any form on the Rights Certificate is signed by the original Holder, the signature must correspond in every particular with the name of the original Holder as it appears on the face of the Rights Certificate.

If a form is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a corporation or any other person acting in a fiduciary or representative capacity, the Rights Certificate should be accompanied by evidence of authority satisfactory to the Subscription Agent and the signature guaranteed by a Canadian Schedule 1 chartered bank, a member of the Securities Transfer Agents Medallion Program (STAMP), a member of the Stock Exchange Medallion Program (SEMP) or a member of the New York Stock Exchange Inc. Medallion Signature Program (MSP) or otherwise guaranteed to the satisfaction of the Subscription Agent. Members of these programs are usually members of a recognized stock exchange in Canada or the United States, members of the Investment Industry Regulatory Organization of Canada, members of the Financial Industry Regulatory Authority or banks and trust companies in the United States.

INELIGIBLE SHAREHOLDERS

This prospectus constitutes an offering of securities of the Corporation only in the Qualified Jurisdictions. The Rights and the Common Shares issuable on exercise of the Rights have not been and will not be registered under the United States Securities Act of 1933, as amended. The Common Shares are not being offered to persons whose addresses of record are in any Ineligible Jurisdiction and the mailing of this prospectus to any such persons does not constitute an offer to issue or sell securities to such persons. Subject to the exception described below, neither the Corporation nor the Subscription Agent will accept subscriptions from any Shareholder or from any transferee of Rights who is or appears to be, or who the Subscription Agent has reason to believe is, an Ineligible Shareholder.

Notwithstanding the foregoing, Ineligible Shareholders who establish to the satisfaction of the Corporation in its sole discretion that the receipt by them of the Rights and the issuance to them of Common Shares upon the exercise of the Rights will not be in violation of the laws of their jurisdiction of residence, contravene any of the applicable securities legislation in such jurisdiction or trigger any obligation on the part of the Corporation to prepare and file a prospectus or similar document, including a registration statement or offering memorandum, in such jurisdiction, will be allowed to exercise the Rights. Rights Certificates will not be issued and forwarded by the Corporation to Ineligible Shareholders except for Ineligible Shareholders who establish to the satisfaction of the Corporation that the receipt by them of the Rights and the issuance to them of Common Shares upon the exercise of the Rights will not be in violation of the laws of their jurisdiction of residence, contravene any of the applicable securities legislation in such jurisdiction or trigger any obligation on the part of the Corporation to prepare and file a prospectus or similar document, including a registration statement or offering memorandum, in such jurisdiction. Shareholders will be presumed to be resident in the place of their registered address, unless the contrary is shown to the satisfaction of the Corporation. Rights Certificates in respect of Ineligible Shareholders will be issued to and held by the Subscription Agent as agent for the benefit of Ineligible Shareholders. The Subscription Agent will hold the Rights until • (nine days before the Expiry Date) in order to give Ineligible Shareholders an opportunity to prove to the satisfaction of the Corporation that they are residents of a Qualified Jurisdiction or that the issue of Common Shares pursuant to the exercise of Rights will not be in violation of the laws of the applicable jurisdiction, contravene any of the applicable securities legislation in such jurisdiction or trigger any obligation on the part of the Corporation to prepare and file a prospectus or similar document, including a registration statement or offering memorandum, in such jurisdiction. Following such date, the Subscription Agent shall deliver the Rights Certificates representing the Rights of such Ineligible Shareholders to a broker selected by the Corporation who will, for the account of Ineligible Shareholders, prior to the Expiry Date, attempt to sell the Rights allocable to such Ineligible Shareholders on such date or dates and at such price or prices as such broker shall determine in its sole discretion. Neither the Corporation, the Subscription Agent nor such broker will be subject to any liability for the failure to sell any Rights of Ineligible Shareholders or as a result of the sale of any Rights at a particular price or on a particular day.

No charge will be made for the sale of such Rights by the broker except for a proportionate share of any brokerage commissions incurred and the costs of, or incurred in connection with, the sale of the Rights. Ineligible Shareholders will not be entitled to instruct the Corporation, the Subscription Agent or the applicable broker in respect of the price or the time at which the Rights are to be sold. The chosen broker will endeavour to effect sales of Rights on the open market and any proceeds received by the Subscription Agent with respect to the sale of Rights net of brokerage fees and costs incurred and, if applicable, of the Canadian tax required to be withheld, will be divided on a *pro rata* basis among such Ineligible Shareholders and delivered by mailing cheques (in Canadian funds) of the Subscription Agent therefor as soon as practicable to such Ineligible Shareholders at their addresses recorded on the books of the Corporation. Amounts of less than CDN\$1.00 will not be remitted. The Subscription Agent will act in its capacity as agent of the Rights holders on a best efforts basis only and the Corporation and the Subscription Agent do not accept responsibility for the price obtained on the sale or the inability to sell the Rights on behalf of any Ineligible Shareholder.

Holders of Rights who are Ineligible Shareholders should be aware that the acquisition and disposition of Rights and Common Shares may have tax consequences in the jurisdiction where they reside and in Canada which are not described herein.

DELIVERY OF RIGHTS BY INTERMEDIARIES

Rights delivered to brokers, dealers or other intermediaries may not be delivered by such intermediaries to beneficial owners of Common Shares unless they are resident in the Qualified Jurisdictions. Intermediaries receiving Rights which would otherwise be deliverable to non-residents of the Qualified Jurisdictions should attempt to sell such Rights for the accounts of such residents of Ineligible Jurisdictions and should deliver any proceeds of sale to such residents.

ELIGIBILITY FOR INVESTMENT

In the opinion of Aird & Berlis LLP, counsel to the Corporation, provided the Rights are listed on a “designated stock exchange” (which currently includes Tiers 1 and 2 of the TSXV) at the relevant time, the Rights if issued on the date hereof, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan (“RRSP”), registered retirement income fund (“RRIF”), deferred profit sharing plan, registered education savings plan, registered disability savings plan and tax-free savings accounts (“TFSA”) (each a “Registered Plan”). Similarly, provided the Common Shares issuable upon the exercise of Rights are listed on a designated stock exchange at the relevant time, the Common Shares so issuable, if issued on the date hereof, would be a qualified investment for a trust governed by a Registered Plan.

Notwithstanding that Rights and Common Shares may be a qualified investment for a trust governed by a RRSP, RRIF or TFSA, the annuitant holder of a TFSA will be subject to a penalty tax in respect of the Rights and Common Shares, if such Rights and Common Shares are “prohibited investments” (as defined in the Tax Act) for the RRSP, RRIF or TFSA, as the case may be. The Rights and Common Shares will not be a “prohibited investment” for a trust governed by a RRSP, RRIF or TFSA provided that the annuitant of the RRSP or RRIF or holder of the TFSA, as applicable, deals at arm's length with the Corporation for purposes of the Tax Act and does not have a significant interest (within the meaning of the Tax Act) in the Corporation or any person or partnership with which the Corporation does not deal at arm's length for purposes of the Tax Act. On December 21, 2012, The Department of Finance released further amendments to the prohibited investment rules to exclude from their application three broad categories of “excluded property”, which includes equity of a corporation that meets seven conditions, which, in effect, test whether an investment represents a low risk of self-dealing even though the investment would or might otherwise be a prohibited investment. Annuitants of a RRSP or RRIF and holders of a TFSA should consult their own tax advisors as to whether Rights or Common Shares will be prohibited investments in their particular circumstances.

USE OF PROCEEDS

Assuming exercise of all Rights issued, the gross proceeds from the rights issue are estimated to be approximately CDN\$ • , net of expenses, the proceeds are estimated to be CDN\$ • .

The net proceeds of the Offering will be used to repay a portion of its existing unsecured indebtedness and its outstanding accounts payable and fund the Corporation's operating expenses.

As at • , 2013, the Corporation was indebted to Ringo Holding in the aggregate amount of CDN\$10,000,000. The Corporation intends to use the proceeds of the Offering first to repay amounts advanced to the Corporation by Ringo Holding on or prior to the date hereof, together with accrued and unpaid interest thereon and the remaining proceeds will be allocated to general corporate expenses, as outlined in the table below.

The table below outlines the full use of proceeds of the Offering:

Description	CDN\$
Repayment of amounts owing to Ringo Holding	•
General Corporate Purposes	•
Total	•

The Corporation intends to spend the funds available to it as stated herein. There may be circumstances, however, where for sound business reasons, a reallocation may be necessary.

RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. The securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Aird & Berlis LLP, counsel to the Corporation, the following is a general summary of the principal Canadian federal income tax considerations for Canadian residents concerning the Rights issuable under the Offering and the Common Shares issuable on the exercise of Rights. **This summary is only applicable to Shareholders who, for the purposes of the Tax Act, are resident in Canada and will hold the Rights and the Common Shares issued pursuant to the exercise of the Rights, as capital property are not affiliated with the Corporation and deal with the Corporation at arm's length.** This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "**Regulations**") and counsel's understanding of the current published administrative practices of the Canada Revenue Agency (the "**CRA**"). This summary also takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**") and assumes the Tax Proposals will be enacted in the form proposed, although no assurance can be given that the Tax Proposals will be enacted in their current

form, or at all. This summary does not otherwise take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action, or the CRA's published administrative practices.

Rights issued under the Offering and the Common Shares issuable on the exercise of Rights will generally constitute capital property of a Shareholder unless such Rights or Common Shares are held in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying and selling securities, or are acquired in a transaction or transactions considered to be an adventure in the nature of trade. Certain Shareholders that are resident in Canada for the purposes of the Tax Act whose Common Shares issuable on the exercise of Rights might not otherwise be considered to be capital property may be eligible to make an irrevocable election under subsection 39(4) of the Tax Act to have the Common Shares issuable on the exercise of Rights and every other "Canadian security" (as defined in the Tax Act) owned by such Shareholder in the taxation year of the election and all subsequent years deemed to be capital property. This election is not available in respect of Rights. Shareholders should consult their own tax advisors as to whether they hold their Rights or Common Shares issuable on the exercise of Rights as capital property for purposes of the Tax Act and whether the above-noted election is available and advisable having regard to their own particular circumstances.

This summary does not apply to a Shareholder (i) that is a "financial institution" or "specified financial institution" as defined for purposes of the Tax Act, (ii) an interest in which is a tax shelter investment for the purposes of the Tax Act, (iii) that has elected to report its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian currency, or (iv) that is a corporation resident in Canada and is, or becomes a part of a transaction or event or series of transactions or events that includes the acquisition of Common Shares, controlled by a non-resident corporation for the purposes of the foreign affiliate dumping rules in Section 212.5 of the Tax Act. Such Shareholders should consult their own tax advisors.

This summary, insofar as it is addressed to existing Shareholders, assumes a level of knowledge based on Shareholders' current investment.

This summary is of a general nature only and does not take into account or consider the tax laws of any province or territory or of any jurisdiction outside Canada, which may differ significantly from the Canadian federal income tax considerations discussed in this summary. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular Shareholder, and no representations concerning the tax consequences to any particular Shareholder are made. Shareholders should consult their own tax advisers regarding the income tax considerations applicable to them having regard to their particular circumstances.

Receipt of Rights

A Shareholder that receives a Right pursuant to this Offering shall not be required to include the value of such Rights in computing the Shareholder's Income for purposes of the Tax Act. The cost to a Shareholder of a Right received pursuant to this Offering will be nil.

Exercise of Rights

The exercise of Rights will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized upon the exercise of Rights. A Common Share acquired by a Shareholder upon the exercise of Rights will have a cost to the Shareholder equal to the aggregate of the subscription price for such Common Share and the adjusted cost base to the Shareholder of the Rights so exercised. The adjusted cost base of a Common Share acquired by a Shareholder upon the exercise of Rights will be determined by averaging the cost of such Common Share with the adjusted cost base to the Shareholder of all other Common Shares (if any) held by the Shareholder as capital property at that time.

Disposition of Rights or Common Shares

A Shareholder who disposes of or is deemed to dispose of Rights (otherwise than by exercise of the Right) or Common Shares, will realize a capital gain (or a capital loss) equal to the amount, if any, by which the proceeds of disposition exceed (or are exceeded by) the aggregate of the Shareholder's adjusted cost base of the security so disposed of immediately before the disposition and any reasonable costs of disposition. Upon the expiry of a Right, the Holder will realize a capital loss equal to the amount, if any, of the Shareholder's adjusted cost base thereof. Any such capital loss will be subject to the treatment described below.

A Shareholder will be required to include in income one-half of any capital gain (a “**taxable capital gain**”) realized on a disposition or deemed disposition of a Right or a Common Share. Subject to and in accordance with the provisions of the Tax Act, a Shareholder will generally be required to deduct one-half of any capital loss (an “**allowable capital loss**”) realized on the disposition or expiry of Rights or the disposition of Common Shares in a particular taxation year against taxable capital gains realized in that same taxation year. Excess allowable capital losses generally may be carried back and deducted in any of the three preceding taxation years and forward indefinitely and deducted against taxable capital gains realized in those years, to the extent and under the circumstances specified in the Tax Act. Capital gains realized by an individual or trust other than certain trusts, may give rise to alternative minimum tax under the Tax Act. A Shareholder that is a “Canadian-controlled private corporation”, as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 2/3 per cent on taxable capital gains. This tax will generally be refunded to such Shareholder at the rate of CDN\$1 for every CDN\$3 of taxable dividends paid by it while it is a private corporation.

The amount of any capital loss arising on a disposition or deemed disposition of Common Shares may, in certain circumstances, be reduced by the amount of dividends received or deemed to have been received by the Shareholder on such shares. Similar rules may apply where a Corporation is a member of a partnership or beneficiary of a trust that owns Common Shares. Shareholders to whom these rules may be relevant should consult their own tax advisors.

Dividends

A Shareholder will be required to include in computing its income for a taxation year any taxable dividends received or deemed to be received on the Common Shares. In the case of a Shareholder that is an individual (other than certain trusts), such dividend will be subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations. Taxable dividends received from a taxable Canadian corporation that are designated by the corporation as “eligible dividends” will be subject to an enhanced gross-up and tax credit regime in accordance with the rules in the Tax Act. There may be limitations on the ability of the Corporation to designate all dividends as “eligible dividends”. In the case of a Shareholder that is a corporation, the amount of any such taxable dividend that is included in its income for a taxation year will generally be deductible in computing its income for that taxation year.

PLAN OF DISTRIBUTION

The Rights and Common Shares issuable upon the exercise of Rights offered hereby have not been and will not be registered under the U.S. Securities Act and accordingly may not be offered or sold in the United States or any other Ineligible Jurisdiction.

Notwithstanding the foregoing, Ineligible Shareholders who establish to the satisfaction of the Corporation that the receipt by them of the Rights and the issuance to them of Common Shares upon the exercise of the Rights will not be in violation of the laws of their jurisdiction of residence, contravene any of the applicable securities legislation in such jurisdiction or trigger any obligation on the part of the Corporation to prepare and file a prospectus or similar document, including a registration statement or offering memorandum, in such jurisdiction, will be allowed to exercise the Rights.

STOCK EXCHANGE LISTING

The Corporation's Common Shares are listed on the TSXV. The Rights will be listed for trading on the TSXV under the symbol "EEN.RT" commencing on • will trade under normal settlement rules until • and after that will trade on a cash only basis until the Expiry Date at which time they will be halted from trading. The TSXV has conditionally approved the listing of the Rights and the Common Shares issuable on exercise of the Rights. Listing will be subject to the Corporation fulfilling the applicable listing requirements of the TSXV.

INFORMATION CONCERNING THE CORPORATION

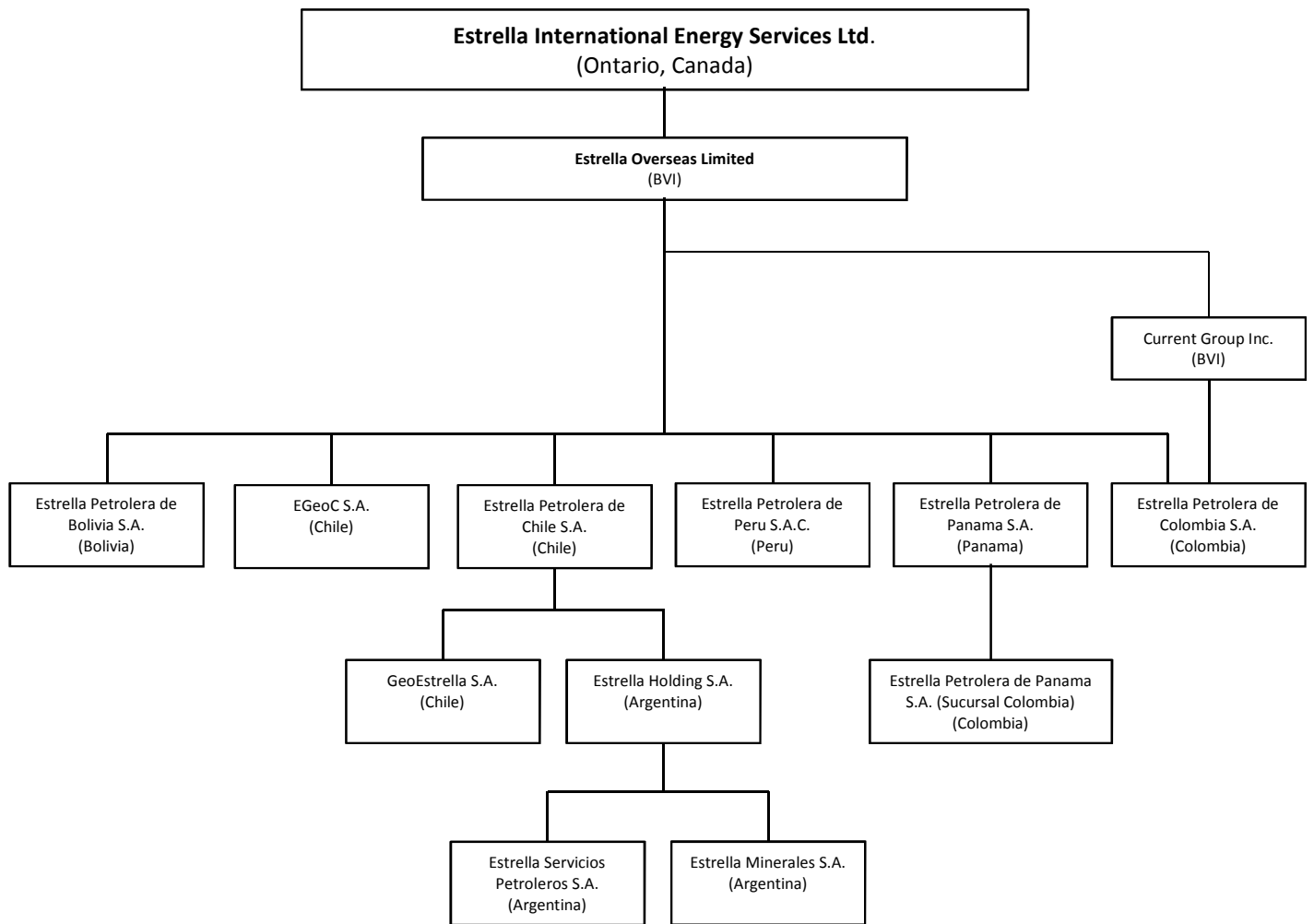
Name, Address and Incorporation

Estrella International Energy Services Ltd. ("**Estrella**" or the "**Corporation**") was incorporated pursuant to the provisions of the *Business Corporations Act (Alberta)* on January 11, 2007 under the name Everest Ventures Corp. The articles were amended on June 25, 2010 to change the name of the Corporation to "Estrella International Energy Services Ltd." and to consolidate the then existing issued and outstanding Common Shares of the Corporation on a 5.27625 for 1 basis. The articles were further amended on November 26, 2010, to create a class of Series A Convertible Preference Shares. On July 11, 2011 the Corporation was continued under the laws of the Province of Ontario pursuant to the provisions of the *Business Corporations Act (Ontario)*.

The registered office of the Corporation is located at 11 King Street West, Suite 700, Toronto, Ontario, M5H 4C7. The head office of the Corporation is located at Carlos Pellegrini 1023, 1st Floor, Buenos Aires, Argentina, C1009 ABU.

Intercorporate Relationships

The corporate ownership structure of the Corporation is set forth in the diagram below. The jurisdiction of incorporation of each of the Corporation and its subsidiaries is indicated below its name:



Description of the Business

Estrella is an oil and natural gas, geothermal and mining service company with operations throughout South America. Estrella has one reportable business segment, drilling services. Within this segment, Estrella has the following principal business units: (i) drilling and workover rig services; (ii) directional drilling services; and (iii) consulting and engineering services. The Corporation is headquartered in Buenos Aires, Argentina, and has operating locations in six countries as indicated by stars shown in the map below.



RECENT DEVELOPMENTS

2012

Subordinated Loan From Ringo Holding L.P. On December 17, 2012, Ringo Holding L.P., the controlling shareholder of Estrella agreed to loan US\$10 Million to the Corporation, which loan can be increased in the sole discretion of Ringo Holding to up to US\$20 Million (the “**Shareholder Loan**”). The Shareholder Loan bears interest at the rate of 12% per annum for the period from December 17, 2012 to September 17, 2013, and 14% per annum at all times thereafter. On December 17, 2012, Ringo Holding disbursed US\$10 Million on the Shareholder Loan. The proceeds from the Shareholder Loan were used to repay existing debt, refinance certain short term debt obligations, finance working capital obligations associated with new rig contracts and for general corporate purposes.

Private Placement with Ringo Holding L.P. On August 10, 2012, the Corporation completed a private placement of 166,666,667 units (“**Units**”) of the Corporation to Ringo Holding at a price of CDN\$0.15 per Unit, for gross proceeds of CDN\$25,000,000. Each unit was comprised of 1 Common Share and 0.4 Common Share purchase warrants, with each whole warrant entitling the Holder to purchase 1 Common Share at an exercise price of CDN\$0.15 per share for a period of 18 months from the date of issuance (subject to adjustment)¹. Following closing, Ringo Holding held approximately 55.7% of the outstanding Common Shares, resulting in the creation of a new control person of the Corporation, as defined by the policies of the TSXV. The Private Placement and the creation of the new control

¹ After six months from the date of issuance, if the 10 day weighted average market price of the Common Shares is greater than \$0.25, the exercise price of the warrants will be equal to the higher of \$0.15 or 90% of the current market price of Estrella common shares on the TSXV.

person was approved by the shareholders of the Corporation at its annual general and special meeting of shareholders held on July 25, 2012.

Debt Repayment : During 2012, the Corporation repaid US\$18.9 million of outstanding principal and interest on its existing senior credit facility (the “**CS Facility**”) with Credit Suisse AG (“**Credit Suisse**”), reducing such indebtedness from US\$31.4 million to US\$12.5million. In connection with such repayment, all the CS Warrants (as defined below) were returned to the Corporation for cancellation at no additional cost to the Corporation. In addition, the Corporation reduced the principal amount owing on its January 2011 Convertible Debentures (as defined below) by CDN\$3.9 million, reducing the principal amount owing from CDN\$15 million to CDN\$11.1 million. Finally, the Corporation repaid US\$1.9 million of existing indebtedness owing to local South American banks but assumed US\$2.6 million of new lease debt relating to Petroland (as defined below) and capital expenditures financed by leasing contracts.

Acquisition of the 100% of Zigma. On February 23, 2012, the Corporation acquired the remaining 51% of the issued and outstanding shares of Zigma Colombia Petroleum Services S.A. (“**Zigma**”). Zigma was an oil field service company headquartered in Bogotá, Colombia which operated three drilling and two workover rigs. Estrella initially acquired a 49% interest in Zigma on March 14, 2011. The purchase price of the 51% interest was satisfied by the Corporation as follows: payment of US\$500,000 in cash; the assignment of US\$2,450,000 in net receivables of Zigma to the sellers; and the assumption of approximately US\$4 million in debt. In addition, Estrella reserved up to 3,125,000 Common Shares and up to 750,000 Class B Preference Shares for issuance to the sellers. The Common Shares and Preference Shares are being reserved by Estrella as security for outstanding contingencies of Zigma. The contingencies were resolved on December 17, 2012, and no Common Shares and no Class B Preference Shares will be issued to the sellers.

Discontinuance of Acquisition of Petroland. On February 23, 2012, the Corporation notified the sellers of the remaining 51% of the shares of Petroland SAS (“**Petroland**”), that it would not proceed with the closing of the transaction as originally contemplated. The Corporation elected not to proceed due to the inability of the sellers to satisfy certain key conditions precedent to closing. On May 31, 2012 the Corporation reached a final resolution with the sellers of Petroland, and on June 26, 2012, in exchange for the monies previously paid to the sellers by the Corporation for its acquisition of a 49% interest in Petroland (US\$1.1 Million), and the monies invested in Petroland by the Corporation to support Petroland’s operations and improve its rig fleet during 2011 (US\$4.1 Million), the Corporation received three 550 HP drilling/workover rigs from Petroland and returned shares representing its 49% ownership in Petroland to the sellers. The Corporation also purchased certain additional peripheral assets from Petroland at the depreciated book value of such assets, at an estimated value of US\$1 Million. Following these actions, the Corporation had no further obligations to the seller.

2011

\$20,000,000 Bought Deal Public Offering. On April 29, 2011, the Corporation completed a bought deal public offering of 28,600,000 Common Shares at an issue price of CDN\$0.70 per share for aggregate gross proceeds of CDN\$20,020,000. The offering was made pursuant to a short form prospectus dated April 21, 2011. The Offering was conducted by Canaccord Genuity Corp. and Macquarie Capital Markets Canada Ltd. as co-lead underwriters.

Acquisition of 49% Petroland and Zigma. On March 14, 2011, the Corporation closed the acquisition of 49% of the issued and outstanding shares of each of Petroland and Zigma, oil and gas services companies based in Colombia, for an aggregate purchase price of approximately US\$10.5 million. The acquisitions were funded with the proceeds of the CDN\$15,000,000 Bought Deal Private Placement (described below). On closing of the acquisitions, the Corporation was granted options to acquire the remaining 51% of the companies.

\$15,000,000 Bought Deal Private Placement. On January 24, 2011, the Corporation closed a CDN\$15,000,000 private placement of subscription receipts (the “**Subscription Receipts**”) underwritten by Canaccord Genuity Corp. Each Subscription Receipt entitled the holder to receive, without payment of additional consideration or further action, one unit (“**January 2011 Unit**”) at a price of CDN\$100,000 per Unit. Each January 2011 Unit consisted of:

(a) one CDN\$100,000 par value 5-year convertible subordinated unsecured debenture bearing a coupon interest rate of 12% per annum, payable semi-annually in arrears either in cash or Common Shares (the “**January 2011 Convertible Debentures**”); and (b) one Common Share purchase warrant (the “**January 2011 Warrants**”) entitling the holder thereof to acquire 12,500 Common Shares at CDN\$0.80 per Common Share, exercisable for a period of 5 years from January 24, 2011. The Subscription Receipts were automatically converted into the January 2011 Units on March 14, 2011. The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest, is at the option of the respective debenture holder, convertible into Common Shares at any time at a conversion price of CDN\$1.00 per share. The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest are redeemable, in whole or in part, at the option of Estrella without penalty, at any time provided that the weighted average trading price of the Common Shares, for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than CDN\$1.50. Estrella may satisfy its obligation to repay the principal amount of the January 2011 Convertible Debentures on redemption or maturity, by payment in Common Shares with a deemed issue price equal to 95% of the current market price of the Common Shares on the TSX-V or the TSX as applicable.

Transition to International Financial Reporting Standards. As of January 1, 2011, Estrella began preparing its financial statements under International Financial Reporting Standards (“**IFRS**”) and future financial statements will be prepared in compliance with IFRS as if Estrella had always followed these standards. The transition to IFRS did not materially impact debt covenants or affect cash flows. Except for changes to management reports, no significant changes to internal controls over financial reporting or disclosure were required as a result of the transition to IFRS, as of September 30, 2012.

2010

Acquisition of STS. On November 24, 2010, the Corporation acquired a 100% interest in Colombian based STS de los Andes S.A.S. (“**STS**”) from its shareholders for a purchase price of approximately US\$20 Million. STS is a leading provider of workover rigs and related services to the oil and gas sector in Colombia. It had a modern fleet of five rigs that fit well into the profile of mobile, high quality rigs that Estrella offers to its customers. STS had, at the time of acquisition, approximately 180 employees and staff split between offices in Bogota and its operational center in Bucaramanga. The purchase price for the acquisition of STS was satisfied as follows: 1) a cash payment of US\$14,250,000 and the assumption of approximately US\$1,000,000 of net financial debt. The balance of the purchase price was satisfied by issuing to the vendors 4,750,000 Series A preference shares (“**Series A Preference Shares**”) in the capital of Estrella. The Series A Preference Shares issued in connection with the acquisition are subject to an escrow agreement to secure payment of potential contingency obligations of the vendors to Estrella.

Senior Credit Facility. On November 30, 2010, the Corporation established the CS Facility with Credit Suisse (the for a total capacity of US\$32 million. On closing, the Corporation drew US\$14.25 Million on the CS Facility which was used to satisfy the cash portion of the purchase price of STS. The remainder of the draw was used to finance the purchase of one additional rig in Bolivia, and for working capital purposes. The credit agreement dated November 30, 2010, made between, among others, Credit Suisse and the Corporation, also includes the option to increase the facility up to US\$80 million. In connection with the advance of US\$32 million under the CS Facility on December 1, 2010, the Corporation issued 3,072,000 transferable Common Share purchase warrants (“**CS Warrants**”) to Credit Suisse. On August 12, 2012, all of the CS Warrants were cancelled in connection with the repayment of US\$18.9 million of CS Facility by the Corporation to Credit Suisse.

Going Public Transaction. On June 25, 2010 the Corporation consolidated its existing issued and outstanding Common Shares on a 5.27625:1 (pre-consolidated : post-consolidated) basis and changed its name to “Estrella International Energy Services Ltd.”. The Corporation then completed a reverse takeover transaction (“**Reverse Takeover**”) with Estrella Overseas Limited (“**EOL**”), whereby EOL became a wholly owned subsidiary of the Corporation. In connection with the Reverse Takeover, existing management of the Corporation resigned and was replaced by management of EOL. In connection with the Reverse Takeover, 100,167,501 common shares of EOL were exchanged for 100,167,501 post-consolidated Common Shares. In addition 38,712,500 common share

purchase warrants of EOL were exchanged for 38,712,500 Common Share purchase warrants of the Corporation, with each warrant exercisable for one Common Share at a purchase price of US\$1.50 until June 25, 2015.

Prior to June 2010

Special Warrant Financings. In anticipation of completing a going public transaction, on March 3, 2010, EOL completed a brokered private placement financing with Canaccord Genuity Corp. as agent, of special warrants for aggregate gross proceeds of US\$40,000,000. Concurrently with the closing of the brokered private placement, EOL issued an additional US\$36,000,000 worth of special warrants to Fourth Third, an arms-length creditor of Estrella, in consideration for discharging all of the debts and obligations of Estrella owed to Fourth Third. On May 31, 2010, Estrella completed a non-brokered private placement of special warrants for gross proceeds of US\$1,425,000. The special warrants were, immediately prior to the completion of the Reverse Takeover, automatically converted into one common share and one-half of one common share purchase warrant of EOL, with each warrant exercisable into one common share of EOL at a price of US\$1.50 per share for a period of five years from the date of issuance

Rig Acquisitions. In August 2009, Estrella started operating a highly automated 1,200 horsepower rig in Chile for a geothermal project. On March 31, 2010, Estrella purchased this rig (renamed rig 1201) for a purchase price of US\$27,950,000. In connection with the purchase of rig 1201, Estrella acquired all of the issued and outstanding shares of Trinidad Chile S.A. which simultaneously with closing changed its name to EGeoC S.A. (“**EGeoC**”), from Trinidad Drilling South American Limited Partnership. Estrella acquired EGeoC for regulatory continuity, as it was the importer of record on the temporary import permit for rig 1201 in Chile. In March of 2010, Estrella purchased a 350 horsepower, light drilling, heavy work-over rig (renamed rig 351) from Maple Gas de Peru S.A.C. (an arm’s length Peruvian entity) for a purchase price of US\$250,000.

Early history. Prior to the completion of the Reverse Takeover, Estrella, through EOL and its various subsidiaries, was a privately held corporation engaged in the business of providing contract drilling and work-over services, along with drilling tool rentals to the oil and gas, mining and geothermal industries in South America. It began its operations in 2004 as Estrella Servicios Petroleros S.A. and was initially focused on supplying drill bits and other tools to end users in Argentina. In October of 2005, Estrella opened an operations base in Southern Chile. In 2006, Estrella expanded its business to include consulting services providing consulting and support services to assist Potasio Rio Colorado (a then subsidiary of Rio Tinto, now of Vale Rio Doce) to complete its well field design. The services were later expanded to include the design and supervision of the fabrication of a drilling rig for its potash solution mining projects in Mendoza, Argentina. In 2007, Estrella secured term contracts to provide a land based drilling rig and a work-over rig in Argentina.

DESCRIPTION OF THE BUSINESS OF ESTRELLA

Estrella and its subsidiaries are engaged in providing services to the petroleum, mining and geothermal sectors with operations focused on Latin American markets. The Corporation has one reportable business segment – oilfield services. Within this segment, Estrella has the following principal business units: (i) drilling and workover rig services; (ii) directional drilling services; and (iii) consulting and engineering services. The Corporation has three material reportable geographical segments Colombia, Argentina and other.

Drilling and Workover Rig Services

Drilling and workover services includes: land drilling services, procurement and distribution of oilfield supplies and the manufacture and refurbishment of drilling and service rig equipment, well completion and production services and the rental of oilfield equipment.

Contract Drilling. Contract drilling is comprised of Estrella and its subsidiaries providing well drilling services to exploration and production companies in the oil and natural gas industry in South America. As of the date of this Prospectus Estrella operated a versatile fleet of 6 land drilling rigs capable of drilling a range of shallow to deep or extended-reach wells throughout Latin America. A summary of these rigs are set forth below:

Rig Number	Description	Year of Manufacture	Current Location
1201	1200 HP, fast moving, fully automated AC powered, drilling rig, capable of drilling at high altitude, and winter drilling ready.	2007	Argentina
1001	1000 HP, fast moving, fully automated, portable drilling rig.	2007	Bolivia
1002	100 HP, fast moving, mechanically powered, IDECO 1000 drilling rig	2011	Colombia
551	550 HP, fast moving, fully automated, AC powered, drilling rig with UBD capabilities	2007	Argentina
552	550 HP, fast moving, ultra-portable slim, surface hole drilling rig.	2007 (refit 2011)	Colombia
554	550 HP, fast moving, Cooper LTO, light drilling rig.	1979 (refit 2010)	Colombia

Workover Services. Estrella provides customers with well servicing rigs for a complete range of oil and natural gas well services including completion, workover, abandonment, well maintenance, well re-entry preparation. Well servicing jobs are typically short, so the ability of a service rig to be close to customer demand and to move quickly from one site to another is critical. Well servicing requires its own unique skill set and crews must deal with the potential dangers and safety concerns of working with pressurized wellbores.

Well servicing operations have two distinct functions – completions and workovers. For a completion operation, the customer often will contract a small, specialized service rig and crew to take over from a larger, more expensive drilling rig to prepare a newly drilled well for initial production by working jointly with other services to open the producing zones and stimulate the producing zones to improve productivity. Completion activities may require a few days to several weeks to complete depending on well depth and complexity of the well.

In contrast, workover services are generally provided according to preventive maintenance schedules or on a call-out basis when a well needs major repairs or modifications. Workover services generally involve remedial work such as repairing or replacing equipment in the well, enhancing production, re-completing a new producing zone, recovery of lost equipment or abandoning the well and may require a few days to several weeks to complete depending on the extent of the repair or modification to be performed.

As at Dec 31, 2012, Estrella operated a versatile fleet of 13 workover rigs. A summary of these rigs are set forth below:

Rig Number	Description	Year of Manufacture	Current Location
101	350 HP, trailer mounted, portable workover rig	2008	Argentina
102	350 HP, trailer mounted, portable workover rig	2008	Argentina
103	350 HP, trailer mounted, portable workover rig	2008	Argentina
201	350 HP self-propelled workover unit	2011	Peru

Rig Number	Description	Year of Manufacture	Current Location
202	XJ 400 fast moving workover rig	2007	Colombia
203	XJ 250 fast moving workover rig	2008	Colombia
204	XJ 250 fast moving workover rig	2007	Peru
205	XJ 250 fast moving workover rig	2007	Colombia
206	XJ6oh 350 RG fast moving workover rig	2006 (refit 2011)	Colombia
207	XJ 400 fast moving workover rig	2006 (refit 2011)	Colombia
553	Franks Explorer III	1985 (refit 2011)	Colombia
555	ZYT 550 TXJ	2006	Colombia
556	ZU 550	2005	Colombia

Drilling Contracts. Contract terms offered by Estrella are generally dependent on the complexity and risk of operations, on-site drilling conditions, type of equipment used and the anticipated duration of the work to be performed. Drilling contracts can be for single or multiple wells and may vary in duration from a day or two on shallow single-well applications to multiple-year, multiple-well drilling programs. Term drilling contracts typically provide for fixed utilization rates for a minimum monthly durations, early termination penalties, cost escalations and contract renewal options. Short-term contracts to provide drilling rigs on a well-to-well basis are typically subject to termination by the customer on short notice or with little or no penalty. Estrella had term contracts in place for an average of 32% of its rigs during 2012.

Estrella primarily markets its drilling rigs on a regional basis through sales and marketing personnel. Contracts to drill wells are obtained either through competitive bidding or as a result of relationships and negotiations with customers.

Oil and natural gas well drilling contracts are performed on a daywork or “turnkey” basis. On a daywork basis, Estrella contracts to provide a drilling rig with required personnel and the customer supervises the drilling of the well. Estrella charges the customer a fixed rate per day regardless of the number of days needed to drill the well. Daywork contracts usually also provide for a reduced day rate (or a lump sum amount) to mobilize the rig to the well location, to rig-up and rig-down on location and to demobilize the rig. On a daywork basis, Estrella ordinarily bears no part of the costs arising from downhole risks (such as delays for stuck or broken drill string or blowouts). Under a turnkey contract, Estrella contracts to drill a well to an agreed depth, under specified conditions, for a fixed price. Compared to daywork contracts, turnkey contracts involve a higher degree of risk to Estrella and, accordingly, normally provide greater profit or loss potential. There are risks associated with turnkey drilling operations which could adversely affect Estrella’s business. Only one of Estrella’s rigs has been contracted on a turnkey basis. The remainder all operate on daywork contracts.

Well Servicing Contracts. Estrella typically charges its customers an hourly rate for its services based on such considerations as market demand in the region, the type of rig and the equipment required. The demand for well completion services is related to the level of drilling activity in a region whereas the demand for production or workover services is based upon the total number of existing active wells, their age and their producing characteristics. Consequently, demand for completion services is generally more volatile than workover services.

Directional Drilling. Directional drilling entails the use of specialized drill string components to establish and maintain the necessary well trajectory to achieve a desired subsurface location of the well in relation to the surface location. Directional drilling equipment includes mud motors which are hydraulically driven by the drilling fluid to rotate the drill bit and MWD systems which monitor wellbore trajectory and formation characteristics in real time while drilling is in progress and may also include LWD technology which allows for measurements of the rock and fluid properties *in situ*. As at December 31, 2012, Estrella had capacity for approximately 8 directional drilling jobs, and is in the process of expanding capacity in Colombia and Peru. Estrella provides Directional Drilling services through a joint venture with Scientific Drilling International (“SDI”), the largest independent provider of these services, and the fifth largest overall in the world. SDI provides Estrella access to proprietary MWD, LWD and Gyro technologies, and Estrella operates those technologies alongside the other directional services under the “Estrella Directional Services” banner.

Consulting Services. Estrella is engaged by its customers to provide engineering, consulting and project management services on a variety of projects. These projects include: well construction, equipment manufacture and customization, environmental and site preparation all the way to full scale integrated project management. Contracts are typically either fee for result basis, or paid on a number of person-hours spent engaged in the work.

Supplemental Operational information

Health, Safety and Environment.

Estrella has developed a health safety and environment system called SSMACD which in Spanish stands for *Seguridad, Salud, Medio Ambiente, Calidad y Dirección* (Safety, Health, Environment, Quality and Direction). Estrella’s SSMACD team is dedicated to using the latest technology to identify and analyze risk and implement mitigation measures.



Estrella, in its pursuit of zero accidents, is constantly promoting health, safety and environment. SSMACD is of extreme importance to everyone everywhere, more so in dangerous environments. Estrella’s strategies have been refined and improved to offer significantly improved levels of safety.

The safety culture of an organization is the product of individual and group values, attitudes, perceptions, competencies and patterns of behavior that determine the commitment to, and the style and proficiency of, an organization’s health and safety management. Organization’s with a positive safety culture are characterized by communications founded on mutual trust, by shared perceptions of the importance of safety and by confidence in the efficacy of preventive measures.



Leadership. Estrella's management personnel are, in effect, the driving forces behind any effort within the company. For this reason, it is essential to have management's direct leadership in any SSMACD effort. Estrella management provide visible involvement in the day-to-day activities for the SSMACD program through participation in the following activities:

- Inclusion of SSMACD concerns in all business decisions;
- Participation in SSMACD audits;
- On-site SSMACD visits;
- Incident investigations;
- Safety meetings;
- Customer contact with regard to SSMACD;
- SSMACD correspondence to field personnel;
- Recognition of SSMACD efforts; and
- SOE Observations.

Commitment. Senior management of Estrella has dedicated themselves to providing strong, visible commitment/leadership and to ensure their commitment will be translated into the necessary resources to develop, operate and maintain the SSMACD system. Active involvement and commitment by all employees in the SSMACD system is expected to have the following results:

- More closely link health, safety and environmental planning with other business areas such as profit and investment
- Be more consistent in approach across the company, reflecting common strategic direction
- Increase levels of SSMACD awareness/participation among all employees
- Prevention of injuries
- Preventing damage to equipment
- Minimize negative impact on the environment
- Regularly assessing and improving methods
- Increase operational efficiency
- Reduce costs associated with operations

Objectives. Estrella recognizes that protection of the environment and the health and safety of its employees and others involved in, or affected by, its operations, is an integral part of the Company's business performance and a prime responsibility of our workforce at every level. Estrella has, therefore, committed itself to achieving a high level of performance in accordance with good oilfield practice. Estrella's SSMACD core team establishes performance goals and objectives that ensure participation and improvement in the SSMACD program, including the following strategic objectives:

- Complying with relevant legislation and approved codes of practice; improving performance standards specified where reasonably practical; and cooperating fully with enforcement agencies and non-statutory bodies.
- Developing and maintaining effective contingency plans, where appropriate, in conjunction with authorities and emergency services.
- Assessing the environmental, industrial hygiene, health and safety impacts of its activities and manage the associated risks.
- Providing direction, training and, where appropriate, supervision to enable its employees to meet their obligation to work safely and with due consideration for the health and safety of others and for the natural environment.
- Requiring all contractors and sub-contractors to demonstrate the same level of commitment for continuous improvement in standards of care for health, safety and the environment as Estrella itself applies.
- Aiming to make continuous improvements in its safety and environmental management so that incidents are reduced and environmental emissions, waste and the use of energy are continually reviewed.
- Developing an understanding of health, safety and environmental issues relating to its business among staff, suppliers, contractors and communities local to its operations; and seek to understand and take into account their concerns.

Estrella intends to accomplish these objectives through:

- A well-defined organization, with a clear system of communication. Emphasis will be placed on adherence to procedure at all organizational levels and on an efficient system of communication in order to ensure the involvement of everyone affected by our activities.
- The construction of safe installations designed and operated using the latest and appropriate engineering standards with respect to legislation and adhering to good oil field practices.
- The use of safe systems of work. It is vital that all employees of Estrella are charged with the responsibility of working safely and protecting themselves, their fellow workers, and the environment. Contractors will be made aware of this policy and the need to work at similar standards. A safety culture will be promoted to increase the level of awareness and to encourage the prevention of incidents and damage to the environment.
- Competent and well-trained staff. All staff will be given effective operational training to cover both normal working conditions and emergencies.
- Comprehensive information. Reports, analysis and communications concerning the result of incidents represent an essential part of the process allowing us to gain experience and prevent

recurrences. We will promote activities to ensure continuous consultation on matters concerning health, safety and the environment.

- An integrated emergency plan. Emergency preparedness shall be established to minimize risk to staff and those likely to be affected by our operations, as well as the environment and property.
- Operational procedures will be prepared within the SSMACD system framework in order to improve safety standards and to reduce the risk of incidents.

Senior Management Review. Periodic reviews are performed by Estrella's President Management to assess the effectiveness of the overall management system. These management reviews comprise evaluation and assessment of historical performance and address future requirements for effective management of the business. Based on the results of the senior management review, SSMACD objectives will be revised to meet feasible and reasonable standards.

ISO Certification. Estrella has taken steps to become ISO 9001, ISO 14001, and OHSAS 18001 certified. The importance of ISO certification is that it provides assurance of quality management which in turn provides assurance to our customers. An ISO certification forces an organization to focus on "how they do business". Each procedure and work instruction must be documented and thus, becomes the springboard for Continuous Improvement. Certification of ISO is very important to not only the customer but the vendor as well. This not only shows your commitment to your customer but your commitment to excellence and dedication to improving your overall performance and it's a term that's been compared to "The Good Housekeeping Seal of Approval." For many companies and industries, it's fast becoming a requirement of doing business.

Training. Estrella establishes and maintains procedures to ensure competency through identification of training needs and provisions for appropriate training of all personnel. Proper SSMACD training for personnel cannot be assumed. Information and awareness gained through adequate SSMACD training is essential to improved performance. Estrella's goal is to provide safe and healthy working conditions for all employees. Each employee should know and follow all the safety rules. Supervisors must enforce the rules and safe work practices. Most accidents can be prevented if everyone uses the right safety equipment and follows the safety rules. To be a safe and successful department, we must work as a team.

Sustainability. Sound governance in relation to safety, health, social, environmental and economic activities are integral to the way in which we do business. We will develop, implement and maintain management systems that continuously improve our performance and minimize the adverse impacts of our operations. We will identify, assess and manage risks to employees, contractors, the environment and our host communities. We will set targets that promote the sustainable use of resources including reduction in energy and water use, prevention of pollution and the elimination of work related injury and illness. We will consult regularly, openly and honestly with people and communities affected by our operations, taking their views and concerns into account in our decision making processes. We will regularly monitor and review our performance and report to our customers, people and the community.

Employees

As at December 31, 2012, Estrella had approximately 650 employees. Due to the cyclical nature of oilfield service work and the resulting uncertainty of continuing employment as well as generally higher utilization levels over the past decade, there is a highly competitive environment for experienced personnel in the oilfield services industry.

Estrella's performance relies on experienced, well-trained personnel. Estrella invests in processes and systems that lead to employee development, leadership and retention. Individuals are actively developed within a talent management system focused on developing, nurturing and retaining people in key positions as well as top performers and potential leaders for the future. These programs include skill development around leadership,

communication and corporate values. Estrella also has remuneration systems to retain experienced field personnel during all market cycles, focused recruitment initiatives and a performance management system which links compensation to the achievement of specific corporate and individual goals.

Estrella measures performance excellence through its safety record and reputation to attract and retain employees as industry manpower shortages are often experienced in peak operating periods. Emphasis is placed on retention of experienced employees in driller, rig manager and field superintendent positions and Estrella's retention rates for these key positions was over 90% for the year ended 2011.

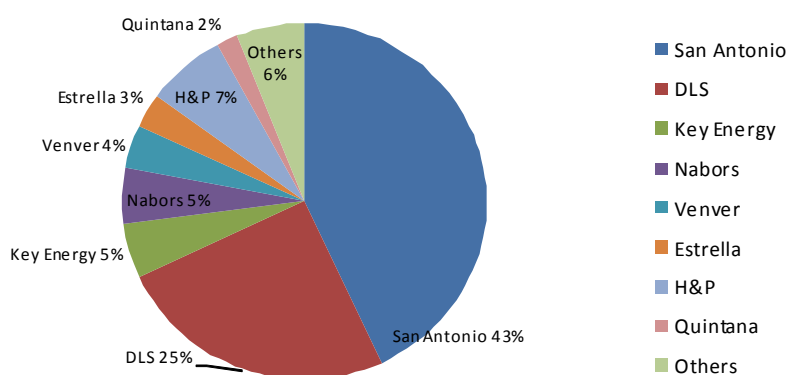
SOUTH AMERICAN MARKET OVERVIEW[‡]

Market and Competitive Conditions

The oilfield services industry in which Estrella operates is, and will continue to be, very competitive. Oilfield service companies compete primarily on a regional basis, and competition may vary significantly from region to region at any particular time. Most contracts are awarded on the basis of competitive bids, which results in price competition. Oilfield service equipment can be moved from one region to another in response to changes in levels of activity, which can result in an oversupply in an area. In some markets in which Estrella operates, the supply of equipment may exceed the demand, resulting in further price competition. Certain competitors are present in more than one of the regions in which Estrella operates. Estrella competes directly with various international and local companies in each region in which it operates. Some of its international competitors may be better positioned in certain markets, allowing them to compete more effectively. There is no assurance that Estrella's level of competition and associated pressure on pricing will not affect its margins.

The **Argentine market** has seen growth of over 30% in the last two and a half years. The market has recently picked up substantially thanks in part to state controlled YPF taking the lead in contracting equipment, in particular to develop non-conventional "shale gas and shale oil" reserves. Argentina is considered by the Energy Information Association to have the third largest gas resources in the world, being the US and China, most of it trapped in the shales of the central Neuquen basin.

Rig Market - Argentina



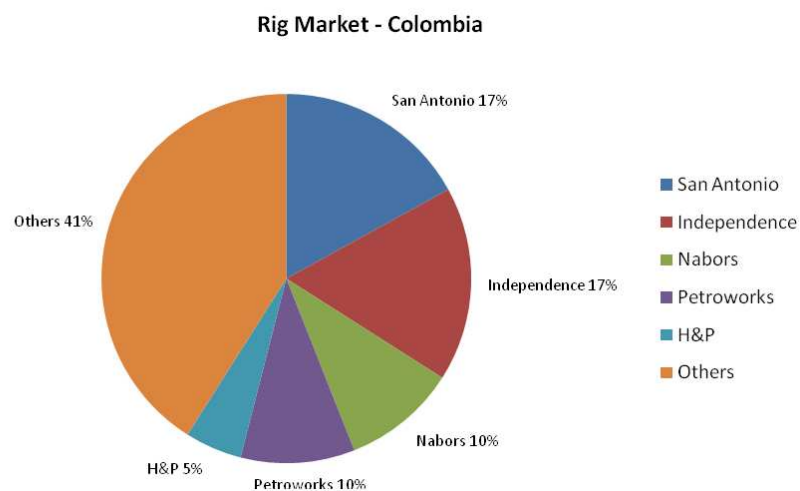
Entry into the Argentine market by new competitors and a shakeup of the business models saw drilling rig counts approach 100 units in 2008. The market fell to 45 units in operation by mid-2009, then recovering to

[‡]*All charts in this Prospectus are compiled from information derived from Baker Hughes' rig chart information, available at <http://gis.bakerhughesdirect.com/RigCounts/default2.aspx>

approximately 55 units by the end of the first quarter of 2010. The increased activity, driven by the exploration activity for non-conventional resources, the political imperative of YPF to show results after the nationalization of 51% of the company and general increases in commodity prices have driven the active rig count back up to 75 by the end of 2012.

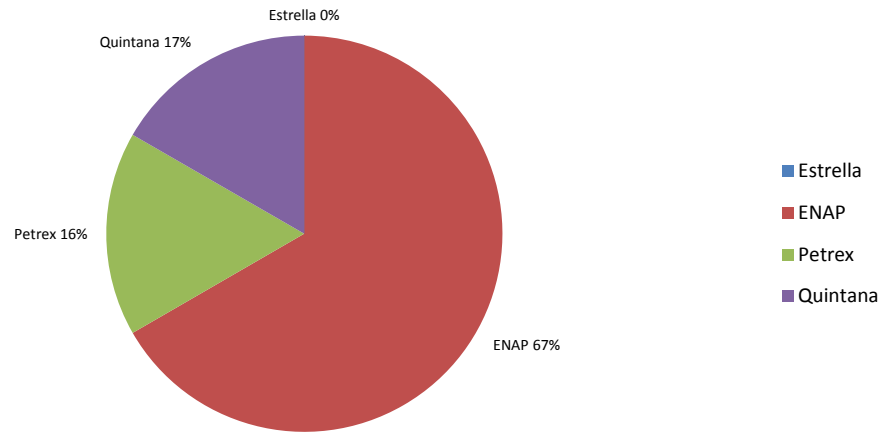
The **Colombian market** is highly fragmented, with numerous international and local players. The deep drilling of the foothills is the nearly exclusive market of the big international players such as Nabors Industries Ltd., Helmerich & Payne Inc. ("**H&P**") and Parker. Saxon and San Antonio also have a presence in this market. With the marginal block bidding rounds of 2007 and 2008, smaller drilling rigs have started to operate in Colombia, but most of these rigs are older style refitted rigs. Recently, some newer, more modern rigs have moved into the country.

Numerous players are present in Colombia, many with only a handful of rigs. The market has 39 active drilling rigs (according to BHI), and roughly 200 rigs in total in country between drilling and workover.



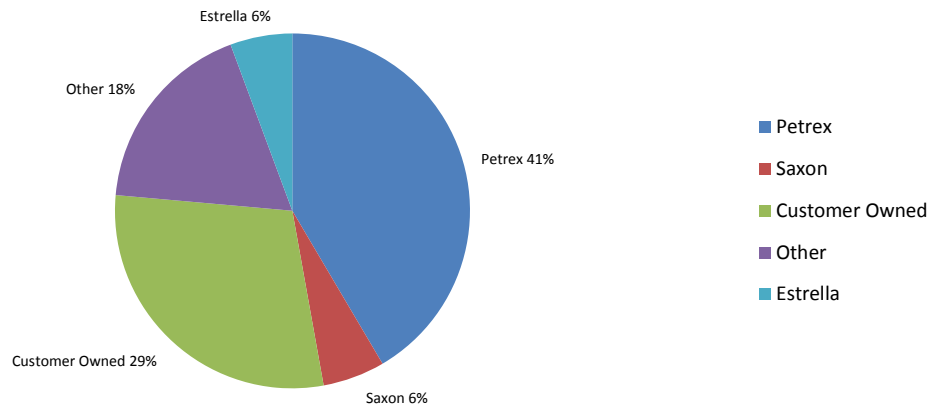
The **Chilean market** is a small one. For many years, it was the exclusive arena for rigs that were owned and operated by ENAP Sipetrol, the state oil company. ENAP has four rigs, of which three are currently operating, including a work-over rig that was recently upgraded to be able to drill shallow wells. Estrella operated a 1200 HP rig drilling geothermal wells in north and central Chile from mid-2009 until mid-2012. The rig has now been moved to Argentina to operate on a term contract.

Rig Market - Chile



The **Peruvian market**, though small, is an important market given the types of wells that are drilled in the area. The country has two operational areas, with the northern and coastal areas featuring relatively shallow wells typically searching for oil with conventional rigs. The central and southern jungles require large rigs to drill deep gas prospects, like the mega Camisea gas field. These rigs are typically required to be heli-transportable due to the limitations of infrastructure in the region.

Rig Market Peru



In recent years, the Peruvian market has featured two players, Petrex S.A. ("**Petrex**") and Saxon Energy Services ("**Saxon**"). Petrex has dominated the market. Saxon has maintained a foothold with fewer assets through maintaining the high dollar Camisea project, and purchasing all of Parker Drilling Company ("**Parker**") Latin American assets. A number of rigs are owned by E&P companies and operated exclusively on their assets. Numerous rig opportunities exist in the country to support additional heli-operated exploration projects and offshore platform based developments for both Savia Peru S.A. (formerly Petrotech Peru S.A.) and BPZ Energy.

DIVIDENDS OR DISTRIBUTIONS

The Corporation has not paid dividends in the past and will not pay regular dividends in the foreseeable future. Any decision to pay dividends on the Common Shares will be made by the Board on the basis of its earnings, financial position, exploration commitments and other conditions existing at such future time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Attached hereto as Appendix B and Appendix D is the Corporation's Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2012 and for the year ended December 31, 2011, respectively. The MD&A should be read in conjunction with the financial statements for the three and nine months ended September 30, 2012 and the year ended December 31, 2011 attached hereto as Appendix A and Appendix C, respectively and the related notes contained therein.

DESCRIPTION OF OUTSTANDING SECURITIES

Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares without par value. All of the Common Shares are fully paid and rank equally within the class as to voting rights, participation in a distribution of the assets of the Corporation on dissolution of the Corporation and the entitlement to dividends. The holders of the Common Shares are entitled to receive notice of all meetings of shareholders and to attend and vote the Common Shares at all such meetings.

Each Common Share carries with it the right to one vote. The Common Shares do not have pre-emptive or conversion rights. Subject to the rights of the Series A Preference shareholders, holders of Common Shares have a right to receive the remaining property of the Corporation on dissolution, pro rata with the holders of any other classes of shares entitled to receive the remaining property of the Corporation on dissolution. Distributions in the form of dividends, if any, will be set by the Board of Directors and received by the holders of Common Shares subject to the preferred rights of the Series A preferred shareholders.

Series A Preference Shares

The Corporation is authorized to issue an unlimited number of preference shares issuable in series which may contain the rights, privileges and restrictions as determined by the Board. The Board has authorized the issuance of 4,750,000 Series A Preference Shares. The holders of Series A Preference Shares have the right to the Cumulative Dividend and the shares will have the right to receive the Liquidation Preference. The Corporation may, at its sole option, elect to convert the Series A Preference Shares into Common Shares, in the event that the 20 consecutive trading day closing price of the Common Shares of the Corporation, is greater than or equal to US\$1.00. The conversion rate shall be 1 Common Share for each 1 Series A Preference Share. The Series A Preference shareholders have the right to convert all of their Series A Preference Shares, at any time, into Common Shares at the rate of 1 Common Share for each 1 Series A Preference Share held, and there is an automatic conversion on the 5th anniversary of the date of issuance. The Corporation may at any time and at its option redeem the outstanding Series A Preference Shares for a redemption purchase price of US\$1.00 per Series A Preference share plus any accrued and unpaid Cumulative Dividends.

CONSOLIDATED CAPITALIZATION

As at the date hereof there are: 299,476,450 Common Shares and 4,750,000 Series A Preference Shares issued and outstanding. Also as at the date hereof there are 2,612,834 options to acquire Common Shares issued and outstanding which were issued under the Corporation's stock option plan. In addition there is CDN\$11,058,825 worth of January 2011 Convertible Debentures outstanding all of which may be exercised into 11,058,825 Common Shares at a conversion price of US\$1.00 per share. Also as at the date hereof there were warrants issued

and outstanding that entitled the holders to purchase 107,253,167 Common Shares at an average price of CDN\$ 0.65.

In connection with the Offering the Corporation will issue • Rights to acquire up to • Common Shares from the Corporation's treasury. In the event that the full Offering is completed the Corporation will have • Common Shares issued and outstanding.

As at •, the Corporation was indebted to Ringo Holding in the aggregate principal amount of CDN\$10,000,000, which accrues interest at the rate of 12% per annum for the period from December 17, 2012 to September 17, 2013, and 14% per annum at all times thereafter. It is expected that the proceeds of the Offering will first be used to repay amounts advanced to the Corporation by Ringo Holding on or prior to the date hereof, together with accrued and unpaid interest thereon. See "Use of Proceeds".

PRIOR SALES

The following table summarizes the issuances of Common Shares and securities convertible into Common Shares of Estrella within the 12 month period prior to the date of this prospectus:

Date of Issuance	Description of Transaction	Number of Securities	Type of Securities	Price Per Security CDN\$
August 12, 2012	Cancellation of CS Warrants	3,072,000	Warrants	N/A
August 10, 2012	Private Placement	166,666,667	Units ⁽¹⁾	\$0.15

Notes:

(1) Each Unit comprised of 1 Common Share and 0.4 Common Share purchase warrants, with each whole warrant entitling the holder to purchase 1 Common Share at an exercise price of CDN\$0.15 per share for a period of 18 months from the date of issuance. After six months from the date of issuance, if the 10 day weighted average market price of the Common Shares is greater than \$0.25, the exercise price of the warrants will be equal to the higher of \$0.15 or 90% of the current market price.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares are listed for trading on the TSXV. The following table sets out the trading price range and volume of trades during each month, or, partial months of the twelve month period prior to the date hereof:

Trading Price (CDN\$)			
Month	High	Low	Volume
2013			
February 1-15	0.07	0.0600	1,644,897
January	0.085	0.065	1,249,509
2012			
December	0.080	0.055	1,788,831
November	0.085	0.065	2,304,177
October	0.095	0.085	1,037,401
September	0.110	0.085	1,343,202

Trading Price (CDN\$)			
Month	High	Low	Volume
August	0.130	0.085	3,084,248
July	0.155	0.075	986,923
June	0.100	0.070	838,958
May	0.100	0.060	1,774,424
April	0.130	0.085	2,550,722
March	0.145	0.115	2,417,161
February	0.145	0.115	5,078,219
January	0.200	0.135	4,798,376

PRINCIPAL SHAREHOLDERS

The following table shows the names of each person or Corporation which, to the knowledge of the Corporation, owns, or controls or directs, directly or indirectly, more than 10% of the issued and outstanding Common Shares, as at the date hereof:

Name	Number and Percentage of Common Shares Held Prior to the Offering	Number and Percentage of Common Shares Held Following the Offering Assuming Exercise of all Rights	Nature of Ownership
Ringo Holding L.P.	166,666,667 55.7%	(1) %	Beneficial

Notes:

(1) Assumes exercise of the Basic Subscription Privilege and no exercise of the Additional Subscription Privilege by any holders of Rights.

DIRECTORS AND OFFICERS

The following table sets forth the names, municipality of residence, office held with the Corporation, principal occupation and security holdings of each director and officer of the Corporation:

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since	Voting Securities Beneficially Owned or Controlled or Directed	Percent of Issued and Outstanding Shares
Warren Levy <i>Buenos Aires, Argentina</i>	President, CEO, Director	President and Chief Executive Officer for the Corporation	June, 2010	4,700,040 784,328 ⁽³⁾	3.5% 0.6%
Horacio Reyser ⁽¹⁾⁽²⁾ <i>Buenos Aires, Argentina</i>	Director, Chairman	Director, Southern Cross Investments since January 2012; Partner at Southern Cross Group	July 2012	0	0%
Remo Mancini ⁽¹⁾⁽²⁾ <i>Amherstburg, ON, Canada</i>	Director Chair of GNC Committee Member of Audit Committee	President of Sandstone Strategies	June, 2010	161,000	0.12%
Phil MacDonnell ⁽¹⁾⁽²⁾ <i>Toronto, ON, Canada</i>	Director Chair of Audit Committee	Partner Hawk Capital Corporation	September 2011	0	0%
Ricardo Rodriguez <i>Florida, U.S.A.</i>	Director	Director, Southern Cross Management and Southern Cross Capital Management	July 2012	166,666,667 ⁽⁴⁾	55.7%
Diego Acevedo <i>Bogota, Colombia</i>	Director	Principal, Southern Cross Group since October 2010; Principal, Palmfund Management, from February 2006 to September 2010.	July 2012	0	0%
Daniel Kokogian <i>Buenos Aires, Argentina</i>	Director	President, New Milestone, since August 2007; Director, Compania General de Combustibles since June 2008; Country manager Petro Andina resources From March 2005 to December 2008.	July 2012	0	0%

Notes:

- (1) Members of the Audit Committee.
- (2) Members of the Governance Nominations and Compensation Committee
- (3) 784,328 Common Shares are held by Mr. Levy through Estrella Management Group Limited, a private company controlled by Mr. Levy. These shares are held by Estrella Management Group Limited in a custodial capacity for the EMGL Performance Shares. See Executive Compensation – Long term incentive Plans: Share Based Awards – EMGL Performance Shares.
- (4) Ringo Holding, its affiliates and their related persons currently hold or exercise control or direction over 166,666,667 Common Shares.

Horacio Reyser – Director, Chairman of the Board

Horacio Reyser is a partner of the Southern Cross Group based in Buenos Aires, Argentina and has been with the firm since its inception in 1998. Mr. Reyser has 18 years of operating, consulting and private equity experience in Latin America. Prior to joining Southern Cross, Mr. Reyser worked for INFUPA - a regional M&A advisory firm, where he focused on infrastructure, services and industrial company related mergers and acquisitions. Mr. Reyser began his career in financial and strategic planning at SIDERCA, the Argentine steel tube manufacturer which is

part of the Techint Group - one of the largest industrial conglomerates in Latin America. He later worked in SIDERAR, the flat-steel products divisions of the Techint Group focused on a wide variety of operational projects and strategic acquisitions executed by subsidiaries of the Techint Group. Mr. Reyser holds a degree in Industrial Engineering from Instituto Tecnológico de Buenos Aires (ITBA) and completed an Advanced Management Program at Harvard Business School. Mr. Reyser is a member of the Board of Directors of Compañía General de Combustibles S.A. ("CGC"), an Argentine exploration and production company controlled by Southern Cross. He is also the Director of the Business Council of CADAL (Center for Latin American Opening and Development).

Warren Levy – Director, President and CEO

Mr. Levy was one of the founders of the Corporation and has served as the President and Chief Executive Officer of the Corporation since taking the Corporation public on the TSXV. Prior to that was the president and Chief Executive officer of Estrella Overseas Limited. Mr. Levy worked for Schlumberger Oilfield Services, in a variety of operational and management positions in North America, South America and Asia. He has worked in sixteen countries, in every operating environment from ultra deepwater to remote jungle operations. He completed his time there as the Regional Managing Director for East Malaysia, Brunei and the Philippines. From December 2009 to January 2012, Mr. Levy also served as the Chairman of Quad Energy, a private E&P company headquartered in Thailand, with operations in Vietnam. Since February 2011, Mr. Levy is also an independent director of Miramar Hydrocarbons Limited, a Canadian EP company with focus on South America. Mr. Levy received a BSc Engineering Physics from Queen's University, in Kingston, Ontario, Canada. Mr. Levy is a Canadian national, currently residing in Buenos Aires, and is fluent in English and Spanish.

Ricardo Rodriguez – Director

Ricardo Rodriguez is a founder of the Southern Cross Group based in Florida, USA, with over 30 years of experience in corporations in Latin America and as an international financier, both in investment banking and principal investing. Prior to founding Southern Cross in 1998, he served as head of Latin American Investment Banking for Smith Barney and, prior to that, served as head of Latin American Mergers & Acquisitions for Morgan Stanley from 1991 to 1993. Mr. Rodriguez was a founding partner of The Lodestar Group, a leverage buyout firm that led the successful acquisition of Olympic Packaging Company, a specialty folding Carton Company, and the restructuring of Kinder-Care, a leading U.S. childcare provider. Mr. Rodriguez began his work in Latin America in 1975 when he joined the Financial Analysis Group of 3M de Venezuela, in Caracas, Venezuela. From 3M de Venezuela, Mr. Rodriguez was recruited by Celanese Corporation to work in the Financial Planning and Analysis group, overseeing projects in Brazil, Venezuela, Colombia, Mexico and Peru. Mr. Rodriguez is a member of the Board of Directors of six Southern Cross portfolio companies: CGC, Sociedad Portuaria Regional de Barranquilla, MorePharma, Javer, Estrella and Planigrupo. He holds a Bachelor of Arts degree from University of Florida and an MBA from Harvard Business School.

Remo Mancini – Director, Chairman of the GNC Committee

Mr. Mancini is an accomplished professional with more than 30 years' experience working at senior levels of business and government. At the age of 21, Mr. Mancini was elected to the local municipal council. He holds the notable distinction of being the youngest person (23 years) ever elected to the Essex County Council. The following year, at only 24 years of age, Mancini became one of the youngest members ever elected to the Ontario Provincial Parliament. Mancini had a long and distinguished political career serving 21 years in elected office. Mr. Mancini's 18 years in the Ontario Legislature included serving as Chairperson of the Public Accounts Committee, Official Opposition Party House Leader, Parliamentary Secretary to the Premier, Minister for Disabled Persons and Minister of Revenue.

Mr. Mancini has completed the Directors Education Program offered by the Institute of Corporate Directors and the Rotman School of Management, University of Toronto and has earned the internationally recognized designation ICD.D. He is a Corporate Director and serves on the Board of Directors of Niocan Inc. He also recently

completed two terms as Chairman of the Board of the Windsor Essex Development Commission and for 11 months was the Interim Executive Officer at the Commission.

After leaving public service, Mr. Mancini entered the private sector and soon thereafter joined the Canadian Transit Company where he served in various functions and eventually was named Executive Vice President for both the Canadian Transit Company and the Detroit International Bridge Company, the private companies that own, manage and operate the Ambassador Bridge, the world's busiest commercial border crossing.

Mr. Mancini has extensive experience in, issues management, working with community groups, project management and managing teams of experts including consultants, lawyers, engineers and other professionals. Mr. Mancini has worked in Canada, the United States and Mexico with various levels of government on behalf of private business and a number of industry business sectors.

Phil MacDonnell – Director, Chairman of the Audit Committee

Philip MacDonnell is a director and Chairman of the Audit Committee for the Corporation. For the past twenty years, Mr. MacDonnell has been a partner of Hawk Capital Corporation, a private partnership which has provided financing and financial advice to a variety of companies. He has also sat on the boards of numerous public companies and currently serves on the Board of Directors of New Dawn Mining Corp., a Zimbabwe focused junior mining company listed on the TSX. He is also chairman of the audit and governance committee of New Dawn.

Diego Acevedo – Director

Diego Acevedo is the head of the Bogota, Colombia office of Southern Cross Group. Mr. Acevedo has over 12 years of private equity and management consulting experience. Prior to joining Southern Cross in 2010, he managed the Colombia office of Palmfund, a small private equity firm focused on Northern Latin America. While at Palmfund, he led several investments, including Colfondos, a pension fund administrator in Colombia, Legal Publishing, a professional content publisher based in Mexico, and Proseguros, an insurance company in the Dominican Republic, where he also served as interim CEO. Prior to Palmfund, he was with Booz & Company for six years in New York and Bogotá focusing on strategic assessments and business due diligence for financial investors. Currently, Mr. Acevedo is member of the Board of Directors of three Southern Cross portfolio companies: Sociedad Portuaria Regional de Barranquilla, Estrella and Planigrupo. Mr. Acevedo graduated with an Industrial Engineering degree from Universidad de los Andes in Colombia and has an MBA from Stanford University.

Daniel Kokogian – Director

Daniel Kokogian, an Argentine national, is the Founder and President of New Milestone, a consulting firm specialized in oil and gas. Since 2008 he has been the chief advisor to the Southern Cross Group in transactions and investments involved in the oil and gas industry and is a member of the Board of Directors of CGC, an Argentine exploration and production company controlled by Southern Cross. Prior to that, Mr. Kokogian was country manager for the Argentine operations of Petro Andina resources, a TSX listed independent oil company, and the vice president of exploration & Development, business development and M&A for Pioneer Argentina subsidiary of Pioneer Natural Resources, a NYSE listed independent oil company. He has over 30 years of experience in oil and gas operations in Latin America, and is a former president of the Exploration Committee of the Argentine Petroleum Institute. Mr. Kokogian holds BSc and Master's degrees in Geology from Universidad de Buenos Aires, Argentina.

CEASE TRADE ORDERS AND BANKRUPTCIES

None of the director of the Corporation is, or was within the ten years prior to the date hereof, a director, chief executive officer or chief financial officer of any company that was subject to a cease trade order, an order similar to a cease trade order or an order that denied such company access to any exemption under securities legislation that was, in each case, in effect for a period of more than 30 consecutive days and that was issued while that

person was acting in such capacity or that was issued after that person ceased to act in such capacity and which resulted from an event that occurred while that person was acting in such capacity.

Except as otherwise discussed below, none of directors of the Corporation is, or was within the ten years prior to the date hereof, a director or executive officer of any company that, while that person was acting in such capacity, or within a year of that person ceasing to act in such capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Each of Messrs. Reyser, Rodriguez and Kokogian is a member of the board of directors of CGC, which made a voluntary filing under receivership proceedings before Argentinean Commercial Courts (the "**Commercial Court**") in 2000. As part of CGC's reorganization proposal, during 2005, a fund represented by each of Messrs. Reyser, Rodriguez and Kokogian agreed to make a capital contribution in CGC in order to pay the outstanding debt of that company. CGC recently requested judicial declaration of compliance with such agreement. Since the receiver has informed the Commercial Court that the proposed agreement was already fulfilled by CGC, the compliance declaration should be issued shortly.

In connection with their directorships in CGC, once the capital contribution was performed by the fund, the Commercial General Attorney requested and obtained an injunction restraining the disposition of the shares of CGC and certain shares owned by CGC in other companies. These injunctions were based on a process and a judicial recourse before the Federal Supreme Court, which are now already extinguished.

Mr. Reyser is a member of the board of directors of Campanario Generación S.A. ("**Campanario**"), a Chilean stock corporation, which made a voluntary petition in bankruptcy before a Chilean Civil Court on September 1, 2011, and was declared in bankruptcy by such Court on September 13, 2011. Mr. Horacio Reyser is currently a director of Campanario, and was a director of Campanario before and at the time the petition in bankruptcy was filed with the Court and when the bankruptcy was declared by the Court.

Mr. Horacio Reyser was a member of the board of directors of Tierra Amarilla S.A. ("**Tierra Amarilla**"), a Chilean stock corporation, which made a voluntary petition in bankruptcy before a Chilean Civil Court on September 22, 2011, which was withdrawn on November 16, 2011. Mr. Horacio Reyser was a director of Tierra Amarilla before and at the time the petition in bankruptcy was filed with the Court.

None of the directors of the Corporation has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

None of the directors of the Corporation has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

STATEMENT OF EXECUTIVE COMPENSATION

The purpose of this section is to describe the compensation of certain named executive officers of the Corporation and the directors of the Corporation for the most recently completed financial year of the Corporation in accordance with Form 51-102F6 – *Statement of Executive Compensation* published by the Canadian Securities Administrators. When used in this section, "**Named Executive Officers**" means the chief executive officer, the chief financial officer and each of the three most highly compensated executive officers of the Corporation or the three most highly compensated individuals acting in a similar capacity, other than the chief executive officer and the

chief financial officer, at the end of the most recently completed financial year whose total compensation was, individually, more than CDN\$150,000 for that financial year.

The Named Executive Officers during the financial year of the Corporation ended December 31, 2012 were Warren Levy, the President and Chief Executive Officer of the Corporation, Javier Vedoya, Chief Financial Officer of the Corporation, Christian Bauwens, former Chief Financial Officer, Hernan Montoya, former Chief Financial Officer, Gary Pidcock, the VP Consulting, Matt Holdeman, VP Geothermal & GM Chile and Luis Aviles, VP Sales and Marketing. Mr. Bauwens resigned as Chief Financial Officer in April 2012, and was replaced by Mr. Montoya. Mr. Vedoya replaced Mr. Montoya as Chief Financial Officer in November 2012.

Compensation Discussion and Analysis

Philosophy and Objectives of Compensation Program

The executive compensation program of the Corporation is administered by the directors of the Corporation with the assistance of the governance, nominations and compensation committee (the “**GNC Committee**”). The members of the GNC Committee are Remo Mancini (Chair), Horacio Reyser, Phil MacDonnell and Daniel Kokogian, for information regarding the background of the members of the GNC Committee see the information relating to such member under the heading “*Directors and Officers*”.

The directors of the Corporation, with the assistance of the GNC Committee, review and make decisions in respect of compensation matters relating to the executive officers, employees, consultants and directors of the Corporation, ensuring consistent application of matters relating to remuneration and ensuring that executive remuneration is consistent with industry standards. The directors of the Corporation believe that the Corporation should provide a compensation package that is competitive and motivating, that will attract, hold and inspire qualified executives, that will encourage performance by executives to enhance the growth and development of the Corporation and that will balance the interests of the executives and the Shareholders. Achievement of these objectives is expected to contribute to an increase in shareholder value.

Responsibilities of the GNC Committee

The responsibilities of the GNC Committee include assisting the directors of the Corporation with respect to, among other things: (a) establishment of compensation policies, including all incentive and equity based compensation plans; (b) establishment of corporate goals and objectives relevant to the Chief Executive Officer’s compensation; (c) evaluation of the Chief Executive Officer’s performance and determination of the compensation for the Chief Executive Officer; (d) evaluation of the performance of senior management; and (e) compensation of directors. In particular, with respect to executive compensation matters, the members of the GNC Committee,

- (a) consider and review annually the adequacy and the nature of compensation to be paid to the CEO and make recommendations regarding such compensation for the Board’s consideration and approval;
- (b) assist the board in its review and approval of the corporate goals and objectives relevant to Chief Executive Officer compensation and evaluate the Chief Executive Officer’s performance in light of those goals and objectives;
- (c) review the CEO’s recommendations with respect to the setting of compensation levels for the other senior officers of the Corporation to ensure that they are fairly rewarded for their individual contributions to the Corporation’s overall performance, inter alia, taking into account the Corporation’s performance and remuneration philosophy;
- (d) consider and make recommendations to the Board in respect of the base fees, forms of payment, reviews and categories of reimbursable expenses applicable to the CEO and the directors;

- (e) consider and make recommendations to the Board in respect of incentive compensation plans and other equity-based plans available to the Corporation's employees;
- (f) consider and make recommendations to the Board in respect of parameters applicable in respect of the Corporation's employees share incentive plan and other incentives to be paid to senior executives within the Corporation and its subsidiaries, and any change in the rules and allocation procedures governing the Corporation employee share incentive scheme; and
- (g) consider and make recommendations to the Board in respect of a statement regarding the Corporation's remuneration philosophy and assist the Board in its obligations to report annually on executive compensation in the Corporation's annual report and/or annual information circular and/or management information circular as required by relevant regulations.

Compensation Risk

The Board considers and assesses, as necessary, the implications of risks associated with the Corporation's compensation policies and practices and devotes such time and resources as it believes are appropriate given the Corporation's straightforward method of executive compensation. As at the date of this Prospectus, the Board had not identified risks arising from the Corporation's compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

Financial Instruments

Except where prohibited by law, the Corporation's executive officers and directors have not been prohibited from purchasing financial instruments, such as prepaid variable forward contracts, equity swaps, collars or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by an executive officer or director. To the Corporation's knowledge, no executive officer or director of the Corporation has entered into or purchased such a financial instrument.

Elements of Executive Compensation

The total compensation package for executives is comprised of a base salary, benefits package, stock options, EMGL Performance Shares (as defined below), performance or incentive bonuses and certain perquisites and personal benefits. With respect to the base salary and benefits package of the Corporation, the Corporation attempted to align this package with the industry average and prevailing standards for peer group companies. The Stock Option Plan was developed to retain the Corporation's key executives and Management group, encourage long term growth and planning and align long term compensation of senior Management with the interests of Shareholders. For Named Executive Officers in 2011, the components of compensation paid were as follows: base salary – 63%, EMGL Performance Shares – 5%, performance or incentive bonuses – 0%, stock options – 18% and all other compensation – 14%. Please note that all options granted during the year ended December 31, 2011, were granted to reflect the performance of the officer, director, executive or employee receiving such grant, during the year ended December 31, 2010.

Base Salaries

Executive officers' salaries are reviewed annually and are established by taking into consideration individual salaries as compared to those paid to executives of other companies of comparable size within the oil and gas services industry. Such information was obtained from time to time from publically available information regarding such companies. The executive salaries of the Corporation were intended to be in the median range of competitive compensation in the oil and gas services industry.

Bonus Plan

In addition to base salaries, the Corporation has a bonus plan pursuant to which the Board may award annual cash bonuses to the Named Executive Officer's. The cash bonus portion of the Named Executive Officer compensation is designed to reward corporate and individual performance. The bonus plan is intended to ensure overall executive cash compensation is competitive and recognizes performance relative to the market and peer group companies. The amount of the bonus is not pre-established and is at the discretion of the directors of the Corporation. A target amount of 20% of annual compensation has been established for annual bonus, and as a general rule the directors of the Corporation review similar factors as those discussed above in relation to base salary.

Long Term Incentive Plans

Stock Option Plan

The Corporation has adopted the Stock Option Plan, which provides for the "rolling" grant of options up to 10% of the issued and outstanding Shares.

The Stock Option Plan provides for the granting of stock options to officers, directors, employees and consultants of the Corporation and its affiliates. The purpose of the Stock Option Plan is to develop the interest of officers, directors, employees and consultants of the Corporation and its affiliates in the growth and development of the Corporation and its affiliates, by providing them with the opportunity through stock options to acquire, or increase their, ownership interest in the Corporation.

Participants in the Option Plan benefit only if the market value of the Common Shares at the time of Option exercise is greater than the exercise price of the Options, determined with reference to the market price of the Common Shares at the time of grant, thereby motivating holders of Options, including executive officers, to achieve longer-term sustainable business results and align their interests with those of the Shareholders. Management of the Corporation believes that security-based compensation arrangements and similar plans are a critical component of the Corporation's compensation arrangements and are necessary and vital to attracting and retaining key individuals.

Options are awarded by the directors in a manner that ensures that the total number of Options granted to any particular individual, including previous grants of Options, is commensurate with the individual's level of ongoing responsibility within the Corporation. Generally, all employees, officers and directors are eligible for an annual award of Options.

Summary of Terms of the Plan

Directors, officers, consultants and employees of the Corporation or its subsidiaries, and employees of a person or company which provides management services or investor relations services to the Corporation or its subsidiaries may participate in the Option Plan. The purpose of the Option Plan is to provide the participants with an opportunity to purchase Common Shares and to benefit from the appreciation thereof. This will provide an increased incentive for the participants to contribute to the future success and prosperity of the Corporation, thus enhancing the value of the Common Shares for the benefit of all the shareholders and increasing the ability of the Corporation and its subsidiaries to attract and retain individuals of exceptional skill.

Under the Option Plan, options to purchase Common Shares ("**Options**") may be granted in such numbers and with such vesting provisions as the Board of Directors may determine.

The price per share at which Common Shares may be purchased under an Option shall be fixed by the Board of Directors when the Option is granted, provided that such price shall not be less than the price permitted by the TSXV. Once the exercise price has been determined by the Board of Directors, accepted by the TSXV and the

Option has been granted, the exercise price of an Option may only be reduced, in the case of Options held by insiders of the Corporation, if disinterested shareholder approval is obtained at a meeting of the shareholders.

The Option Plan also provides that the Options granted under the Plan together with all of the Corporation's other previously established stock option plans or grants, shall not result at any time in:

- (a) the number of outstanding Options exceeding 10% of the issued and outstanding Common Shares at any time; and
- (b) the grant to any one (1) Optionee within a twelve month period, of a number of Options exceeding 5% of the issued and outstanding Common Shares (or 2% of the issued and outstanding Common Shares in the case of an Optionee who is a Consultant or an Employee conducting Investor Relations Activities (as such terms are defined in TSXV policies)).

If an Optionee ceases to be a director, officer, employee or consultant of the Corporation or its subsidiaries for any reason other than death, the Optionee may, but only within the later of (a) 12 months after the completion of the Proposed Qualifying Transaction; and (b) ninety (90) days after the Optionee's ceasing to be a director, officer, employee or consultant (or 30 days in the case of an Optionee engaged in Investor Relations Activities) or prior to the expiry of the Option period, whichever is earlier, exercise any Option held by the Optionee, but only to the extent that the Optionee was entitled to exercise the Option at the date of such cessation.

In the event of the death of a participant on or prior to the expiry time of an Option, such Option may be exercised as to such of the Common Shares in respect of which such Option has not previously been exercised (including in respect of the right to purchase Common Shares not otherwise vested at such time), by the legal personal representatives of the participant at any time up to and including (but not after) a date one (1) year following the date of death of the participant or the expiry time of such Option, whichever occurs first.

Pursuant to the Option Plan the Corporation can, at any time, have a number of Options outstanding equal to up to 10% of the then issued and outstanding number of Common Shares. In the event of the exercise or cancellation of any Options, the Corporation can make a further grant of Options, provided that the 10% maximum is not exceeded. In that regard, the Option Plan is a "rolling" stock option plan.

TSXV Policy 4.4 - *Incentive Stock Options*, requires that rolling stock option plans must receive shareholder approval yearly, at an issuer's annual meeting.

During the year ended December 31, 2012, no options were granted under the Option Plan.

Share Based Awards – EMGL Performance Shares

On June 25, 2010, the Corporation completed its "qualifying transaction" as such term is defined in the policies of the TSXV, by way of a reverse takeover transaction ("**RTO**") with Estrella Overseas Limited ("**EOL**"), whereby the Corporation acquired all of the issued and outstanding securities of EOL in exchange for securities of the Corporation. In connection with the RTO, Estrella Management Group Limited ("**EMGL**"), as a shareholder of EOL, was issued 15,000,000 Common Shares of the Corporation (the "**EMGL Shares**").

The EMGL Shares are subject to a performance escrow agreement dated March 3, 2010, made among EOL, EMGL, Canaccord Financial Ltd. and Fourth Third LLC (the "**Performance Escrow Agreement**"). Pursuant to the terms of the Performance Escrow Agreement, the EMGL Shares are subject to the following release conditions:

- (i) 4,000,000 shares are released when the 25 consecutive trading day closing price of the common shares of the Corporation is greater than or equal to US\$0.30 (the "**Tranche 1 Shares**") or concurrent with a merger;

- (ii) 6,000,000 shares are released when the 25 consecutive trading day closing price of the common shares of the Corporation is greater than or equal to US\$0.45 (the **"Tranche 2 Shares"**); and
- (iii) 5,000,000 shares are released when the 25 consecutive trading day closing price of the common shares of the Corporation, is greater than or equal to US\$0.60 (the **"Tranche 3 Shares"**).

On completion of the RTO, 13,671,305 EMGL Shares were transferred to certain shareholders of EMGL in exchange for their shares of EMGL (the **"EMGL Redemption"**). Each of the shareholders of EMGL signed an acknowledgement to be bound by the terms of the Performance Escrow Agreement.

Following the EMGL Redemption, EMGL was the registered holder of 1,328,695 Common Shares (the **"EMGL Performance Shares"**), with the sole shareholder of EMGL being Warren Levy, President and Chief Executive Officer of the Corporation.

Management of the Corporation believes that security-based compensation arrangements and similar plans are a critical component of the Corporation's compensation arrangements and are necessary and vital to attracting and retaining key individuals. The EMGL Performance Shares and Option Plan are the key components to the Corporation's security-based compensation arrangements.

The EMGL Performance Shares are issued, fully paid Common Shares of the Corporation, and are held by EMGL solely in a custodial capacity. Management provides its recommendations to the GNC Committee of individuals that it considers worthy of an award of EMGL Performance Shares. The GNC Committee meets with management to consider such recommendations and then makes its recommendations to the Board as whole. Individual awards of the EMGL Performance Shares must ultimately be approved by the Board. Upon authorization by the Board, the EMGL Performance Shares are transferred and registered in the name of such individual. Prior to any transfer becoming effective, all awardees of the EMGL Performance Shares must sign an acknowledgement agreeing to be bound by the terms of the Performance Escrow Agreement. In accordance with International Financial Reporting Standards, the dollar value attributed to an award of EMGL Performance Shares is equal to the market value of the Common Shares on the date of grant.

During the year ended December 31, 2011, 544,367 EMGL Performance Shares were awarded to employees of the Corporation. As at the date hereof, there are 784,328 EMGL Performance Shares which remain registered in the name of EMGL and which are available for award. All options granted during the year ended December 31, 2011, were granted to reflect the performance of the officer, director, executive or employee receiving such grant in fiscal 2010.

Summary Compensation Table

The following table sets forth information concerning the annual and long-term compensation for services rendered to the Corporation and its subsidiaries for the financial year of the Corporation ended and for all financial years ending on or after December 31, 2009, in respect of the Named Executive Officers during such financial years.

Name and Principal Position	Year	Salary (US\$)	Share-Based Awards (US\$) ⁽⁵⁾	Option-Based Awards (US\$) ⁽¹²⁾	Non-Equity Incentive Plan Compensation		Pension Value (US\$)	All Other Comp. (US\$)	Total Comp. (US\$)
					Annual Incentive Plans (US\$)	Long-Term Incentive Plans (US\$)			
Warren Levy President and CEO	2012	189,600	Nil	Nil	Nil	Nil	Nil	94,600 ⁽¹³⁾	284,200
	2011	212,400	23,593 ⁽⁶⁾	124,882	Nil	Nil	Nil	75,996 ⁽¹⁴⁾	436,871
	2010	212,400	Nil	Nil	Nil	Nil	Nil	62,800 ⁽¹⁵⁾	275,200
Javier Vedoya CFO (Started in Sept 2012)	2012	72,000	Nil	Nil	Nil	Nil	Nil	\$28,900 ⁽¹⁶⁾	100,900
Hernan Montoya ⁽¹⁾ Former CFO	2012	135,000	20,250 ⁽⁷⁾	Nil	Nil	Nil	Nil	Nil	135,000
Christian Bauwens ⁽²⁾ Former CFO	2012	90,000	Nil	Nil	Nil	Nil	Nil	32,333 ⁽¹⁷⁾	122,333
	2011	270,000	13,808 ⁽⁸⁾	104,068	Nil	Nil	Nil	97,000 ⁽¹⁸⁾	484,876
	2010	88,863	Nil	Nil	Nil	Nil	Nil	96,435 ⁽¹⁹⁾	185,298
Gary Pidcock VP Consulting	2012	189,600	Nil	Nil	Nil	Nil	Nil	33,000 ⁽²⁰⁾	222,600
	2011	200,400	17,200 ⁽⁹⁾	26,017	Nil	Nil	Nil	33,840 ⁽²¹⁾	277,457
Matt Holdeman VP Geothermal & GM Chile	2012	186,000	Nil	Nil	Nil	Nil	Nil	67,440 ⁽²²⁾	253,440
	2011	200,400	9,078 ⁽¹⁰⁾	26,017	Nil	Nil	Nil	26,400 ⁽²³⁾	261,895
Luis Aviles VP Sales and Marketing	2012	174,000	Nil	Nil	Nil	Nil	Nil	Nil	174,000
	2011	184,416	16,535 ⁽¹¹⁾	26,017	Nil	Nil	Nil	Nil	226,968
Darcy E. Krogh ⁽³⁾ Former President, CEO and CFO	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Bryan Kornegay ⁽⁴⁾ Former CFO	2010	200,000	Nil	Nil	Nil	Nil	Nil	Nil	200,000

Notes:

- (1) Mr. Montoya was replaced as CFO in November 2012.
- (2) Mr. Bauwens resigned as the CFO and a director of the Corporation on April 15, 2012.
- (3) Concurrently with the completion of the RTO, Mr. Krogh resigned as the President, Chief Executive Officer and Chief Financial Officer of the Corporation.
- (4) Mr. Kornegay resigned as Chief Financial Officer and Director of the Corporation in August 2010. Mr. Kornegay worked the 2010 calendar year under an engagement (the "CFO Agreement") through a Corporation owned and controlled by him 'B Group LLC'.
- (5) In accordance with IFRS 2, the dollar value attributed to share based awards are equal to the market value of the Common Shares on the date of grant.
- (6) Based on 27,757 EMGL Performance Shares granted on March 14, 2011. The closing price of the Common Shares on the TSXV on the date immediately preceding the date of grant was CDN\$0.85.
- (7) Based on 150,000 EMGL Performance Shares granted on March 2, 2012. The closing price of the Common Shares on the Exchange on the date immediately preceding the date of grant was CDN\$0.135.
- (8) Based on 16,245 EMGL Performance Shares granted on March 14, 2011. The closing price of the Common Shares on the TSXV on the date immediately preceding the date of grant was CDN\$0.85.
- (9) Based on 20,236 EMGL Performance Shares granted on March 14, 2011. The closing price of the Common Shares on the TSXV on the date immediately preceding the date of grant was CDN\$0.85.
- (10) Based on 10,680 EMGL Performance Shares granted on March 14, 2011. The closing price of the Common Shares on the TSXV on the date immediately preceding the date of grant was CDN\$0.85.
- (11) Based on 19,453 EMGL Performance Shares granted on March 14, 2011. The closing price of the Common Shares on the TSXV on the date immediately preceding the date of grant was CDN\$0.85.

- (12) Option Based Awards are based on the grant date fair value of the applicable awards. The Corporation uses the Black-Scholes model to value all stock option grants. Black-Scholes has been selected to value all stock options as the Corporation believes that this model most accurately determines the value of stock options granted. All stock options granted during the year ended December 31, 2011 had an exercise price of US\$0.5865 per share. And a Black-Scholes valuation of US\$0.208 per share based on the date of issuance.
- (13) Consists of a housing benefit of US\$48,600 and an education benefit of US\$46,000.
- (14) Consists of a housing benefit of US\$42,000 and an education benefit of US\$33,996.
- (15) Consists of a housing benefit of US\$36,000 and an education benefit of US\$26,800.
- (16) Consists of a travel allowance of US\$8,900 and a one-time signing bonus of US\$20,000.
- (17) Consists of a housing benefit of US\$13,333 and an education benefit of US\$11,332.
- (18) Consists of a housing benefit of US\$63,000 and an education benefit of US\$33,996.
- (19) Consists of a housing benefit of US\$32,000.
- (20) Consists of a housing benefit of US\$33,000.
- (21) Consists of a housing benefit of US\$33,840.
- (22) Consists of a housing benefit of US\$67,440.
- (23) Consists of a housing benefit of US\$26,400.

Incentive Plan Awards

The following table sets forth certain information, in relation to the Named Executive Officers, regarding share-based and option-based awards outstanding as of the end of the financial year of the Corporation ended December 31, 2012.

Name	Option-Based Awards				Share-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (CDN\$)	Option Expiration Date	Value of Unexercised In-the-Money Options (CDN\$) ⁽¹⁾	Number of Shares or Units of Shares That Have not Vested (#)	Market or Payout Value of Share-Based Awards That Have not Vested (CDN\$)	Market or Payout Value of Share-Based Awards not paid out or distributed (CDN\$)
Warren Levy President and CEO	600,000	0.5865	July 19, 2016	Nil	Nil	Nil	Nil
Javier Vedoya CFO	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Hernan Montoya Former CFO	50,000	0.5865	July 19, 2016	Nil	Nil	Nil	Nil
Doug Parker VP Rigs	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gary Pidcock VP Consulting	125,000	0.5865	July 19, 2016	Nil	Nil	Nil	Nil
Matt Holdeman VP Geothermal & GM Chile	125,000	0.5865	July 19, 2016	Nil	Nil	Nil	Nil
Luis Aviles VP Sales and Marketing	125,000	0.5865	July 19, 2016	Nil	Nil	Nil	Nil

Notes:

- (1) The amounts reported in this column represent the aggregate dollar value that would have been realized if all of the in-the-money option-based awards had been exercised on their respective vesting dates. Based on the last trading price of the Corporation's Common Shares on the TSXV as at December 30, 2011, the last day the Common Shares were traded prior to the financial year end, being CDN\$0.195, multiplied by the number of options exercisable into Common Shares held by the applicable director. Amounts represented by "nil" indicate that none of the option-based awards were in-the-money on their respective vesting dates.

The following table sets forth certain information, in relation to the Named Executive Officers, regarding the value vested or earned in connection with incentive plan awards during the financial year of the Corporation ended December 31, 2012.

Name	Option-Based Awards – Value Vested During the Year ⁽¹⁾ (CDN\$)	Share-Based Awards – Value Vested During the Year ⁽²⁾ (CDN\$)	Non-Equity Incentive Plan Compensation – Value Earned During the Year (CDN\$)
Warren Levy President and CEO	Nil	Nil	Nil
Javier Vedoya CFO	Nil	Nil	Nil
Hernan Montoya Former CFO	Nil	20,250	Nil
Christian Bauwens Former CFO	Nil	Nil	Nil
Gary Pidcock VP Consulting	Nil	Nil	Nil
Matt Holdeman VP Geothermal & GM Chile	Nil	Nil	Nil
Luis Aviles VP Sales and Marketing	Nil	Nil	Nil

Notes:

- (1) The amounts reported in this column represent the aggregate dollar value that would have been realized if all of the in-the-money option-based awards had been exercised on their respective vesting dates. Amounts represented by “Nil” indicate that none of the option-based awards were in-the-money on their respective vesting dates.
- (2) In accordance with IFRS 2, the dollar value attributed to share based awards are equal to the market value of the Common Shares on the date of grant

Discussion of Compensation Awarded to the Named Executive Officers

Warren Levy, the President and Chief Executive Officer of the Corporation, has entered into an employment agreement with the Corporation (the “**Levy Employment Agreement**”). The Levy Employment Agreement provides for both fixed compensation, comprised of base salary, and performance-based variable incentive compensation, comprised of an annual bonus, and long-term incentives in the form of awards under the Option Plan and the EMGL Performance Shares.

Under the Levy Employment Agreement, Mr. Levy receives a base salary of \$212,400 per year, subject to an annual review by the directors of the Corporation, having reference to such factors as the directors in their discretion consider relevant, provided that the adjusted salary may not be less than the base salary for the previous financial year. Mr. Levy is also provided a monthly housing allowance and a schooling allowance for his children while located in Buenos Aires. Mr. Levy is also eligible to receive an annual bonus with a target of 20% of his base salary. The annual bonus may be awarded by the directors of the Corporation, in whole or in part, applying such personal and corporate performance measures as they consider appropriate. Under the Levy Employment Agreement, Mr. Levy receives all benefits generally provided to senior officers of the Corporation, is entitled to four weeks of paid vacation annually and is eligible to be granted Options under the Option Plan and EMGL Performance Shares.

Termination and Change of Control Benefits

Pursuant to the Levy Employment Agreement, the Corporation may, at any time without just cause, immediately terminate Mr. Levy's employment with the Corporation provided that such termination without just cause is approved beforehand by a resolution of the Board.

Mr. Levy may terminate his employment with the Corporation effective immediately upon providing written notice thereof, at any time within 180 days following an event that constitutes a "constructive dismissal", as such term is defined in the Levy Employment Agreement.

If Mr. Levy's employment is terminated either by the Corporation without just cause or by Mr. Levy for constructive dismissal, then the Corporation shall pay to Mr. Levy: (i) all unpaid salary up to and including the date of termination; (ii) all outstanding vacation pay and expense reimbursements; (iii) any bonus that has been declared by the Board but not yet paid; and (iv) a lump sum payment equal to 18 months of salary and benefits.

In the event of a "change of control" of the Corporation, as such term is defined in the Levy Employment Agreement, the Corporation shall have the option, within ninety (90) days of the date of the change of control, to terminate the employment of Mr. Levy effective immediately.

Additionally Mr. Levy shall have the option, within one hundred eighty (180) days of the date of the change of control to terminate his employment with the Corporation effective immediately upon providing written notice thereof to the Corporation.

If Mr. Levy's employment is terminated by either the Corporation or Mr. Levy pursuant to a change of control, the Corporation shall pay to Mr. Levy: (i) all unpaid salary up to and including the date of termination; (ii) all outstanding vacation pay and expense reimbursements; (iii) any bonus that has been declared by the Board but not yet paid; and (iv) a lump sum payment equal to 18 months of salary and benefits.

If neither the Corporation nor Mr. Levy elects to exercise the option to terminate Mr. Levy's employment in connection with a change of control, Mr. Levy's employment shall continue in accordance with the terms of the Levy Employment Agreement, or on such other terms as mutually agreed in writing by the Corporation and Mr. Levy.

Mr. Levy has agreed to waive his rights in connection with the change of control of the Corporation resulting from the Private Placement.

Director Compensation

The following table sets forth information concerning the annual and long-term compensation in respect of the directors of the Corporation, other than the Named Executive Officers, during the financial year of the Corporation ended December 31, 2012.

Name	Fees Earned (CDN\$)	Share-Based Awards (CDN\$)	Option-Based Awards (CDN\$) ⁽¹⁾	Non-Equity Incentive Plan Comp. (CDN\$)	Pension Value (CDN\$)	All Other Comp. (CDN\$)	Total (CDN\$)
Remo Mancini	70,000	Nil	Nil	Nil	Nil	Nil	70,000
Phil MacDonnell	70,000	Nil	Nil	Nil	Nil	Nil	70,000
Ricardo Rodriguez	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Horacio Reyser	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Diego Acevedo	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Daniel Kokogian	25,000	Nil	Nil	Nil	Nil	Nil	25,000
Gustavo Garrido	20,000	Nil	Nil	Nil	Nil	Nil	20,000
Andrew Fentress	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) Option Based Awards are based on the grant date fair value of the applicable awards. The Corporation uses the Black-Scholes model to value all stock option grants. Black-Scholes has been selected to value all stock options as the Corporation believes that this model most accurately determines the value of stock options granted.

The following table sets forth certain information, in relation to the directors of the Corporation, other than the Named Executive Officers, regarding share-based and option-based awards outstanding as of the end of the financial year of the Corporation ended December 31, 2012.

Name	Option-Based Awards				Share-Based Awards		Market or Payout Value of Share-Based Awards not paid out or distributed (CDN\$)
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (CDN\$)	Option Expiration Date	Value of Unexercised In-the-Money Options ⁽¹⁾ (CDN\$)	Number of Shares or Units of Shares That Have not Vested (#)	Market or Payout Value of Share-Based Awards That Have not Vested (CDN\$)	
Remo Mancini	312,500	\$0.5865	July 19, 2016	Nil	Nil	Nil	Nil
Phil MacDonnell	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Horacio Reyser	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Ricardo Rodriguez	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Diego Acevedo	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Daniel Kokogian	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gustavo Garrido	312,500	\$0.5865	July 19, 2016	Nil	Nil	Nil	Nil

Notes:

- (1) The amounts reported in this column represent the aggregate dollar value that would have been realized if all of the in-the-money option-based awards had been exercised on their respective vesting dates. Based on the last trading price of the Corporation's Common Shares on the TSXV as at December 30, 2011, the last day the Common Shares were traded prior to the financial year end, being CDN0.195 multiplied by the number of options exercisable into Common Shares held by the applicable director. Amounts represented by "nil" indicate that none of the option-based awards were in-the-money on their respective vesting dates.

The following table sets forth certain information, in relation to the directors of the Corporation, other than the Named Executive Officers, regarding the value vested or earned in connection with incentive plan awards during the financial year of the Corporation ended December 31, 2012.

Name	Option-Based Awards – Value Vested During the Year ⁽¹⁾ (CDN\$)	Share-Based Awards – Value Vested During the Year ⁽²⁾ (CDN\$)	Non-Equity Incentive Plan Compensation – Value Earned During the Year (CDN\$)
Remo Mancini	Nil	Nil	Nil
Phil MacDonnell	Nil	Nil	Nil
Ricardo Rodriguez	Nil	Nil	Nil
Horacio Reyser	Nil	Nil	Nil

Name	Option-Based Awards – Value Vested During the Year⁽¹⁾ (CDN\$)	Share-Based Awards – Value Vested During the Year⁽²⁾ (CDN\$)	Non-Equity Incentive Plan Compensation – Value Earned During the Year (CDN\$)
Diego Acevedo	Nil	Nil	Nil
Daniel Kokogian	Nil	Nil	Nil
Gustavo Garrido	Nil	Nil	Nil
Andrew Fentress	Nil	Nil	Nil

Notes:

- (1) Option Based Awards are based on the grant date fair value of the applicable awards. The Corporation uses the Black-Scholes model to value all stock option grants. Black-Scholes has been selected to value all stock options, as the Corporation believes that this model most accurately determines the value of stock options granted.
- (2) The amounts reported in this column represent the aggregate dollar value that would have been realized if all of the in-the-money option-based awards had been exercised on their respective vesting dates. Amounts represented by “Nil” indicate that none of the option-based awards were in-the-money on their respective vesting dates.

EQUITY PLAN COMPENSATION INFORMATION

The following table sets forth information concerning securities authorized for issue under equity compensation plans of the Corporation, as of December 31, 2012,

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	2,612,834	\$0.5853	27,334,811

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As of the date hereof, there is not, nor at any time since the beginning of the most recently completed financial year of the Corporation has there been, any indebtedness of any person who is or has been a director, executive officer or employee of the Corporation or any of its subsidiaries, at any time since the beginning of the Corporation’s last financial year, or of any associate of such persons, to or guaranteed or supported by the Corporation or its subsidiaries either pursuant to an employee stock purchase program of the Corporation or otherwise.

AUDIT COMMITTEE DISCLOSURE

Charter

The text of the charter (the “**Charter**”) of the Audit Committee is attached hereto as Appendix F.

The members of the Audit Committee are Messrs. MacDonnell (Chair), Reyser and Mancini. The majority of members of the Audit Committee are independent within the meaning of National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”). All members of the Audit Committee are financially literate (as defined in NI 52-110). The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors all public financial disclosure information such as financial statements, management’s discussion and analysis, annual information forms and prospectuses. The Audit Committee also pre-approves all non-audit services to be conducted by the external auditors and ensures that management has effective internal control systems,

investigates any recommendations for improvement of internal controls and meets at least annually with the Corporation's external auditors without management present. The Corporation does not have internal auditors and given the size of the Corporation, the Corporation considers this to be practical and appropriate. The Audit Committee expects to convene no less than four times each year and as circumstances otherwise warrant.

The following is a description of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member:

Relevant Education and Experience

Please see the information under the heading Officers and Directors, above.

Audit Committee Oversight and Pre Approval Policies and Procedure

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services, whereby the Audit Committee can pre-approve such services, as well as establish a threshold amount for fees for non-audit services to be provided by the external auditors without advance approval of the Audit Committee. The nature of such services and the associated cost will be provided to the Audit Committee prior to the next following Audit Committee meeting.

External Auditor Services Fees (By Category)

The aggregate fees billed by the Corporation's external auditors in the 12 months ended December 31, 2011, 2010, 2009 and 2008 are as follows:

Fiscal Year	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
2008	US\$39,000	Nil	Nil	Nil
2009	US\$54,200	Nil	Nil	Nil
2010	US\$260,750	Nil	Nil	US\$58,850
2011	US\$316,375	Nil	US\$36,018	Nil

Venture Issuer Exemption

The Corporation is not required to comply with Part 3 of NI 52-110 (Composition of the Audit Committee) and Part 5 of NI 52-110 (Reporting Obligations) by virtue of the exemption for venture issuers contained in section 6.1 of NI 52-110.

CORPORATE GOVERNANCE DISCLOSURE

GNC Committee

The directors of the Corporation established the governance, nominations and compensation committee (the "GNC Committee") to assist the directors in fulfilling their oversight responsibilities with respect to, among other things: (a) developing governance guidelines and principles for the Corporation; (b) identifying individuals qualified to be nominated as directors of the Corporation; (c) assist the Board in discharging its responsibilities relating to compensation of the Corporation's executive officers; (d) evaluating the structure and composition of the committees of the directors of the Corporation; and (e) evaluating the performance and effectiveness of the board of directors.

The GNC Committee is mandated to conduct the following with respect to corporate governance:

Governance

- (a) develop the approach of the Corporation to matters of corporate governance and make recommendations to the Board with respect to all such matters;
- (b) prepare and recommend to the Board a set of governance principles applicable to the Corporation and to be included in the Corporation's public disclosure material;
- (c) keep abreast of best corporate governance practices and make recommendations to the Board on the need, where appropriate, for Board participation in continuing education programmes;

Nominations

- (a) review from time to time the structure, composition and size of the Board, with a view to determining the impact of the number of Board members upon its effectiveness and report thereon to the Board;
- (b) develop and recommend to the Board criteria for the selection of candidates to serve on the Board;
- (c) identify and evaluate nominees and recommend to the Board such nominees for election to the Board at the annual general meeting of shareholders;
- (d) assist the board in its obligation to identify a successor to the Chairperson and Chief Executive Officer of the Corporation;
- (e) consider the mandates of the Board committees, selection, composition and rotation of committee members and chairmen and make recommendations to the Board with respect to same;
- (f) develop and facilitate an orientation programme for new members of the Board to ensure their understanding of the Corporation and the business environment and market in which the Corporation operates. Such programme will include the provision of background material, meetings with senior management and visits to the Corporation's facilities and will seek to provide the new director with:
 - (i) an overview of the Corporation (ownership, powers, rules, regulations and Corporation law, board structure, membership and processes);
 - (ii) an overview of the business (business processes, corporate strategies, organisation, management and people);
 - (iii) an overview of the financials (annual and quarterly accounts, directors' reports, key financial indicators and financial performance of the business); and
 - (iv) an understanding of what is expected from the director on appointment (discussions with Chairperson with regards to the role, why nominated, potential contributions, particular knowledge and the like).

The charter of the GNC Committee can be found on the Corporation's website at www.estrellasp.com.

The GNC Committee is comprised of four members, Messrs. Mancini (chair), MacDonnell, Reyser and Kokogian. Messrs. Mancini (chair), MacDonnell are independent for the purposes of National Instrument 58-101 – *Disclosure*

of *Corporate Governance Practices* published by the Canadian Securities Administrators (“NI 58-101”). Messrs. Reyser is not considered independent because he is an executive officer of an affiliate of Ringo Holding which is a control person of the Corporation. Mr. Kokogian is not considered independent because he is a consultant considered to have a material relationship with Ringo Holding which is a control person of the Corporation.

Independence of the Board of Directors

The Corporation has 7 directors, a majority of whom are not considered to be independent. Mr. Levy, the President and Chief Executive Officer of the Corporation is not considered independent because he is an executive officer of the Corporation. Messrs. Rodriguez, Reyser and Acevedo are not considered independent because they are executive officers of an affiliate of Ringo Holding which is a control person of the Corporation. Mr. Kokogian is not considered independent because he is a consultant considered to have a material relationship with Ringo Holding which is a control person of the Corporation.

The directors of the Corporation annually review and make a determination as to the independence of each director in light of all applicable laws, rules, regulations and stock exchange requirements. The Corporation seeks to maintain a board of directors with at least a majority of independent directors; however if the Private Placement Resolution is approved as noted above, this will not be the case.

The directors facilitate independent supervision over management by regularly holding in camera sessions at meetings of the directors without any members of management present (including those members of management who also serve as directors of the Corporation). Notwithstanding the foregoing, the directors of the Corporation believe that there is value in having certain members of senior management attend each meeting of the directors to provide information and presentations regarding the business of the Corporation in order to assist the directors in their deliberations. Attendance by senior management is determined by the Chief Executive Officer of the Corporation with the concurrence of the board of directors of the Corporation.

Management of the Corporation is expected to make appropriate use of the directors’ collective and individual expertise before any decisions on key issues are made. The directors of the Corporation approve annual business plans and budgets and also approve general authority guidelines that place limits on management’s ability to approve contractual and financial arrangements and commitments both in accordance with and outside approved budgets. All transactions, arrangements and commitments outside approved budgets and defined limits require the approval of the directors of the Corporation.

Other Positions with Reporting Issuers

Certain directors of the Corporation are also directors or Officers of other reporting issuers (or the equivalent in foreign jurisdictions) as set out below:

Name	Name of Reporting Issuer	Exchange	Position	From	To
Phil MacDonnell	New Dawn Mining Corp.	TSX	Director	2008	Present
Remo Mancini	Niocan Inc.	TSX	Director	2007	Present
	BGS Acquisition Corp.	NASDAQ	Director	2011	Present
	Melior Resources Inc.	TSXV	Director	2013	Present

Orientation and Continuing Education

The Corporation currently does not have a formal orientation or continuing education program. The GNC Committee with the assistance of the Chief Executive Officer and the Chief Financial Officer are responsible for providing an orientation and education program for new directors of the Corporation. When a person joins the board of directors, he or she will be given the opportunity to become familiar with the Corporation by meeting

with the other directors of the Corporation and with the officers and representatives of the Corporation. As each director has a different skill set and professional background, orientation and training activities will be tailored to the particular needs and experience of the individual director.

Ethical Business Conduct

The directors of the Corporation have established a Code of Business Conduct and Ethics (the “**Ethics Code**”), a copy of which may be found on the Corporation’s website at www.estrellasp.com. The Ethics Code provides a set of ethical standards by which each director, officer, employee, consultant and contractor of the Corporation is expected to conduct their business and, for each officer and employee of the Corporation, constitutes conditions of employment and, for each consultant and contractor, constitutes conditions of providing services to the Corporation. The Ethics Code is intended to give an overview of the Corporation’s expectations for its directors, officers, employees, consultants and contractors and is supplemented by any other applicable policies adopted by the Corporation.

The directors of the Corporation expect all directors, officers and employees of the Corporation to act honestly and ethically at all times and to adhere to the Ethics Code. The directors of the Corporation may permit a waiver of the Ethics Code for any director or executive officer of the Corporation. However, any such waiver will be promptly disclosed to the extent required by applicable law or stock exchange rules and regulations.

The Ethics Code sets out that all directors, officers, employees, contractors and consultants of the Corporation, in discharging their duties, must comply with: the laws, rules and regulations of the location in which the Corporation is conducting business activities; the Ethics Code; and all corporate policies, including, without limitation, the Corporate Disclosure Policy.

All directors, officers, employees, contractors and consultants are required to provide an annual certification to the Corporation confirming compliance with all laws, rules and regulations of the location in which the Corporation is performing business activities, as well as compliance with all applicable policies of the Corporation. The Chief Executive Officer of the Corporation is responsible for ensuring that all annual certifications are obtained and for providing confirmation to the directors of the Corporation that such certifications have been obtained and summarizing the results thereof.

The Chief Executive Officer of the Corporation is responsible for setting the ethical tone for the Corporation and its management, including (i) overseeing the administration and implementation of, and compliance with, the Corporation’s policies and procedures; (ii) taking all reasonable steps to satisfy the directors of the Corporation as to the integrity of the Chief Executive Officer and other senior officers of the Corporation; (iii) taking all reasonable steps to satisfy the directors of the Corporation that the Chief Executive Officer and other senior officers of the Corporation create a culture of integrity throughout the organization; and (iv) fostering ethical and responsible decision making by management.

Nomination of Directors

The GNC Committee is responsible for identifying and recommending new candidates, having regard to the appropriate number of directors of the Corporation and the necessary competencies and skills of the directors collectively and individually. New nominees should have a track record in general business management, special expertise in an area of strategic interest to the Corporation and the ability to devote the time required to fulfill the duties of a director of the Corporation.

The GNC Committee, when deemed appropriate (i) reviews and assesses the size, composition and operation of the board of directors to ensure effective decision making; (ii) reviews and assesses the size, composition and chairmen of all committees of the directors; and (iii) identifies and reviews candidates for appointment or nomination as directors of the Corporation based upon an assessment of the independence, skills, qualifications and experience of the candidate and makes recommendations to the directors for their consideration. In addition,

the GNC Committee is required under its charter to annually review the characteristics, qualities, skills and experience which form the criteria for candidates to be considered for nomination as directors of the Corporation. The objective of the review is to maintain the composition of the board of directors in a way that provides the best mix of skills and experience to provide for the overall stewardship of the Corporation. All directors are required to possess fundamental qualities of intelligence, honesty, integrity, ethical behaviour, fairness and responsibility and to be committed to representing the long-term interests of the Shareholders. They must also have a genuine interest in the Corporation, have the ability to be objective at all times about the best interests of the Corporation, have independent opinions on all issues and be both willing and able to state them in a constructive manner and be able to devote sufficient time to discharge their duties and responsibilities effectively.

The directors of the Corporation have the ability to increase or decrease the size of the board of directors within the limits set out in the articles and by-laws of the Corporation and applicable laws. The directors will determine the size of the board of directors having regard to the best interests of the Corporation. The directors believe that the size of the board of directors should be sufficient to provide a diversity of expertise and opinions and to allow effective committee organization, yet small enough to enable efficient meetings and decision-making and maximize full attendance at meetings of the directors of the Corporation. The directors of the Corporation will review the size of the board of directors if a change is recommended by the GNC Committee.

Compensation

See “Statement of Executive Compensation” above for information regarding compensation made to certain executives and to directors of the Corporation.

Assessments

The GNC Committee is mandated to undertake an annual assessment of the overall performance and effectiveness of the directors of the Corporation collectively and each committee thereof and to report on the results of such assessment to the directors of the Corporation. The purpose of the assessment is to ensure the continued effectiveness of the directors of the Corporation in discharging their duties and responsibilities and to contribute to a process of continuing improvement.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no informed person (as that term is defined in NI 51-102) or any associate or affiliate of any of them, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year of the Corporation that has materially affected or is reasonably expected to materially affect the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRARS

The auditors of the Corporation are Collins Barrow LLP in Toronto, Ontario.

The registrar and transfer agent for the Common Shares is Olympia Trust Company at its principal offices in Toronto, Ontario.

MATERIAL CONTRACTS

Estrella has not entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year which are still in effect, other than as disclosed below:

Credit Suisse Credit Facility

On August 13, 2012, the Corporation, through its wholly owned subsidiaries Estrella Overseas Limited and Estrella Petrolera del Peru S.A.C., entered into an amended and restated loan agreement (the “**Amended and Restated Loan Agreement**”) with Credit Suisse, restructuring the CS Facility. The facility was further amended as of December 7, 2012.

The current principal outstanding balance on the CS Facility is US\$12,500,000 payable as follows:

- (i) US\$1,250,000 due on May 30, 2014;
- (ii) five quarterly payments of US\$2,000,000 beginning on August 30, 2014;
- (iii) a final payment of US\$1,250,000 due on November 30, 2015.

The nominal interest rate is the sum of an 8% margin over the quarterly LIBOR rate. In addition on the earlier of (a) the final maturity date and (b) the date of repayment in full of the CS Facility, the Corporation shall pay Credit Suisse a redemption premium such that the effective internal rate of return under CS Facility is 13% from the closing date to the date CS Facility is repaid in full.

The CS Facility is guaranteed Corporation and each of its subsidiaries. The CS Facility is secured by a perfected first priority security interest under New York law, and to the extent applicable, local law applicable to the Corporation and its subsidiaries (other than perfection of Argentine law pledges of rigs, tools and receivables in Argentina) over:

- 1) assets and property of the company subsidiaries, including current and future rigs and payments under current and future drilling contracts and leases;
- 2) debt service reserve account in which the next quarterly interest and amortization payments are deposited;
- 3) shares representing 100% if the Company subsidiaries;
- 4) some collection accounts.

As usual and customary for financings of this nature, the CS Facility includes a number of covenants and obligations including but not limited to negative pledge regarding no other debt (except customary permitted debt and debt under permitted debt facilities); a maximum leverage ratio (total debt to EBITDA) for 1Q 2014 of 3.25x and for 2Q 2014 and thereafter of 3.00; minimum interest coverage ratio (EBITDA to interest expense) for 1Q2013 of 1.0x, for 2Q 2013 1.75x, for 3Q 2013 2.00x, for 4Q 2013 2.25x, for 1Q 2014 2.50x and thereafter 3.0x; consolidated EBITDA of not less than US\$1,500,000 for Q4 2012 and US\$2,000,000 for each quarter of 2013; and drilling rig collateral value to the outstanding amount of the Loans to be 2.5x.

RINGO HOLDING CREDIT FACILITY

On December 17, 2012, the Corporation entered into a US\$20,000,000 Subordinated Loan Agreement with Ringo Holding an affiliate of Southern Cross (the “**Shareholder Loan**”).

Total principal amount disbursed and outstanding under the Shareholder Loan is US\$10,000,000. The Shareholder Loan bears interest at a rate of (i) 12% per annum from the December 17, 2012 until the nine-month anniversary of December 17, 2012 and (ii) 14% per annum from and after the nine-month anniversary of December 17, 2012. Interest compounds on the last day of each June and December, beginning on December 31, 2012.

The Shareholder Loan is unsecured and subordinated to the CS Facility. Other than as set forth below, no payments of principal and interest are permitted prior to the date when the Shareholder Loans under the Credit Suisse Shareholder Loan are repaid in full.

The Shareholder Loan may be repaid and discharged in full by means of any of the following: (i) applying the proceeds from any equity sale of the Corporation to Ringo Holding, Southern Cross or any affiliate of Southern Cross and/or exchanging the debt for equity of the Corporation in each case, at any time, (ii) applying the proceeds from any equity sale of the Corporation to persons other than Ringo Holding, Southern Cross or an affiliate of Southern Cross made within nine months after incurring the Shareholder Loan, (iii) any combination of (i) and (ii) above or (iv) applying the proceeds to the Corporation which shall be unsecured and subordinated to the CS Facility on terms and conditions reasonably satisfactory in form and substance to the lender.

EXPERTS AND INTEREST OF EXPERTS

The matters referred to under “*Eligibility for Investment*” and “*Certain Canadian Federal Income Tax Considerations*” and certain other legal matters relating to the Rights offered hereby will be passed upon by Aird & Berlis LLP, on behalf of the Corporation. As at the date hereof, the partners of Aird & Berlis LLP and the employees of Aird & Berlis LLP who participated in or were in a position to directly influence the preparation of this prospectus, as a group, owned beneficially, directly or indirectly, less than 1% of the securities of the Corporation.

None of the aforementioned persons, nor any directors, officers or employees of such the aforementioned firm, is currently expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

Collins Barrow LLP have prepared an independent auditors' report dated • and in respect of the Corporation's consolidated financial statements as at December 31, 2011 and December 31, 2010 and 2009. Collins Barrow LLP has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ENFORCEMENT OF LEGAL RIGHTS

Certain of the directors and executive officers of the Corporation reside outside of Canada, and substantially all of the assets of such persons may be located outside of Canada. Although such non-resident directors and executive officers have appointed the Aird & Berlis LLP, Brookfield Place, 1800 – 181 Bay Street, Toronto, ON M5J 2T9, as their agent for service of process in Canada, it may not be possible for investors to enforce judgments obtained in Canada upon such directors, executive officers or experts. Where the Corporation's executive officers and non-resident directors have appointed an agent for service of process in Canada, it will be possible for investors to effect service of legal process upon such persons within Canada.

LEGAL PROCEEDINGS

There are no legal proceedings in progress or, to the Corporation's knowledge, pending, that are material to the Corporation, its subsidiaries or their respective assets.

RISK FACTORS

Before acquiring Rights or exercising Rights to acquire Common Shares, holders of Rights should carefully consider the risks described below. Holders of rights should also refer to the other information included in this prospectus before deciding to acquire Rights or exercise Rights to acquire common shares in the capital of the Corporation.

Dilution

If a Holder sells or does not exercise all of its Rights pursuant to the Basic Subscription Privilege, the Holder's percentage ownership in the Corporation will be diluted by the issuance of Common Shares upon the exercise of Rights by Holders.

Liquidity

The liquidity of the Common Shares may be negatively impacted by the Offering. Ringo Holding has indicated that it will exercise each of the Rights issuable to it hereunder and may additionally exercise the Additional Subscription Privilege which would result in potential increased ownership by Ringo Holding of the Common Shares of the Corporation. This concentration of ownership may result in fewer Common Shares being available for trading in the open market and may result in a reduction to the liquidity of the Common Shares.

Ringo Holding Exercises Significant Control over the Corporation

Ringo Holding currently holds approximately 55.7% of the Common Shares and it is expected that such percentage ownership will increase as a result of the Offering. Ringo Holding is able to elect substantially all of the directors of the Corporation. Ringo Holding will exercise significant control over the Corporation, giving it the ability, among other things, to approve significant corporate transactions. Ringo Holding generally will have the ability to control the outcome of any matter submitted for the vote or consent of the Corporation's shareholders. In some cases, the interests of Ringo Holding may not be the same as those of the Corporation's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner which could be deemed to be detrimental to the Corporation or its minority shareholders.

Going Concern

There are no assurances that the Corporation will have sufficient funding and as a result there is significant doubt regarding the "going concern" assumption and, accordingly, the use of accounting principles applicable to a going concern and the ability of the Corporation to meet its obligations as they come due. The consolidated financial statements do not reflect adjustments that would be necessary if the "going concern" assumption was not appropriate. If the "going concern" assumption was not appropriate for the consolidated financial statements, then adjustments to the carrying values of the assets including all amounts capitalized as Investments in Resource Properties and liabilities, the reported expenses and the balance sheet classifications, which could be material, would be necessary.

Competition

The market in which the Corporation conducts its business may become more competitive; there are other companies which have similar operations to those conducted by the Corporation. Many of the Corporation's existing and potential competitors have significantly greater financial, technical and other resources than the Corporation as well as greater experience. There can be no assurance that the Corporation will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Corporation's results of operations and financial condition.

The Corporation may fail to attract or retain the qualified and experienced personnel required to operate its business successfully

The Corporation's future success depends, in part, upon its ability to attract and retain suitably qualified and experienced personnel. Personnel with the necessary expertise are scarce and competition for personnel with these skills is intense. Also, attrition in personnel can result from, among other things, competition from other employers and changes in personal circumstances, as well as retirement, death or disability. The Corporation may not be able to retain existing key technical, sales, marketing and managerial employees or be successful in

attracting, assimilating or retaining other highly qualified technical, sales, marketing and managerial personnel in the future. If the Corporation is unable to retain existing key employees or are unsuccessful in attracting new highly qualified employees, its business, financial condition and results of operations could be materially and adversely affected.

Key Person Reliance

There are a number of key individuals in the Corporation who would be very difficult to replace in the short term and without whom the business would be adversely affected. This is particularly true of the senior management group as well as a number of highly skilled specialists holding various positions within the organization. The Corporation cannot be sure that such individuals will choose to remain with the Corporation in the future. The process of selecting and hiring an employee with the combination of skills and attributes required to carry out a senior executive or specialist technical or operational job role can be extremely competitive and time consuming.

Environmental and Health and Safety liabilities could adversely impact the Corporation's financial position.

National and regional laws and regulations impose various restrictions and controls on the discharge of materials, chemicals and gases used in the oil and gas industry. In addition, under some laws and regulations, the Corporation could be held financially responsible for remedial measures if its properties are contaminated or if the Corporation sends waste to a landfill or recycling facility that becomes contaminated, even if it did not cause the contamination. Also, the Corporation may be subject to legal claims if it releases substances that damage or harm third parties. Further, future changes in environmental laws or regulations may require additional investments in capital equipment or the implementation of additional compliance programs in the future. Any failure to comply with environmental laws or regulations could subject the Corporation to serious liabilities and could have a material adverse effect on the Corporation's operating results and financial condition.

Price of Offered Shares

The Offering is expected to be highly dilutive. Investors who purchase Common Shares pursuant to the exercise of Rights in the Offering may pay more for their Common Shares than the amounts previously paid by existing holders of Common Shares for their Common Shares. As a result, such investors may incur immediate and substantial dilution.

Volatility of Share Price

The market price of the Common Shares has been volatile over various periods of time. Factors that could have a significant effect on the share price of the Common Shares include, but are not limited to commodity prices, developments with current or future strategic partners including its current majority shareholder, regulatory actions, the Corporation's failure to meet analysts' expectations, the Corporation's financial results, general economic conditions in the countries in which the Corporation has operations and foreign exchange rates. In recent years and particularly in 2008 and 2009, the Common Shares and the shares of other companies in the oil and gas industry and stock markets in Canada and the United States have experienced extreme price fluctuations that have been both related and unrelated to the operating performance of the Corporation or the affected companies. The Corporation cannot assure you that the market price of the Common Shares will not experience significant fluctuations in the future.

Dividends

Until the Corporation pays dividends, which the Corporation may never do, you will not be able to receive a return on your Common Shares unless you sell them, which you may only be able to do at less than the price you paid for them.

Future issuances of Common Shares

The market price of the Common Shares could decline as a result of the issuances of additional Common Shares or sales by the Corporation's shareholders in the market after the Offering, or the perception that these sales could occur. Sales by Shareholders might also make it more difficult for the Corporation to sell equity securities at a time and price that it deems appropriate.

Estrella's operations are dependent on the price of oil and natural gas.

Estrella sells its services to oil and natural gas exploration and production companies. Macroeconomic and geopolitical factors associated with oil and natural gas supply and demand are prime drivers for pricing and profitability within the oilfield services industry. Generally, when commodity prices are relatively high, demand for Estrella's services are high, while the opposite is true when commodity prices are low. The markets for oil and natural gas are separate and distinct. Oil is a global commodity with a vast distribution network, although the differential between benchmarks such as West Texas Intermediate and European Brent crude oil can fluctuate. As in all markets, when supply, demand and other market factors change, so can the spreads between benchmarks. Natural gas is most economically transported in its gaseous state via pipeline, and its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. However, recent developments in the transportation of liquefied natural gas in ocean going tanker ships have introduced an element of globalization to the natural gas market. The volatility of crude oil and natural gas prices accounts for much of the cyclical nature of the oilfield services business.

Worldwide military, political and economic events, including sovereign debt concerns in Europe, lower expectations for global economic growth or initiatives by the Organization of the Petroleum Exporting Countries and other major petroleum exporting countries, for instance, may affect both the demand for, and the supply of, oil and natural gas. Weather conditions, governmental regulation (both in Canada and elsewhere), levels of consumer demand, the availability of pipeline capacity, United States and Canadian natural gas storage levels and other factors beyond Estrella's control may also affect the supply of and demand for oil and natural gas and thus lead to future price volatility. A prolonged reduction in oil and natural gas prices would likely depress the level of exploration and production activity. This would likely result in a corresponding decline in the demand for Estrella's services and could have a material adverse effect on Estrella's revenues, cash flows and profitability. Lower oil and natural gas prices could also cause Estrella's customers to seek to terminate, renegotiate or fail to honor Estrella's drilling contracts which could affect Estrella's ability to realize upon the anticipated revenues which support its capital expenditure program and new build rig deliveries. Additionally, lower oil and natural gas prices, oilfield services demand and rig utilization could affect the fair market value of Estrella's rig fleet, which in turn could trigger a write down for accounting purposes. There can be no assurance that the future level of demand for Estrella's services or future conditions in the oil and natural gas and oilfield services industries will not decline.

Estrella's accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. The collection of receivables may be adversely affected by any prolonged weakness in oil and natural gas prices.

The intense price competition and cyclical nature of the contract drilling industry could have an adverse effect on revenue and profitability.

The contract drilling business is highly competitive with numerous industry participants, and the drilling contracts Estrella competes for are usually awarded on the basis of competitive bids. Estrella believes pricing and rig availability are the primary factors considered by Estrella's potential customers in determining which drilling contractor to select. Estrella believes other factors are also important. Among those factors are: the drilling capabilities and condition of drilling rigs; the quality of service and experience of rig crews; the safety record of the contractor and the particular drilling rig; the offering of ancillary services; the ability to provide drilling equipment adaptable to, and personnel familiar with, new technologies and drilling techniques; and the mobility and efficiency of rigs.

The contract drilling industry historically has been cyclical and has experienced periods of low demand, excess rig supply, and low dayrates, followed by periods of high demand, short rig supply and increasing dayrates. Periods of excess drilling rig supply intensify the competition in the industry and often result in rigs being idle. There are numerous contract drilling competitors in each of the markets in which Estrella competes. In all of those markets, an oversupply of drilling rigs can cause greater price competition. Contract drilling companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time. If demand for drilling services is better in a region where Estrella operates, Estrella's competitors might respond by moving in suitable drilling rigs from other regions, by reactivating previously stacked rigs or purchasing new drilling rigs. An influx of drilling rigs into a market area from any source could rapidly intensify competition and make any improvement in the demand for Estrella's drilling rigs short-lived, which could in turn have a material adverse effect on Estrella's revenues, cash flows and earnings.

Estrella's business results and the strength of its financial position are affected by its ability to strategically manage its capital expenditure program in a manner consistent with industry cycles and fluctuations in the demand for contract drilling services. A failure by Estrella to effectively manage its capital expenditures or respond to market signals relating to the supply or demand for contract drilling and oilfield services could have a material adverse effect on Estrella's revenues, operations and financial condition.

New capital expenditures in the contract drilling industry expose Estrella's business to the risk of oversupply of equipment.

Periods of high demand often promote increased capital expenditures on oilfield service equipment, including drilling rigs. The number of drilling rigs competing for work in the market areas where Estrella operates has increased due to the entry into those markets of newly-built or upgraded rigs, including as a result of Estrella's capital expenditure program. Estrella expects that more of these newer rigs will continue to enter market areas where Estrella operates. As a result of the relatively long life span of oilfield service equipment and the waiting period between the time a decision is made to upgrade or build new equipment and the time such equipment is placed into service, the supply of drilling rigs in the industry may exceed actual demand. Excess supply as result of industry-wide capital expenditures could lead to reduced demand for term drilling contracts and Estrella's equipment and services. Furthermore, the addition of these drilling rigs has and could continue to intensify price competition and could possibly lead to a decrease in rates in the oilfield services industry generally and decreased utilization of existing rigs. The materialization of the above factors would have an adverse effect on Estrella's revenues, cash flows, earnings and asset valuation.

Any difficulty Estrella experiences retaining, replacing or adding personnel could adversely affect Estrella's business.

Estrella may not be able to find enough skilled labor to meet its needs, which could limit growth. Estrella may also have problems finding enough skilled and unskilled laborers in the future if demand for Estrella's services increases. Shortages of qualified personnel have occurred in the past during periods of high demand. The demand for qualified rig personnel generally increases as a result of overall stronger demand for land drilling services and as new and refurbished rigs are brought into service by Estrella and its competitors. Increased demand typically leads to wage rate increases which may or may not be reflected by service rate increases.

Other factors may also inhibit Estrella's ability to find enough workers to meet employment needs. The work currently performed by Estrella's employees requires skilled workers who can perform physically demanding work. As a result of volatility in oil and natural gas activity and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment at wage rates that are competitive with Estrella's. Estrella believes that success is dependent upon the ability to continue to employ and retain skilled technical personnel and qualified rig personnel. Estrella's inability to employ or retain skilled technical personnel and qualified rig personnel generally could have a material adverse effect on its operations.

Estrella's ability to provide reliable services is dependent upon the availability of well-trained, experienced crews to operate its field equipment. Estrella must also balance the requirement to maintain a skilled workforce with the need to establish cost structures that fluctuate with activity levels. Within Estrella, the most experienced employees are retained during periods of low utilization by having them fill lower level positions on field crews. Many of Estrella's businesses experience manpower shortages in peak operating periods. These shortages are likely to be further exacerbated by the number of rigs being added to the industry along with the entrance and expansion of newly formed oilfield service companies.

Poor safety performance could lead to a decline in the demand for Estrella's services.

Standards for the prevention of incidents in the oil and gas industry are governed by service company safety policies and procedures, accepted industry safety practices, customer-specific safety requirements and health and safety legislation. A key factor considered by Estrella's customers in selecting oilfield service providers is safety. Deterioration in Estrella's safety performance could result in a decline in the demand for services and could have a material adverse effect on Estrella's revenues, cash flows and earnings.

Estrella is subject to various environmental, health and safety laws, rules, legislation and guidelines which can impose material liability or greater costs on Estrella's business or lead to a decline in the demand for Estrella's services.

Estrella's operations are subject to numerous laws, regulations and guidelines relating to the protection of the environment and of health and safety, including those governing the management, transportation and disposal of hazardous substances and other waste materials. These laws, regulations and guidelines include those relating to spills, releases, emissions and discharges of hazardous substances or other waste materials into the environment, requiring removal or remediation of pollutants or contaminants and imposing civil and criminal penalties for violations. Some of the laws, regulations and guidelines that apply to Estrella's operations also authorize the recovery of natural resource damages by the government, injunctive relief, and the imposition of stop, control, remediation and abandonment orders. Additionally, Estrella's land drilling operations may be conducted in or near ecologically sensitive areas, such as wetlands, which are subject to special protective measures and which may expose Estrella to additional operating costs and liabilities for noncompliance with applicable laws. Some environmental laws and regulations may impose strict, and in certain cases joint and several, liability, which means that in some situations Estrella could be exposed to liability as a result of conduct that was lawful at the time it occurred or conduct of, or conditions caused by, prior operators or other third parties, including any such liability related to any offsite treatment or disposal facility. The costs arising from compliance with such laws, regulations and guidelines may be material to Estrella.

The issue of energy and the environment has created intense public debate in Canada and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment. Any regulatory changes that impose additional environmental restrictions or requirements on Estrella or its customers could adversely affect Estrella through increased operating costs and potential decreased demand for Estrella's services. For example, there is growing concern about the apparent connection between the burning of fossil fuels and climate change. Laws, regulations or treaties concerning climate change or greenhouse gas emissions may have an adverse impact on the demand for oil and natural gas, which could have a material adverse effect on Estrella. Additionally, governments in Canada and the United States are reviewing more stringent regulation or restriction of hydraulic fracturing, a technology used by certain of Estrella's customers which involves the injection of water, sand and chemicals under pressure into rock formations to stimulate oil and natural gas production, which could negatively impact the exploration of unconventional energy resources which are not commercially viable without the use of hydraulic fracturing. Laws relating to hydraulic fracturing are in various stages of development at levels of governments in markets where Estrella operates. There can be no assurance of the outcome of these developments, their effect on the regulatory landscape and the contract drilling industry, or that additional governmental organizations will not in the future choose to review and seek to pass legislation in respect of hydraulic fracturing.

While Estrella maintains liability insurance, including insurance for certain environmental claims, the insurance is subject to coverage limits and certain of Estrella's policies exclude coverage for damages resulting from environmental contamination. Estrella cannot assure that insurance will continue to be available to Estrella on commercially reasonable terms, that the possible types of liabilities that may be incurred by Estrella will be covered by its insurance, or that the dollar amount of such liabilities will not exceed Estrella's policy limits. Even a partially uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on Estrella's business, results of operations and prospects.

There are risks and uncertainties associated with Estrella's operations which could negatively affect Estrella's business.

Estrella conducts all of its business in South America, which includes countries where the political and economic systems may be less stable than those in Canada or the United States. Estrella's operations are subject to risks normally associated with conducting business in foreign countries, including, but not limited to: uncertain political and economic environments; the loss of revenue, property and equipment as a result of expropriation, confiscation, nationalization, war, terrorist threats, civil insurrection and geopolitical and other political risks; fluctuations in foreign currency and exchange controls; increases in duties, taxes and governmental royalties; renegotiation of contracts with governmental entities; and changes in laws and policies governing operations of foreign-based companies. If a dispute arises out of Estrella's international operations, Estrella may be subject to the exclusive jurisdiction of foreign courts or may not be able to subject foreign persons to the jurisdiction of a court in Canada.

Government-owned petroleum companies located in some of the countries in which Estrella operates, or may choose to operate in the future, may have policies, or may be subject to governmental policies, giving preference to the purchase of goods and services from companies that are majority-owned by local nationals. As a result of these policies, Estrella may rely on joint ventures, license arrangements and other business combinations with local nationals in these countries which may expose to Estrella to certain counterparty risks, including the failure of such local nationals to satisfy contractual obligations or comply with laws of local or international application to Estrella.

In the international markets in which Estrella operates, it is subject to various laws and regulations that govern the operation and taxation of its businesses and the import and export of its equipment from country to country, the imposition, application and interpretation of which could prove to be uncertain or subject to change. Since Estrella derives its revenues from subsidiaries outside of Canada, the payment of dividends or the making of other cash payments or advances by these subsidiaries may be subject to restrictions or exchange controls on the transfer of funds in or out of the respective countries or result in the imposition of taxes on such payments or advances. Estrella has organized its foreign operations, in part, based on certain assumptions about various tax laws (including capital gains and withholding taxes), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While Estrella believes that such assumptions are reasonable, there can be no assurance that foreign taxing or other authorities will reach the same conclusion. Further, if such foreign jurisdictions were to change or modify such laws, Estrella could suffer adverse tax and financial consequences.

Additionally, while Estrella has developed policies and procedures designed to achieve compliance with applicable international laws, Estrella could be exposed to potential claims, economic sanctions or other restrictions for alleged or actual violations of international laws in connection with its operations, including anti-corruption and trading sanctions legislation. The Canadian government and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for such violations, including, but not limited to, injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs.

While the impact of the foregoing factors cannot be accurately predicted, if any of the risks materialize, they could have a material adverse effect on Estrella's reputation, business, financial condition, results of operations and cash flows.

New technology could reduce demand for certain rigs or place Estrella at a disadvantage versus competitors. Complex drilling programs for the exploration and development of conventional and unconventional oil and natural gas reserves demand high performance drilling rigs. The ability of drilling rig service providers to meet this demand will depend on continuous improvement of existing rig technology such as drive systems, control systems, automation, mud systems and top drives to improve drilling efficiency. Estrella's ability to deliver equipment and services that meet customer demand is critical to its continued success. Estrella cannot assure that its rig technology will continue to meet demands, especially as rigs age and technology advances, or that competitors will not achieve technological improvements that are more advantageous, timely or cost effective than improvements developed by Estrella.

There are risks associated with turnkey drilling operations which could adversely affect Estrella's business. Estrella derives a portion of its revenues from turnkey drilling contracts and expects that turnkey drilling will continue to represent a part of Estrella's service offering. Under a typical turnkey drilling contract, Estrella would agree to drill a well for a customer to a specified depth and under specified conditions for a fixed price. As part of this arrangement, Estrella would typically provide technical expertise and engineering services, as well as most of the equipment required for the drilling of turnkey wells. Estrella would use subcontractors for related services. In the typical turnkey drilling arrangement, Estrella would not receive progress payments and would be entitled to be paid by the customer only after the terms of the drilling contract have been performed in full. In addition, difficulties are encountered from time to time on wells being drilled under turnkey contracts and unanticipated costs may be incurred, not all of which have been or may be covered by insurance. For these reasons, the risk under turnkey drilling contracts is substantially greater than for wells drilled on a daywork basis, because under such contracts Estrella must assume most of the risks associated with drilling operations that are generally assumed by the customer under a daywork contract. The occurrence of operating cost overruns or operational difficulties on turnkey jobs could have a material adverse effect on Estrella's financial position and results of operations.

Business acquisitions entail numerous risks and may disrupt Estrella's business or distract management attention from operating Estrella's business.

Estrella contemplates that, as part of its business strategy, it will continue to consider and evaluate acquisitions of, or significant investments in, businesses and assets that are complementary to Estrella. Any acquisition that Estrella completes could have a material adverse effect on its operating results, its financial condition and/or the price of its securities. Acquisitions involve numerous risks, including: unanticipated costs and liabilities; difficulty of integrating the operations and assets of the acquired business; the ability to properly access and maintain an effective internal control environment over an acquired company in order to comply with public reporting requirements; potential loss of key employees and customers of the acquired companies; and an increase in Estrella's expenses and working capital requirements.

Estrella may incur substantial indebtedness to finance future acquisitions and also may issue equity securities or convertible securities in connection with any such acquisitions. Debt service requirements could represent a burden on Estrella's results of operations and financial condition. Estrella will also be required to meet certain conditions in order to borrow money to fund future acquisitions. Acquisitions could also divert the attention of management and other employees from Estrella's day-to-day operations and the development of new business opportunities. Even if Estrella is successful in integrating future acquisitions into its operations, Estrella may not derive the benefits, such as operational or administrative synergies, that it expects from such acquisitions, which may result in the commitment of its capital resources without the expected returns on such capital. In addition, Estrella may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets.

Estrella's operations face many risks of interruption and casualty losses.

Estrella's operations are subject to many hazards inherent in the drilling and well servicing industries, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, reservoir damage, damaged or lost equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage, damage to the property of others and damage to producing or potentially productive oil and natural gas formations through which Estrella drills. Generally, drilling and service rig contracts provide for the division of responsibilities between a drilling or service rig company and the customer, and Estrella seeks to obtain indemnification from its customers by contract for certain of these risks. Estrella also seeks protection through insurance. However, Estrella cannot ensure that such insurance or indemnification agreements will adequately protect it against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, insurance may not be available to cover any or all of these risks, or, even if available, may not be adequate. Insurance premiums or other costs may rise significantly in the future, so as to make such insurance prohibitively expensive or uneconomic.

Estrella's business is affected by governmental regulations and policies.

Certain activities conducted by Estrella are affected by factors that are beyond Estrella's control or influence. Estrella's operations are directly affected by fluctuations in exploration, development and production activity carried on by Estrella's customers which, in turn, are dictated by numerous factors, including economic conditions, global energy prices and government policies. The addition, elimination or curtailment of government regulations and incentives could have a significant impact on the oil and natural gas business in South America in the markets in which Estrella operates or may choose to operate in the future. These factors could lead to a decline in the demand for Estrella's services, resulting in a material adverse effect on revenues, cash flows and earnings.

Estrella could face negative tax consequences for previous transactions.

The business and operations of Estrella are complex and Estrella has executed a number of significant financings, business combinations, acquisitions and dispositions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Estrella's interpretation of relevant tax legislation and regulations. Estrella's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, there are tax filing positions that have been and can still be the subject of review by taxation authorities who may successfully challenge Estrella's interpretation of the applicable tax legislation and regulations, with the result that additional taxes could be payable by Estrella.

Estrella will require sufficient cash flows to service and repay its indebtedness.

Estrella will require sufficient cash flows in the future in order to service and repay its indebtedness. Estrella's ability to generate cash in the future will be, to a certain extent, subject to general economic, financial, competitive and other factors that may be beyond its control. In addition, Estrella's ability to borrow funds in the future to service its debt, if necessary, will depend on covenants in the CS Facility and the January 2011 Convertible Debentures, and other debt agreements Estrella enters into in the future. Future borrowings may not be available to Estrella under the Secured Facility or from the capital markets in amounts sufficient to enable Estrella to pay its obligations as they mature or to fund other liquidity requirements. If Estrella is not able to obtain such borrowings or generate cash flow from operations in an amount sufficient to enable it to service and repay its indebtedness, Estrella will need to refinance its indebtedness or be in default under the agreements governing its indebtedness and could be

forced to reduce or delay investments and capital expenditures or to dispose of material assets. Such refinancing or alternative measures may not be available on favorable terms or at all. The inability to service, repay and/or refinance our indebtedness could negatively impact Estrella's financial condition and results of operations.

In addition, Estrella conducts a substantial portion of its operations through subsidiaries, certain of which will not be guarantors of its indebtedness. The assets and operations of the non-guarantor subsidiaries are not material and such subsidiaries do not have any obligation to pay amounts due on the indebtedness or to make funds available for that purpose. Accordingly, repayment of indebtedness by Estrella is dependent on the generation of cash flow by its guarantor subsidiaries and their ability to make such cash available to Estrella, by dividend, debt repayment or otherwise. Estrella's guarantor subsidiaries may not be able to, or may not be permitted to, make distributions to enable Estrella to make payments in respect of its indebtedness. Each guarantor subsidiary is a distinct legal entity, and, under certain circumstances, legal and contractual restrictions may limit Estrella's ability to obtain cash from its subsidiaries. While the agreements governing certain of Estrella's existing indebtedness will limit the ability of its subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to Estrella, these limitations are subject to qualifications and exceptions. In the event that Estrella does not receive distributions from its guarantor subsidiaries, it may be unable to make required principal and interest payments on its indebtedness which could materially and adversely affect Estrella's financial position and results of operations.

The CS Facility and the January 2011 Convertible Debentures contain restrictive covenants.

The CS Facility and the January 2011 Convertible Debentures contain a number of covenants that, among other things, restrict Estrella's and certain of its subsidiaries' ability to conduct certain activities. In addition, under the CS Facility, Estrella will be required to satisfy and maintain certain financial ratio tests. See "*Material Contracts*". Estrella's ability to meet such tests could be affected by events beyond its control, and Estrella may not be able to meet such tests. A breach of any of these covenants could result in a default under the CS Facility and the January 2011 Convertible Debentures. Upon the occurrence of an event of default under the CS Facility and the January 2011 Convertible Debentures, the applicable lenders or note holders could elect to declare all amounts outstanding under the CS Facility and the January 2011 Convertible Debentures, as the case may be, to be immediately due and payable and terminate all commitments to extend further credit.

A successful challenge by the tax authorities of the expenses deducted by Estrella or its subsidiaries could negatively affect the value of the Common Shares.

There can be no assurance that taxation authorities will agree with the classification of expenses claimed by Estrella or its subsidiaries or that the taxation authorities will not seek to challenge the amount of interest expense deducted. If the taxation authorities successfully challenge the classification or deductibility of any such expenses, the return to Shareholders may be adversely affected.

Estrella has retained liabilities as a consequence of prior reorganizations.

Estrella, the successor entity to amalgamations involving its predecessor companies and the Arrangement, has retained all liabilities of its predecessor companies, including liabilities relating to corporate and income tax matters.

There are risks associated with increased capital expenditures.

The timing and amount of capital expenditures incurred by Estrella will directly affect the amount of cash available to Estrella. The cost of equipment generally escalates as a result of, among other things, high input costs in periods of high demand for oilfield service equipment, including Estrella's drilling rigs. Estrella cannot assure that it will be able to recover higher capital costs through rate increases to Estrella's customers.

The loss of key management personnel could reduce Estrella's competitiveness and prospects for future success.

The future success and growth of Estrella is dependent, in part, upon the expertise and experience of its key management personnel. No assurance can be provided that Estrella will be able to retain key management personnel and the loss of such persons could have a material adverse effect on Estrella's operations and financial condition.

The results of Estrella's assessment of goodwill and/or capital assets for impairment may result in a non-cash charge against Estrella's consolidated net income.

Estrella is required to assess its goodwill balance for impairment at least annually. It is also required to assess its capital assets balance for impairment when certain internal and external factors may indicate the necessity for further analysis. Any impairment write down to goodwill or capital assets would result in a non-cash charge against net earnings and any such charge could be material.

The calculation of any impairment is subject to management estimates and assumptions. Factors that may be considered in such a calculation include, but are not limited to, declines in Estrella's share price and market capitalization, reduced future cash flow and earnings estimates, significantly reduced or depressed markets in the industry in which Estrella and its subsidiaries operate and general economic conditions.

Estrella's operations are subject to foreign exchange risk, which could cause results to fluctuate significantly from period to period.

Estrella's operations have revenue, expenses, assets and liabilities denominated in currencies other than the Canadian dollar, principally in United States dollars and currencies which are pegged to the United States dollar. As a result, Estrella's income statement, balance sheet and statement of cash flow are impacted by changes in currency exchange rates.

Translation into U.S. Dollars.

For the purpose of preparing Estrella's consolidated financial statements, the financial statements of each foreign operation that does not have a United States dollar functional currency are translated into United States dollars. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for the month of the respective transaction. Gains or losses resulting from these translation adjustments are recognized initially in other comprehensive income and reclassified from equity to net earnings on disposal or partial disposal of the foreign operation. Changes in currency exchange rates could materially increase or decrease Estrella's foreign currency-denominated net assets on consolidation which would increase or decrease, as applicable, shareholders' equity. As well, changes in currency exchange rates will affect the translation of the revenue and expenses of Estrella's United States and international operations and will result in lower or higher net earnings than would have occurred had the exchange rate not changed. If the Canadian dollar strengthens versus the United States dollar, the Canadian dollar equivalent of net earnings from international operations will be negatively impacted.

Estrella may be unable to obtain access to additional financing.

Estrella may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures, to repay existing or future indebtedness to undertake acquisitions or other business combination transactions. Continued or future volatility or uncertainty in the credit markets may increase costs associated with issuing debt and Estrella cannot assure that additional financing will be available to it when needed or on terms acceptable or favorable to Estrella. Estrella's inability to raise financing to support ongoing operations or to fund capital expenditures, acquisitions, debt repayments or other business combination transactions could limit growth and may have a material adverse effect on Estrella's revenues, cash flows and profitability.

Conditions in the credit markets in the future may adversely affect business.

The ability to make scheduled debt repayments, to refinance debt obligations or access financing depends on the financial condition and operating performance of Estrella, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond its control. Continued or future volatility in the credit markets may increase costs associated with debt instruments due to increased spreads over relevant interest rate benchmarks, or affect Estrella's, or third parties it seeks to do business with, ability to access those markets. Estrella may be unable to maintain a level of cash flow from operating activities sufficient to permit it to pay the principal, premium, if any, and interest on its indebtedness.

In addition, should there be continued or future volatility or uncertainty in the capital markets, access to financing may be uncertain, which may have an adverse effect on the industry in which Estrella operates and its business, including future operating results. Estrella's customers may curtail their drilling programs, which could result in a decrease in demand for drilling rigs and a reduction in dayrates, reduction in the number and profitability of turnkey jobs and/or utilization. In addition, certain customers could experience an inability to pay suppliers, including Estrella, in the event they are unable to access the capital markets to fund their business operations.

Sales of additional Common Shares could negatively affect the value of the Common Shares.

Estrella may issue additional Common Shares in the future to fund the requirements of Estrella and other entities now or hereafter owned directly or indirectly by Estrella. Such additional Common Shares may be issued without the approval of Shareholders. Shareholders have no pre-emptive rights in connection with such additional issues. The Board of Directors has discretion in connection with the price and the other terms of the issue of such additional Common Shares. See "Description of Capital Structure".

The price of Common Shares may experience volatility.

The price of Common Shares may be volatile. Some of the factors that could affect the price of the Common Shares are increases or decreases in revenue or earnings, changes in revenue or earnings estimates by the investment community and speculation in the press or investment community about Estrella's financial condition or results of operations. General market conditions and Canadian, United States or international economic factors and political events unrelated to the performance of Estrella may also affect the price of Common Shares. For these reasons, investors should not rely on past trends in the price of the Common Shares to predict the future price of Common Shares or Estrella's financial results.

Asset valuation variability could negatively affect the value of the Common Shares.

The net asset value of the assets of Estrella from time to time will vary depending upon factors which are beyond the control of Estrella. The trading price of the Common Shares also fluctuates due to factors beyond the control of Estrella and such trading prices may be greater or less than the net asset value of Estrella assets.

CERTIFICATE OF THE CORPORATION

February 19, 2013

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the Provinces of Alberta, British Columbia and Ontario.

Signed "Warren Levy"

Warren Levy
Chief Executive Officer

Signed "Javier Vedoya"

Javier Vedoya
Chief Financial Officer

On behalf of the Board of Directors

Signed "Remo Mancini"

Remo Mancini, Director

Signed "Phil MacDonnell"

Phil MacDonnell, Director

APPENDIX A
INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2012



ESTRELLA INTERNATIONAL ENERGY SERVICES LTD.

Interim Condensed Consolidated Financial Statements

**As of September 30, 2012 and December 31, 2011
And for the Nine Months Ended September 30, 2012 and 2011
(Unaudited)
(Expressed in US dollars)**

Interim Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011

(Unaudited) (U.S. dollars in thousands)	Notes	September 30, <u>2012</u>	December 31, <u>2011</u>
Assets			
Current			
Cash and cash equivalents		\$ 5,065	\$ 8,749
Trade and other receivables, net	9	18,188	16,035
Taxes receivable		4,488	7,627
Inventories		2,322	1,843
Other current assets		5,626	2,253
Total current assets		35,689	36,507
Non current			
Restricted cash		301	2,375
Property, plant and equipment, net	4	81,170	75,425
Goodwill	8	12,303	11,129
Deferred tax assets		218	388
Investment in associates		-	638
Total assets		\$ 129,681	\$ 126,462
Liabilities			
Current			
Trade and other payables		\$ 22,017	\$ 10,764
Salaries and social security payable		5,042	4,484
Taxes payable		5,250	4,403
Interest payable	5	435	774
Derivative financial liabilities	6	-	271
Current portion of long-term debt	5	4,056	13,170
Investment in joint venture		541	833
Other current liabilities		2,056	1,304
Total current liabilities		39,397	36,003
Noncurrent			
Derivative financial liabilities	6	2,196	-
Long-term debt	5	26,109	33,323
Deferred tax liabilities		467	832
Total Liabilities		\$ 68,169	\$ 70,158
Shareholders' equity			
Common shares	6	\$ 106,484	\$ 83,369
Warrants	6	12,541	13,547
Preferred shares	6	5,500	5,500
Contributed surplus	6	821	821
Accumulated other comprehensive income		698	80
Accumulated deficit		(64,532)	(47,013)
Total shareholders' equity		61,512	56,304
Total liabilities and shareholders' equity		\$ 129,681	\$ 126,462

Interim Condensed Consolidated Statements of Earnings and Other Comprehensive Income

(Unaudited)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
(U.S. dollars in thousands except shares and per share data)				
Revenue				
Oilfield services	\$ 16,145	\$ 15,230	\$ 47,362	\$ 43,553
Expenses				
Oilfield services	(15,201)	(12,313)	(41,592)	(31,558)
Depreciation of property plant and equipment	(2,650)	(2,508)	(8,312)	(9,038)
Administrative expenses	(2,690)	(4,095)	(8,029)	(10,451)
Stock based compensation	-	(821)	-	(821)
Loss from associates	(256)	(1,040)	(163)	(1,799)
Interest and financial expenses, net	(3,286)	(2,058)	(8,286)	(5,954)
Other income expenses, net	(681)	(150)	789	348
Foreign exchange profit (loss)	45	(105)	706	381
Loss before income taxes	(8,574)	(7,860)	(17,525)	(15,339)
Income taxes recovery (expense)	478	(254)	6	(730)
Net loss	\$(8,096)	\$(8,114)	\$(17,519)	\$ (16,069)
Other comprehensive income				
Currency translation reserve	(161)	(1,738)	617	(492)
Comprehensive	\$(8,257)	\$(9,852)	\$ (16,902)	\$ (16,561)
Net Income (loss) per share for loss attributable to the equity holders of the group during the year:				
Basic	\$ (0.0356)	\$ (0.0621)	\$ (0.1054)	\$ (0.1362)
Fully Diluted	\$ (0.0344)	\$ (0.0592)	\$ (0.1012)	\$ (0.1298)
Weighted average shares outstanding:				
Basic	230,137,682	132,295,809	167,564,953	118,996,023
Fully Diluted	235,675,936	137,116,672	173,103,207	123,795,266

Interim Condensed Consolidated Statements of Cash Flows

	Notes	For the Three Months		For the Nine Months	
		Ended September 30,		Ended September 30,	
		2012	2011	2012	2011
(U.S. dollars in thousands)					
Cash flows from operating activities:					
Net loss		\$ (8,096)	\$ (8,114)	\$ (17,519)	\$ (16,069)
Adjustments to reconcile net income to cash:					
Depreciation expense		2,650	2,508	8,312	9,038
Stock based compensation		-	821	-	821
Foreign exchange		(166)	-	(783)	-
Loss from associates		346	1,040	346	1,799
Interest accretion and financial expenses		867	2,057	2,215	5,954
Deferred tax		(109)	316	(195)	(166)
Changes in working capital:					
(Increase) decrease in current assets:					
Trade and other receivables		7,848	(3,126)	(2,153)	(7,495)
Taxes receivable		(675)	91	3,139	(4,434)
Inventory		(472)	(815)	(479)	(1,170)
Other current assets		(3,649)	1,225	(3,371)	(1,637)
Increase (decrease) in current liabilities:					
Trade and other payable		3,782	1,289	11,253	2,063
Salaries and social security payable		(474)	393	558	515
Taxes payable		(572)	54	847	1,111
Interest payable		-	(2,082)	-	(4,474)
Other liabilities		615	(359)	1,252	543
Cash provided by (used in) operating activities		1,895	(4,702)	3,422	(13,601)
Cash flows from investing activities:					
Purchase of property, plant and equipment		(10,946)	157	(14,057)	(5,100)
Acquisition of associates		-	(1,636)	(500)	(12,669)
Cash provided by (used in) investing activities		(10,946)	(1,479)	(14,557)	(17,769)
Cash flows from financing activities:					
Restricted cash		1,928	(1,367)	2,074	22
Issuance of debt, net of related costs	5	-	(324)	-	9,922
Proceeds from debts	5	288	-	3,085	-
Debt related to acquisitions		-	2,350	-	7,375
Repayments of debt	5	(14,463)	-	(22,091)	-
Issuance of common shares		24,383	-	24,383	-
Changes in equity		-	121	-	23,901
Cash provided by financing activities		12,136	780	7,451	41,220
Net increase (decrease) in cash and cash equivalents		\$ 3,085	\$ (5,401)	\$ (3,684)	\$ 9,849
Cash and cash equivalents, beginning of period		1,980	20,174	8,749	6,320
Other comprehensive income		-	1,037	-	(359)
Cash and cash equivalents, end of period		\$ 5,065	\$ 15,810	\$ 5,065	\$ 15,810

Interim Condensed Consolidated Statements of Changes in Equity For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

(U.S. dollars in thousands)

	Common Shares	Preferred Shares	Common Share Warrants	Contributed surplus	Accumulated Other Comprehensive Income (loss)	Stock Based Compensation	Retained Earnings (Deficit)	Total
Balance at January 1, 2011	\$ 61,734	\$ 4,750	\$ 13,547	\$ -	\$ 502	\$ -	\$ (17,042)	\$ 63,491
Currency translation	-	-	-	-	(492)	-	-	(492)
Convertible debt	-	-	-	3,677	-	-	-	3,677
Common share issued	22,001	-	-	-	-	821	-	22,822
Common share to be issued	1,625	-	-	-	-	-	-	1,625
Issuance cost	(1,178)	-	-	(225)	-	-	-	(1,403)
Preferred shares to be issued	-	4,500	-	-	-	-	-	4,500
Net loss	-	-	-	-	-	-	(16,069)	(16,069)
Balance at September 30, 2011	\$ 84,182	\$ 9,250	\$ 13,547	\$ 3,452	\$ 10	\$ 821	\$ (33,111)	\$ 78,151
Currency translation	-	-	-	-	70	-	-	70
Convertible debt	-	-	-	(3,452)	-	-	-	(3,452)
Preferred shares to be issued	-	(3,750)	-	-	-	-	-	(3,750)
Common shares to be issued	(813)	-	-	-	-	-	-	(813)
Net loss	-	-	-	-	-	-	(13,902)	(13,902)
Balance at December 31, 2011	\$ 83,369	\$ 5,500	\$ 13,547	\$ -	\$ 80	\$ 821	\$ (47,013)	\$ 56,304
Common shares issued	24,030	-	-	-	-	-	-	24,030
Issuance cost	(915)	-	-	-	-	-	-	(915)
C. Suisse Warrants cancellation	-	-	(1,006)	-	-	-	-	(1,006)
Currency translation	-	-	-	-	618	-	-	618
Net loss	-	-	-	-	-	-	(17,519)	(17,519)
Balance at September 30, 2012	\$ 106,484	\$ 5,500	\$ 12,541	\$ -	\$ 698	\$ 821	\$ (64,532)	\$ 61,512

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

1. General information

Estrella International Energy Services Ltd. ("EEN") is a company continued under the laws of the province of Ontario, Canada. EEN and its subsidiaries (collectively "Estrella" or the "Company") are engaged in providing services to the petroleum, mining and geothermal sectors. The type of services which the Company offers include drilling and workover rigs, directional drilling, and consulting, engineering and project management services.

The Company is headquartered in Buenos Aires, Argentina. The address of the head office is at 1023 Carlos Pellegrini Street – 1st. Floor – C1009ABU.

2. Basis of presentation

These interim condensed consolidated financial statements for the nine months ended September 30, 2012 have been prepared by management in accordance with IAS 34, 'Interim financial reporting' and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements have not been audited.

These condensed consolidated financial statements were prepared on a going concern basis, on a historical cost basis.

These interim condensed consolidated financial statements were approved by the issue for the Board of Directors of the Company on November 29, 2012.

In the notes to the interim condensed consolidated financial statements, all dollar amounts are in thousands of U.S. dollars, unless otherwise indicated.

3. Significant accounting policies

The accounting policies adopted are consistent with those of the Company's December 31, 2011 audited consolidated financial statements, except for the following:

Income Tax

Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

4. Property, plant and equipment

The capitalized cost of property, plant and equipment and the related accumulated depreciation as of the periods presented is as follows:

	September 30, 2012	December 31, 2011
Building and improvements	\$ 1,032	\$980
Rigs	103,742	83,115
Rental tools and equipment	15,485	15,561
Transportation equipment	1,573	1,424
Furniture and fixtures	1,355	1,128
Total property & equipment, gross	123,187	102,208
Less: accumulated depreciation	(42,017)	(26,783)
Total property & equipment, net	\$ 81,170	\$ 75,425

5. Interest-bearing loans and other borrowings

	September 30, 2012	December 31, 2011
Balance, beginning of period	\$(47,367)	\$(34,469)
Repayment of long-term debt	26,237	4,157
Proceeds from long-term debt	(8,697)	(17,833)
Financing fees	-	3,321
Increase (decreased) through companies acq.	-	(1,501)
Related financial instruments	-	4,033
Interest payments (including market flex)	6,719	5,796
Interest exp. and amortization of financing fees	(6,825)	(11,460)
Foreign exchange adjustment	(667)	690
Balance, end of period	(30,600)	(47,367)
Current portion of long-term debt	(2,561)	(13,944)
Remaining long-term debt	\$ (28,039)	\$ (33,323)

a) Credit Suisse facility

On August 13, 2012, the Company used a portion of the proceeds of the Private Placement (as defined below) to repay \$10,000 of outstanding indebtedness on its existing credit facility with Credit Suisse (the "Facility"). In connection with the repayment of \$10,000 of the Facility, the Company entered into

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

5. Interest-bearing loans and other borrowings (con't)

an amended credit agreement with Credit Suisse dated August 3, 2012 which (i) modified the existing credit agreement to reduce administrative fees; (ii) modified the amortization schedule such that Estrella will repay the remaining indebtedness in seven quarterly instalments of \$2,000 beginning on May 31, 2014; and (iii) freed up certain collateral currently pledged under the credit agreement in an effort to reduce administrative costs. In addition, the 3,072,000 Credit Suisse Warrants which were issued to the Credit Suisse in connection with the Facility were returned to the Company for cancellation. As at September 30, 2012, the Company is in compliance with all financial covenants under the Facility.

The effective interest rate was modified to 19.52% (previous rate was 17.76%). The book value of the facility applying the effective interest rate is \$13,548.

As a result of the payment, the new amortization schedule as of September 30, 2012 was as follows:

Due in 2014	6,000
Due in 2015	<u>8,000</u>
	\$ 14,000

As of the September 30, 2012 there is an outstanding deferred interest payment accrued to be cancelled at maturity of \$1,338.

b) Convertible debentures

The Company paid the third semi-annual interest payment on its existing January 2011 Convertible Debentures in August 2012, in cash. The Company also used a portion of the proceeds of the Private Placement to repay CDN\$3,941 worth of principal outstanding on the January 2011 Convertible Debentures at a total cost of CDN\$3,500. This prepayment had no impact on the effective interest rate that remains at 24.1%. The book value of the facility applying the effective interest rate is of \$8,836.

As a result of the payment the principal that remains outstanding and due on December 31, 2015 is CDN\$11,059.

c) Financial Debt at Estrella Petrolera de Colombia SAS and Zigma Estrella Petrolera de Panama S.A. sucursal Colombia

The average cost of the Colombian denominated debt is at the local bank rate Depositos a Termino Fijo ("DTF") plus 5.79% and the spot rate for the DTF was 5.32% as at September 30, 2012. The average cost of the USD denominated debt is at 16.08%.

Of the combined debt \$1,447 is denominated in US dollars.

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

5. Interest-bearing loans and other borrowings (con't)

The amortization schedule as of September 30, 2012 was as follows:

Due in 2012	3,235
Due in 2013	821
Due in 2014	1,618
Due in 2015	374
Due in 2016	1,798
Due in 2017	255
	\$8,101

6. Share capital and reserves

On August 10, 2012, the Company completed a private placement of 166,666,667 units ("**Units**") of the Company to Ringo Holding L.P. (the "**Purchaser**") at a price of CDN\$0.15 per Unit, for gross proceeds of CDN\$25,000 (the "**Private Placement**").

Each Unit is comprised of 1 Common Share in the capital of the Company and 0.4 Common Share purchase Warrants (each whole warrant a "**Warrant**"). Each Warrant entitles the holder to purchase 1 Common Share at an exercise price of CDN\$0.15 per share (the "**Exercise Price**") for a period of 18 months from the date of issuance. After six months from the date of issuance, if the 10 day weighted average market price of the Common Shares is greater than CDN\$0.25, the exercise price of the Warrants will be equal to the higher of CDN\$0.15 or 90% of the current market price.

Following closing, the Purchaser holds approximately 55.7% of the outstanding Common Shares, which resulted in the creation of a new control person of the Company, as defined by the rules of the TSX Venture Exchange. The Private Placement and the creation of the new control person was approved by the shareholders of the Company at its annual and general meeting of shareholders held on July 25, 2012.

As Warrants are denominated in Canadian dollars and the functional currency of the Company is US dollars, they are accounted for as derivative liabilities which are measured at fair value using Black-Scholes. As a result, the Warrants increased in value to \$2,181 resulting in a loss of \$899. The loss is included in interest and finance expenses.

The following Black-Scholes assumptions were used for the initial value of the Warrants: an expected life of 1.5 years, expected volatility of 102%, risk free rate 1.02%, an expected dividend yield of nil, a strike price of CDN\$0.15 and fair value of Estrella shares of CDN\$0.07 per share. At the quarter end value of the Warrants: an expected life of 1.24 years, expected volatility of 102%, risk free rate 1.08%,

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

6. Share capital and reserves (con't)

an expected dividend yield of nil, a strike price of CDN\$0.15 and fair value of Estrella shares of CDN\$0.10 per share.

The tables below show the balances of the share capital of Estrella as of September 30, 2012.

Authorized Capital

Unlimited number of common shares and unlimited number of preferred shares, issuable in series.

Common Shares Issued		Number of Shares	Amount \$
Balance, December 31, 2011		132,809,783	\$ 82,557
Issuance, August 2012		166,666,667	24,030
Issuance cost		-	(915)
Balance, September 30, 2012		299,476,450	\$ 105,672
Common Shares to be Issued		Number of Shares	Amount \$
Balance, December 31, 2011		3,125,000	812
Balance, September 30, 2012		3,125,000	\$ 812
Preferred Shares Series A		Number of Shares	Amount \$
Balance, December 31, 2011		4,750,000	4,750
Balance, September 30, 2012		4,750,000	\$ 4,750
Preferred Shares Series B To Be Issued		Number of Shares	Amount \$
Balance, December 31, 2011		750,000	750
Balance, September 30, 2012		750,000	\$ 750
Options for Common Shares Issued	Weighted Average exercise price	Number	Amount \$
Balance, December 31, 2011	\$ 0.586	4,010,338	821
Balance, September 30, 2012	\$ 0.586	4,010,338	\$ 821
Warrants for Common Shares Issued		Number	Amount \$
Balance, December 31, 2011	\$ 1.428	43,659,500	13,547
Warrants issued – August 2012 issuance *	\$ 0.147	66,666,667	-

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

6. Share capital and reserves (con't)

Cancelled Warrants – Credit Suisse facility	\$ 0.910	(3,072,000)	(1,006)
Balance, September 30, 2012		107,254,167	\$ 12,541

*In accordance with IAS 39 – Financial Instruments Recognition and Measurement (“IAS 39”), as Warrants are denominated in Canadian dollars and the functional currency of the Company is US dollars, they are accounted for as derivative liabilities.

7. Capital management

The Company’s capital consists of long term debt including current portion and shareholders’ equity. The balances of each of these items as of September 30, 2012 and December 31, 2011 are outlined below:

	September 30, 2012	December 31, 2011
Long term debt, including current portion	\$ 32,796	\$ 47,538
Shareholders’ equity	61,512	56,304
Total	<u>\$ 94,308</u>	<u>\$ 103,842</u>

On August 13, 2012, the Company used a portion of the proceeds of the Private Placement to repay \$10,000 of outstanding indebtedness on the Facility and to repay CDN\$3,941 worth of principal amount outstanding on the January 2011 Convertible Debentures, at a cost of CDN\$3,500.

8. Goodwill

As of September 30, 2012 the Company revised the Purchase Price Allocation of Zigma acquisition occurred in the 3rd quarter of 2011. That revision generates an adjustment of \$ (65) included in the balance at the end of the period:

Goodwill STS acquisition	<u>\$ 7,793</u>
Balance as at December 31, 2010	<u>\$ 7,793</u>
Foreign exchange movement	\$ 32
Impairment	(200)
Zigma Goodwill	<u>3,504</u>
Balance as at December 31, 2011	\$ 11,129

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

8. Goodwill (con't)

Zigma Goodwill adjustment	(65)
Foreign exchange movement	\$ 1,239
Balance as at September 30, 2012	\$ 12,303

9. Related party transactions

No director, executive officer or principal shareholder of Estrella, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the preceding year or in any proposed transaction that has materially affected or will materially affect Estrella.

During the quarter ended September 30, 2012, the Company finalized its relationship with Petroland returning to the sellers the shares that represented Estrella's 49% ownership. Under that agreement, in exchange for the monies paid to the sellers by Estrella for their shares and the monies invested in Petroland by Estrella to support its operations, Estrella has received three 550 HP drilling/workover rigs. Estrella also agreed to assume the leasing debt outstanding on two of the transferred rigs and purchase certain additional peripheral assets from Petroland. Considering all this transactions, the purchase value of the acquired rigs was approximately \$ 7.2 million. After completion of these transactions, Estrella has no further obligations to Petroland or its shareholders.

In addition, during the quarter the Company came to an agreement to acquire the remaining 50% of GeoEstrella S.A., a Chilean joint venture were Estrella owned the 50% prior to this agreement. As of September 30, 2012 the Company recognized an accumulated 2012 gain of \$ 292 that corresponds to its participation prior to the acquisition of the remaining shares. The acquisition was completed on July 4, 2012.

10. Contingencies

There have been no changes on legal proceedings reported on the annual consolidated financial statements of the Company for the year ended on December 31, 2011 during the nine months ending September 30, 2012.

11. Segmented information

- (a) Operating segment - The Company has only one operating segment, which is engaged in providing services to the petroleum, mining and geothermal sectors.

Notes to the Interim Condensed Consolidated Financial Statements September 30, 2012

(U.S. dollars in thousands, except per share data and where noted)

11. Segmented information (con't)

- (b) Geographic segments - The Company's property, plant and equipment and revenues by the most significant geographic areas for the nine months ended September 30, 2012 and 2011 are as follows:

Property, plant and equipment	Argentina	Colombia	Other	Total
Balance as at September 30, 2011 (net)	\$ 17,048	\$38,243	\$44,294	\$ 99,585
Balance as at September 30, 2012 (net)	\$ 14,423	\$27,476	\$39,271	\$ 81,170
	Argentina	Colombia	Other	Total
Revenue for the nine months ended Sept 2011	\$ 16,555	\$13,618	\$13,380	\$ 43,553
Revenue for the nine months ended Sept 2012	\$ 19,271	\$14,315	\$13,776	\$ 47,362

12. Subsequent Events

There have been no relevant events after closing Q3, 2012.

APPENDIX B
MD&A FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

This Management's Discussion and Analysis ("**MD&A**") for Estrella International Energy Services Ltd. (the "**Corporation**" or "**Estrella**") should be read in conjunction with the Corporation's unaudited condensed consolidated financial statements as at September 30, 2012, and for the three and nine month periods ending September 30, 2012 and 2011 and the Corporation's audited consolidated financial statements for the years ended December 31, 2011 and 2010. The audited consolidated financial statements have been prepared in accordance with international financial reporting standards ("**IFRS**"). All financial measures presented in this MD&A are expressed in United States dollars unless otherwise indicated. This MD&A is dated November 29, 2012.

All amounts in this MD&A are stated in United States Dollars in thousands, except per share amounts, unless otherwise identified.

This MD&A may contain forward-looking statements which reflect management's expectations regarding future growth, results of operations and performance and business prospects of Estrella. These forward-looking statements may be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates", "guidance" or similar expressions. These statements are not historical facts or guarantees of future performance, but instead represent management's current expectations, estimates and projections regarding future events. Although management believes the expectations reflected in such forward-looking statements are reasonable, there can be no assurances that such expectations will prove to be correct. Further, management may use terms in the MD&A that are descriptive of the Corporation's operations but are not "IFRS" terms, these may include terms such as rig utilization, gross margins and rig safety. Accordingly, the reader is cautioned not to place undue reliance on such statements.

Overall Performance

During the quarter ended September 30, 2012, the Corporation made some progress in consolidating its position in Colombia. The Corporation is still working through the impacts of the region wide strike in the Barrancabermeja area of Colombia, which lasted the month of January (please see the Corporation's press release dated January 16, 2012 for more information). After the strike ended, Estrella was left with six rigs idle that had been continuously working prior to the strike and received a further three rigs from Petroland of which two were also idle after the strike. The Corporation is currently marketing the rigs to obtain new contracts. During the Quarter the Corporation completed the consolidation of Zigma Petroleum Services S.A. ("**Zigma**"). The results from Colombia were partially offset by strong growth in the Corporation's consulting business.

The Corporation is looking to expand the financial contribution of its directional drilling and consulting services, and made progress this quarter with new consulting projects in Argentina, Chile and Colombia and the initiation of activities with the Scientific Drilling joint venture. Additionally, the Corporation continues to work on reducing the corporate SG&A and has made positive strides during the quarter to this area. Management's goal is to have over 80% of its rig fleet on term contracts and to have disposed of underperforming assets to ensure that the Corporation is well positioned for future growth.

While utilization of the rig fleet was substantially lower than our target, the Corporation has been awarded three 3+2 year contracts for rigs that had been idle and also awarded two 3 year extensions to existing contracts during the quarter. Also, large increases in consulting business and the growth in the directional business are expected to continue through the remainder of the year and are expected to have positive impact in the operating performance of the Corporation.

Management has provided a summary on the following nine areas for shareholders to measure performance: 1) rig utilization rate; 2) revenue from rig operations; 3) revenue from services; 4) revenue from consulting services; 5) cash flow from operating activities; 6) gross margins; 7) general and administrative expenses; 8) EBITDA and 9) rig

safety. In presenting the results for each of these categories going forward, management believes shareholders should gain a clearer understanding of the management of the Corporation and its performance:

Category	Results for the quarter ended September 30, 2012	Explanation
1) Rig Utilization	40% (74% in 2011)	Rig utilization for the quarter was down due to the following factors: Redeployment of rigs in Colombia after the strike in Barrancabermeja is taking longer than expected. Repositioning of the rig fleet with a total of four rigs are in the process of being mobilized to new contracts as of the end of the third quarter.
2) Revenue from Rig Operations	\$11,526 (\$11,931 in 2011)	Revenues from rig operations decreased 3% in the quarter ended September 30, 2012 compared to the same quarter in 2011. There was an increase in revenue principally due to the rig rate increases in Argentina and Bolivia offset by the less utilization in Colombia.
3) Revenue from Services	\$2,954 (\$3,072 in 2011)	Flat revenues through the quarter.
4) Revenue from Consulting Services	\$1,665 (\$227 in 2011)	Revenue from consulting services increased due to strong consulting activity with three customers in Argentina, one in Colombia and one in Chile.
5) Cash flow from Operating Activities	\$1,895 (\$-4,702 in 2011)	Significant increase of collections, partially offset by the net losses of the quarter.
6) Gross Margin (Revenues minus oilfield expenses as a percentage of revenues)	6% (19% in 2011)	The gross margin was principally impacted by the lower than expected rig utilization levels which were not fully offset by a corresponding decrease in oilfield services expenses.
7) Administrative Expenses	\$2,690 (\$4,916 in 2011)	Administrative expenses decreased 45% compared to same period in 2011. This improvement is a result of the cost control measures the Corporation began implementing in late 2011. Additionally, during the quarter ended September 30, 2011, the Corporation booked \$821 of non-cash expense related to stock based compensation, Q3 2011 was also impacted by one-time costs related to the acquisition of two new companies in Colombia during the period.
8) EBITDA ^(a)	\$-1,746 (\$-1,999 in 2011)	The EBITDA was principally impacted by low rig utilization levels and revenues.
9) Rig Safety (accidents of all kinds per million hours worked)	9.1 (28.32 in 2011)	Incident rates down substantially compared to 2011. Estrella, in its pursuit of zero accidents, is constantly promoting Health, Safety and the Environment. SSMACD is of extreme importance to everyone everywhere, more so in dangerous environments. Our strategies have been refined and improved to offer significantly improved levels of safety.

Notes:

^(a) EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA consists of net income (loss) before interest expense, income taxes, depreciation, and amortization.

Management believes that optimizing the items above and cost control measures, will drive profitability, cash flow generation and shareholder value.

During the quarter ended September 30, 2012, the Corporation recorded total revenues of \$16,145 (\$15,230 in 2011) up on stronger consulting activity

The revenue for the quarter ended September 30, 2012 was offset by general and administrative expenses of \$2,690 (\$4,916 in 2011), depreciation of \$2,650 (\$2,508 in 2011), interest expense of \$3,286 (\$2,058 in 2011) and oilfield expenses of \$15,201 (\$12,313 in 2011). For the quarter ended September 30, 2012, the Corporation also recorded other (income) and expense of \$681 (\$150 during 2011).

The Corporation is focused on making substantial reductions on the overall SG&A as a function of revenues. As a consequence, the SG&A has been reduced from a quarterly average of 35% of revenues in 2011 to 17% of revenues for the nine months ended September 30, 2012.

The Corporation is focused on reducing the overall indebtedness of the business. In November 2011, \$2,000 of the Corporation's senior debt facility with Credit Suisse (the "**Credit Facility**") was prepaid, with a further \$1,875 paid as part of normal amortization in February 2012. In May 2012, there was another prepayment of \$ 2,300.

On August 10, 2012, the Corporation completed a private placement of 166,666,667 units ("**Units**") of the Corporation to Ringo Holding L.P. (the "**Purchaser**") at a price of CDN\$0.15 per Unit, for gross proceeds of CDN\$25,000 (the "**Private Placement**"). Each Unit is comprised of 1 common share (a "**Common Share**") in the capital of the Corporation and 0.4 Common Share purchase warrants (each whole warrant a "**Warrant**"). Each Warrant will entitle the holder to purchase 1 Common Share at an exercise price of CDN\$0.15 per share (the "**Exercise Price**") for a period of 18 months from the date of issuance. After six months from the date of issuance, if the 10 day weighted average market price of the Common Shares is greater than CDN\$0.25, the exercise price of the warrants will be equal to the higher of CDN\$0.15 or 90% of the current market price.

On August 13, 2012, the Corporation used a portion of the proceeds of the Private Placement to repay \$10,000 outstanding indebtedness on its existing Credit Facility with Credit Suisse and to repay CDN\$3,941 worth of principal amount outstanding on the January 2011 Convertible Debentures, for a cost of CDN\$3,500. In connection with the repayment of \$10,000,000 of the Credit Facility, the Corporation entered into an amended credit agreement with Credit Suisse which (i) modified the existing credit agreement to reduce administrative fees; (ii) modified the amortization schedule such that Estrella will repay the remaining indebtedness in seven quarterly instalments of \$2,000 beginning on May 31, 2014; and (iii) freed up certain collateral currently pledged under the credit agreement in an effort to reduce administrative costs. In addition, the 3,072,000 Common Share purchase warrants which were issued to the Credit Suisse in connection with the Credit Facility were returned to the Corporation for cancellation.

Total Long Term Debt For the Quarter Ended			
Sept. 30, 2012	June 30, 2012	Mar. 31, 2012	Dec. 31, 2011
\$ 32,796	\$ 44,054	\$ 48,617	\$ 47,537

Selected Financial Information

(Unaudited)	Notes	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
(U.S. dollars in thousands except shares and per share data)					
Total Assets		\$ 129,681	\$ 170,579	\$ 129,681	\$ 170,579
Total Account Receivables		\$ 18,188	\$ 17,950	\$ 18,188	\$ 17,950
Total Account Payable		\$ 22,017	\$ 23,051	\$ 22,017	\$ 23,051
Total Long Term Debt		\$ 32,796	\$ 53,661	\$ 32,796	\$ 53,661
Revenue					
Oilfield services		\$ 16,145	\$ 15,230	\$ 47,362	\$ 43,553
Expenses					
Oilfield services		(15,201)	(12,313)	(41,592)	(31,558)
Administrative expenses		(2,690)	(4,916)	(8,029)	(11,272)
Depreciation of property plant and equipment		(2,650)	(2,508)	(8,312)	(9,038)
(Loss) Income from associates		(256)	(1,040)	(163)	(1,799)
Interest and financial expenses, net		(3,286)	(2,058)	(8,286)	(5,954)
Other income expenses, net		(681)	(150)	789	348
Foreign exchange profit (loss)		45	(105)	706	381
Loss before income taxes		(8,574)	(7,860)	(17,525)	(15,339)
Income taxes recovery (expense)		478	(254)	6	(730)
Net profit (loss) from continuing operations		\$(8,096)	\$ (8,114)	\$(17,519)	\$ (16,069)

EBITDA

EBITDA is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. EBITDA consists of net income (loss) before interest expense, income taxes, depreciation, and amortization.

The Corporation presents EBITDA because it considers it to be an important supplemental measure of the Corporation's performance and believes this measure is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in industries with similar capital structures. EBITDA has limitations as an analytical tool, and readers should not consider this item in isolation or as a substitute for an analysis of the Corporation's results as reported under IFRS. Some of these limitations are:

- excludes certain income tax payments that may represent a reduction in cash available to the Corporation;
- does not reflect the Corporation's cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- does not reflect the impact of the movement in exchange rates on the Corporation's long-term debt;
- does not reflect changes in, or cash requirements for, the Corporation's working capital needs;

- does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on the Corporation's debt, including the Term Loan and Revolving Credit Facility;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- other companies in the industry may calculate EBITDA differently than the Corporation does, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Corporation to invest in the growth of the Corporation's business. The Corporation compensates for these limitations by relying primarily on the Corporation's IFRS results and using EBITDA only supplementary. The following table reconciles consolidated net income (loss) to EBITDA for the previous eight quarters:

	Quarter Ended							
	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010
Net income (loss)	(8,096)	(3,802)	(5,622)	(13,902)	(8,114)	(3,607)	(4,349)	(8,624)
Interest expense	(3,286)	(2,338)	(2,661)	(844)	(2,058)	(1,979)	(1,918)	(1,151)
Foreign exchange income (expense)	45	441	221	(652)	(105)	688	(202)	(388)
Impairment	-	-	-	(5,694)	-	-	-	-
Other income (expenses)	(681)	1,186	283	(2,157)	(150)	424	74	(81)
Income (expense) from associates	(256)	-	93	(668)	(1,040)	(759)	-	-
Income Tax (expense) recovery	478	(436)	(37)	3,003	(254)	74	(551)	(2,981)
EBIT	(4,396)	(2,655)	(3,521)	(6,890)	(4,507)	(2,055)	(1,752)	(4,023)
Depreciation and Amortization	(2,650)	(2,859)	(2,804)	(4,150)	(2,508)	(3,748)	(2,781)	(2,089)
EBITDA	\$(1,746)	\$204	\$(717)	\$(2,739)	\$(1,999)	\$1,693	\$1,029	\$(1,934)

Discussion of Operations

Revenue

For the quarter ended September 30, 2012 compared to the quarter ended September 30, 2011, Estrella's revenue increased by 6% to \$16,145 (\$15,230 in 2011).

Source of Revenue in US\$000		For the Three Months Ended September 30			For the Nine Months Ended September 30			Explanation of variances for the 9 months ended September 30, 2012
		2012	2011	Diff.	2012	2011	Diff.	
Rigs	Argentina	\$ 4,706	\$ 3,886	\$ 820	\$ 13,068	\$ 13,421	\$(353)	2012 saw a lower utilization of 551. This quarter saw a strong utilization of all rigs and the application of inflation related increases.
	Colombia	5,196	4,782	414	13,386	13,487	(101)	The increase in revenue due to rig rate utilization and operating rate of rig 552, mobilized from Peru to Colombia in Q2 2012 and rig 554 which was transferred from Petroland to Estrella in July 2012 is offset by lower utilization of rigs that went out of contract at the end of 2011.
	Other	1,624	3,263	(1,639)	8,062	8,785	(723)	The decreased in revenue is principally driven by the lower utilization in Chile. A total of four rigs are in the process of being repositioned onto long term contracts
Services Revenue		2,954	3,072	(118)	9,068	6,815	2,253	Revenue increased due to strong growth in the directional drilling sector and entry into the geothermal market in Chile.
Consulting Revenue		1,665	227	1,438	3,778	1,045	2,733	Revenue increased due to strong consulting projects with three customers in Argentina, one in Chile and one in Colombia.
TOTAL		\$16,145	\$15,230	\$ 915	\$47,362	\$43,553	\$3,809	

Rig Utilization

Rig utilization is not a measure recognized under IFRS and does not have standardized meanings prescribed by IFRS. The Corporation calculates rig utilization as the total number of days that a rig is on contract, subtracting 20% of the time the rig is on “*force majeure*” rate and the time the rig is not generating revenue (off contract or on zero rate) divided by the total amount of time a rig is available to be contracted.

Actual Operating Hours – No Revenue Hours – 20% of Force Majeure hours Total Available Hours

As of September 30, 2012, Estrella operated a fleet of 19 rigs, ranging in size from 350 HP through to 1200 HP. As of September 30, 2012, ten of the nineteen available rigs were operating on contract.

Rig utilization for the quarter ended September 30, 2012 was 40% (69% in 2011). This is the lowest utilization in the Corporation’s history, and is a function of market challenges in Colombia and the repositioning of rigs onto term contracts in new countries which is time consuming but in the best interest of the Corporation long term.

Colombia continues to drag overall utilization down with only four rigs operating during the quarter.

<u>Rig Number</u>	<u>Location at end of Period</u>	<u>Utilization Rate</u>					
		<u>July</u>	<u>August</u>	<u>September</u>	<u>Three months Ended September 30</u>		<u>Nine months Ended September 30</u>
		<u>2012</u>			<u>2012</u>	<u>2011</u>	<u>2012</u>
							<u>2011</u>
551	Argentina	35%	89%	100%	75%	51%	64%
101	Argentina	86%	95%	94%	92%	95%	91%
102	Argentina	91%	93%	96%	94%	94%	92%
103	Argentina	100%	100%	92%	97%	100%	98%
1201	Chile	0%	0%	0%	0%	98%	54%
1001	Bolivia	0%	0%	74%	25%	69%	51%
201	Peru	41%	87%	91%	73%	80%	81%
202	Colombia	0%	0%	0%	0%	98%	46%
203	Colombia	6%	100%	96%	68%	59%	38%
204	Peru	0%	0%	0%	0%	9%	0%
205	Colombia	61%	100%	100%	87%	94%	29%
206	Colombia	0%	0%	0%	0%	98%	0%
207 ^(d)	Colombia	0%	0%	0%	0%	95%	25%
							95%

		<u>Utilization Rate</u>						
		<u>July</u>	<u>August</u>	<u>September</u>	<u>Three months Ended September 30</u>		<u>Nine months Ended September 30</u>	
<u>Rig Number</u>	<u>Location at end of Period</u>	<u>2012</u>			<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
552	Colombia	0%	90%	60%	50%	17%	22%	48%
553	Colombia	0%	0%	0%	0%	0%	0%	60%
554 ^(a)	Colombia	0%	86%	54%	47%	97%	37%	84%
555 ^{(b)(d)}	Colombia	0%	0%	0%	0%	81%	0%	86%
556 ^{(b)(d)}	Colombia	0%	0%	0%	0%	98%	0%	98%
1002	Colombia	0%	0%	0%	0%	0%	0%	61%
Total		24%	44%	50%	40%	74%	46%	82%

Notes:

- (a) This rig was rented by Estrella from Petroland. Ownership of this rig was transferred from Petroland to Estrella in July, 2012.
- (b) Control of these rigs was transferred from Petroland to Estrella in July, 2012.
- (c) 2011 Colombian rig information includes utilization of rigs while not being 100% owned by Estrella.
- (d) Financia leases with Banco de Occidente and Bancolombia.

Oilfield Services Expenses

Oilfield services expenses include operating salary and labour costs, fuel, rent, maintenance, working clothes, technical services, materials inspections, safety inspections, small tools and supplies, lubricants, electrical components, hardware store, steel and piping, consumable spares, welding equipment, transportation of personnel and materials, transportation of rigs between locations, maintenance expenses, equipment rentals and operative vehicle rentals amongst others.

For the quarter ended September 30, 2012 Oilfield services expenses were \$15,201 (\$12,313 in 2011); this represents 94% of total revenues (87% in 2011).

For the nine months ended September 30, 2012 Oilfield services expenses were \$41,592 (\$31,558 in 2011); this represents 88% of total revenues (74% in 2011).

The increase in oilfield services expenses year over year and on a quarterly basis is principally driven by expenses attributable to the integrated remote project assigned to rig 552.

The increase as a percentage of revenue was principally driven by the lower rig fleet utilization as the resulting lower revenues were not fully offset by a corresponding decrease in services expenses, which were further exacerbated by the inability of the Corporation to adjust costs relating to the strike in Colombia.

Administrative Expenses

Administrative expenses include expenses that are not associated with a specific function as other direct costs mentioned herein, as well as salaries of non-operating staff and head office management. These expenses also include communications, accounting, legal and other professional fees, advertising, sales and marketing expenses,

special projects, travel expenses, turnover tax and other non-income taxes, corporate and other office expenses, and other general expenses.

For the nine months ended September 30, 2012 administrative expenses were \$8,030 (\$11,272 in 2011), this represents a 29% decrease compared to the nine months ended September 30, 2011 and marks the notable impact of the cost control measures initiated in 2012.

During the quarter ended September 30, 2011, stock options were issued with a related expense of \$821. No stock options were issued in 2012.

The decrease in administrative expenses was driven by the following factors: i) elimination of the one-time costs related to the acquisition of a 49% interest in Petroland and a 100% interest in Zigma; ii) reduction of other administrative expenses as a consequence of cost cutting measures implemented by the Corporation.

Depreciation Expense

For the three months ended September 30, 2012, depreciation expense was \$2,650 (\$2,508 in 2011).

For the nine months ended September 30, 2012, depreciation expense was \$8,312 (\$9,038 in 2011).

Included in the nine months ended September 30, 2011 figure for depreciation expense was an amount of \$1,759 for intangible depreciation relating to EColombia. At the time of its acquisition, EColombia had long term contracts for 5 rigs with 2 longstanding relationship customers. The value of these long term contracts was reported as intangible assets in the Corporation's year-end 2010 balance sheet. Due to the labour unrest and community demonstrations in the Barrancabermeja region of Colombia in January 2012, and the effect these had on the Corporation's contractual situation, a loss equivalent to the full unamortized book value of these intangible assets as of December 31, 2011 was recorded, in accordance with IFRS accounting standards.

Interest and Financial Expenses

For the quarter ended September 30, 2012 interest and financial expenses was \$3,286 (\$2,058 in 2011). During the quarter the Corporation used a portion of the proceeds of a CDN\$25,000 private placement to repay \$10,000 of outstanding indebtedness on its existing Credit Facility with Credit Suisse and to repay CDN\$3,941 worth of principal amount outstanding on the January 2011 Convertible Debentures, for a cost of CDN\$3,500.

Other Income/(Expenses)

For the quarter ended September 30, 2012, other income/(expense) was \$-681 (\$-150 in 2011). The difference of other income/expenses between the third quarter of 2011 and same period of 2012 is because in March 2012, the Corporation reached a final agreement on the Chile insurance claim made in 2011. On April 13, 2012, a refund of \$1,225 was collected by Estrella. This result was included in the quarter ended June 30, 2012 but in September 30, 2012 \$742 was reallocated to GeoEstrella S.A., in connection with the acquisition by the Corporation of the remaining 50% of GeoEstrella S.A., a Chilean joint venture that was 50% owned by Estrella prior to this agreement.

Estrella Overview

Operating Locations and Update

The Corporation is headquartered and administered from Buenos Aires, and has extensive operations and sales locations around Latin America.

Country	Location	Type	Year Opened
Argentina	Buenos Aires	Headquarters	2005
	Comodoro Rivadavia	Operations Base	2005
	Neuquén	Operations Base	2006
Chile	Punta Arenas	Operations Base	2005
	Santiago	Sales Office	2009
	Temuco	Operations Center	2011 (closed 2012)
Peru	Lima	Sales Office	2008
	Los Altos, Talara	Operations Base	2010
Colombia	Bogota	Sales Office Operations Base	2010
	Tibitoc		
	Yopal	Operations Base	2010 (closed 2012)
Bolivia	Barrancabermeja	Operations Base	2010
	Santa Cruz de la Sierra	Operations Center	2010

Services and Consulting

Estrella saw an increase in directional drilling activity during the quarter ended September 30, 2012, most notably in Chile. The Corporation continued operating high temperature directional and “*measurement while drilling*” (“**MWD**”) equipment for a geothermal operator in Chile and continued with the deployment of Scientific Drilling International high tech suite of MWD and Gyro survey tools around the region, with MWD and Gyro tools arriving to Argentina and Chile and Gyro tools also arriving in Peru this quarter.

In addition, the Corporation is party to a long term consulting contract, in respect of the potash solution mine in Argentina which has been ongoing in different forms since 2005. This contract continued during the quarter, including the supervision, fabrication and delivery of two drilling rigs. The Corporation added an additional contract with Arpetrol Ltd. to assist them with a number of drilling operations in Argentina. The Corporation also entered into an early scoping review for a Canadian operator in Argentina and is performing well planning and optimization work for ENAP, the state oil Corporation in Chile.

In Colombia, the Corporation has entered into a fully integrated project with Canacol Energy to drill seven shallow wells in a remote area in the south of that country. Rig 552 has been mobilized into Colombia from Peru and started operations in July. Estrella is providing project management and supervision for the program.

Key Events

During the quarter ended September 30, 2012, the Corporation finalized its relationship with Petroland returning to the sellers the shares that represented Estrella’s 49% ownership. Under that agreement, in exchange for the monies paid to the sellers by Estrella for their shares and the monies invested in Petroland by Estrella to support its operations, Estrella has received three 550 HP drilling/workover rigs. Estrella also agreed to assume the leasing debt outstanding on two of the transferred rigs and purchase certain additional peripheral assets from Petroland. Considering all this transactions, the purchase value of the acquired rigs was approximately \$ 7.2 million. After completion of these transactions, Estrella has no further obligations to Petroland or its shareholders.

On August 10, 2012 the Corporation completed the CDN\$25,000 Private Placement of Units. On August 13, 2012, the Corporation used a portion of the proceeds of the Private Placement to repay \$10,000 outstanding indebtedness on its existing Credit Facility with Credit Suisse and to repay CDN\$3,941 worth of principal amount

outstanding on the January 2011 Convertible Debentures, for a cost of CDN\$3,500. In connection with the repayment of \$10,000 of the Credit Facility, the Corporation entered into an amended credit agreement with Credit Suisse which (i) modified the existing credit agreement to reduce administrative fees; (ii) modified the amortization schedule such that Estrella will repay the remaining indebtedness in seven quarterly instalments of \$2,000 beginning on May 31, 2014; and (iii) freed up certain collateral currently pledged under the credit agreement in an effort to reduce administrative costs. In addition, the 3,072,000 Common Share purchase warrants that were issued to the Credit Suisse in connection with the Credit Facility were returned to the Corporation for cancellation. The balance of the proceeds was used to reduce indebtedness and for working capital reserves to assist with new project start-ups in Latin America.

In addition, during the quarter the Corporation came to an agreement to acquire the remaining 50% of GeoEstrella S.A., a Chilean joint venture where Estrella owned the 50% prior to this agreement. As of September 30, 2012 the Corporation recognized an accumulated 2012 gain of \$292 that corresponds to its participation prior to the acquisition of the remaining shares. The acquisition was completed on July 4, 2012.

South American Market Overview[†]

Region wide, the rig count was down 24 rigs quarter on quarter, and down twenty three rigs (5%) from the same quarter last year. Quarter on quarter market decreases in Colombia (-16) were offset by increases in Argentina (+5)

Argentina

The quarter saw the newly nationalized YPF start to take operational decisions focused on immediate term growth signing contracts to add 10 drilling rigs in 2012, and announcing plans to increase an additional 30-40 rigs in the coming years. Utilization has grown with additional activity being focused on the non-conventional resources in the Neuquén basin.

Inflationary cost increases continue to be a challenge for the country, but opportunities for service companies are improving. The expectation is that the drive of YPF, and the active entry into the market by the likes of Exxon, Shell, Total, Apache and others will cause major movements in the central Neuquén basin. Long term the reserves potential is expected to attract major investment, though this is not likely to result in significant activity increases in the short term.

Colombia

Colombia saw activity levels dip this quarter on reported delays in environmental permits by many operators and security related disturbances. The government announced the launching of peace talks with the FARC rebel forces. It is not yet clear how successful these talks could end up being, nor how long the process will take. The country continues to be unable to meet the long sought goal of 1 Million bbls/day of production.

Other

Activity in Peru continues in the north, and has seen an increase offshore with BPZ installing a new platform off the coast of Talara. In the jungle, a number of operators have announced plans to move forward with developments, and are awaiting environmental permits to be able to move forward. These permits are taking over two years to be approved and this is slowing the pace of development in the sensitive jungle regions.

Chile has seen a slowdown in geothermal activity, with state energy Corporation ENAP, focusing its efforts on conventional oil and gas plays in the south of the country. Activity is expected to improve in the second half of 2013.

[†]Regional rig count data sourced from Baker Hughes Inc. (bakerhughes.com)

Ecuador has been one area of increased activity this year, with the integrated service contracts signed for the development of marginal fields being the primary source of additional drilling.

In Venezuela, opposition candidate Capriles gave President Chavez the stiffest competition to date. The new president's mandate will likely see activity in that country continue to be limited due to political concerns by outside investors.

Rig Counts

Overall, rig count in Latin and South America for the three month period ended September 30, 2012 was down by 24 rigs, with Colombia slowdowns being offset by the addition of rigs in Argentina.

Active Drilling Rig Count (average for the quarter) [‡]				
Country	Quarter ended September 30, 2012	Quarter ended June 30, 2012	Quarter ended September 30, 2011	Quarter ended June 30, 2011
Argentina	69	64	64	65
Chile	3	3 + 1 Geothermal	2	3+ 1 Geothermal
Peru	9	7	8	9
Colombia	40	56	70	64
Bolivia	7	7	7	6
Latin America	414	438	437	417

[‡]Baker Hughes Inc. (bakerhughes.com)

Summary of Quarterly Results

(U.S. dollars in thousands, except per share amounts)

(U.S. dollars in thousands, except per share amounts)	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4
Net Sales	\$ 16,145	\$ 16,868	\$ 14,349	\$ 15,232	\$ 15,230	\$ 14,210	\$ 14,114	\$ 8,586
EBIT or Operating income (loss)	(4,397)	(2,655)	(3,520)	(6,890)	(4,507)	(2,055)	(1,752)	(4,023)
Net income (loss)	(8,096)	(3,802)	(5,622)	(13,902)	(8,114)	(3,606)	(4,349)	(8,624)
Income (loss) per share (basic)	\$(0.0356)	\$(0.0283)	\$(0.0417)	\$(0.1023)	\$(0.0621)	\$(0.0299)	\$(0.0430)	\$(0.0846)
Income (loss) per share (diluted)	\$(0.0344)	\$(0.0269)	\$(0.0397)	\$(0.0983)	\$(0.0592)	\$(0.0284)	\$(0.0406)	\$(0.0843)
Weighted average shares outstanding (basic)	230,137,682	135,934,783	135,934,783	135,934,783	132,295,809	122,081,215	102,281,215	102,252,174
Weighted average shares outstanding (diluted)	235,675,936	141,473,037	141,473,037	141,473,037	137,116,672	126,869,469	107,069,469	102,319,469

Liquidity and Capital Resources

Changes in Cash Flow

The table below summarizes cash flow information for Estrella for the quarter ended September 30, 2012, and September 30, 2011.

Cash Flows	2012 Q3	2011 Q3
Cash Flow From Operating Activities	\$ 1,895	\$ (4,702)
Cash Flow From Investing Activities	(10,946)	(1,479)
Cash Flow From Financing Activities	12,136	780
Net Increase/(Decrease) in Cash	3,085	(5,401)
Exchange (losses)	-	1,037
Cash at Beginning of period	1,980	20,174
Cash at End of period	5,065	15,810

Operating Activities

The cash flow from operating activities for the quarter ended September 30, 2012 was \$1,895 (-\$4,702 in 2011). The variation in 2012 is attributable to increase of accounts payable and a reduction of accounts receivable, offset by the net losses of the quarter. The negative cash flow for the three month period ended September 30, 2011, was due to net losses and temporary increase of accounts receivables.

Investing Activities

The cash outflow from investing activities for the quarter ended September 30, 2012 was \$-10,946 (\$-1,479 in 2011). The difference for 2012 is attributable to the purchase of equipment in Colombia associated to the final agreement reached with Petroland. In the three months period ended September 30, 2011, the cash flow from investing activities decreased by \$1,479. This was mainly related to the consolidation of Colombian investments as of September 30, 2011.

Financing Activities

The cash flow from financing activities for the quarter ended September 30, 2012 was \$12,136 (\$780 in 2011) which is attributable to the private placement of CDN\$25,000 completed in August, partially offset by principal pre-payments of Credit Suisse Facility and Convertible debt.

Financial Debt as of September 30, 2012

Debt	Short Term Debt	Long Term Debt	Total
Credit Suisse	\$ 187	\$ 13,361	\$ 13,548
Convertible	248	10,785	11,033
Estrella Chile	-	114	114
Estrella Colombia	1,797	2,150	3,947
Zigma Estrella Petrolera de Panama S.A. Suc Colombia	2,259	1,895	4,154
Total	\$ 4,491	\$ 28,305	\$ 32,796

The repositioning of the rig fleet has created additional short term working capital demands on the Corporation. Work is still required to improve fleet utilization to the point where cash flow from operations can meet all medium and long term commitments. The Corporation is continuously evaluating options to improve its debt conditions and position. The Corporation also regularly assesses the viability and attractiveness of selling under-utilized and/or non-core assets as a source of funding.

Shareholders' Equity

As of September 30, 2012, Estrella has the following securities outstanding: 299,476,450 common shares; 4,750,000 non-voting Series A preferred shares with a 4% annual cumulative dividend, redeemable for \$1 per share and convertible into common shares on a 1 for 1 basis; 4,010,338 options for common shares and 38,712,500 warrants exercisable into one common share of Estrella at a price of \$1.50 per share until June 25, 2015; 150 transferable common share purchase warrants issued in connection with the January 2011 Convertible

Debentures, each of which is exercisable into 12,500 common shares of Estrella at a price of CDN\$0.80 per share for a period of 5 years from the date of issuance.

Off-Balance Sheet Arrangements

The Corporation had not entered into any off-balance sheet arrangements as at September 30, 2012.

Transactions with related parties

No director, executive officer or principal shareholder of Estrella, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the preceding year or in any proposed transaction that has materially affected or will materially affect Estrella.

As of September 30, 2012 the Corporation had not entered into related party transactions.

Legal Proceedings

There have been no changes on legal proceedings reported on the annual consolidated financial for the year ended on December 31, 2011 during the nine months ending September 30, 2012.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 1, 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss.
- There will be no impact on the Corporation's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the group does not have any such liabilities. The derecognition rules have been transferred from IAS 39, 'Financial instruments: Recognition and measurement', and have not been changed. The Corporation has not yet decided when to adopt IFRS 9.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011.

APPENDIX C
AUDITED ANNUAL FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010



ESTRELLA INTERNATIONAL ENERGY SERVICES LTD.

Audited Consolidated Financial Statements

**For the Years Ended December 31, 2011 and December 31, 2010
(Expressed in US dollars)**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Estrella International Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Estrella International Energy Services Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and December 31, 2010 and the consolidated statements of earnings and other comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Estrella International Energy Services Ltd. as at December 31, 2011 and December 31, 2010, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 5 in the consolidated financial statements which describes the material uncertainties that may cast significant doubt about Estrella International Energy Services Ltd.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants

April 30, 2012
Toronto, Ontario



Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010

(U.S. dollars in thousands)	Notes	December 31, <u>2011</u>	December 31, <u>2010</u>
Assets			
Current			
Cash and cash equivalents	8	\$ 8,749	\$ 6,320
Trade and other receivables, net	29	16,035	6,633
Taxes receivable		7,627	3,067
Inventories	9	1,843	1,517
Other current assets	10	2,253	2,236
Total current assets		36,507	19,773
Non current			
Restricted cash	8	2,375	2,136
Property, plant and equipment, net	11	75,425	72,613
Intangible asset	27	-	7,036
Goodwill and unallocated purchase price	28	11,129	7,793
Deferred tax assets	6	388	-
Investment in associates	21/24	638	-
Total assets		\$ 126,462	\$ 109,351
Liabilities			
Current			
Trade and other payables	12/29	\$ 10,764	\$ 7,402
Salaries and social security payable	13	4,484	3,426
Taxes payable		4,403	2,841
Interest payable	14	774	371
Derivative financial liabilities	14	271	-
Current portion of long-term debt	14	13,170	-
Investment in joint venture	26	833	-
Other current liabilities		1,304	310
Total current liabilities		36,003	14,350
Noncurrent			
Long-term debt	14	33,323	28,673
Deferred tax liabilities	6	832	2,837
Total Liabilities		\$ 70,158	\$ 45,860
Shareholders' equity			
Common shares	15	\$ 83,369	\$ 61,734
Warrants	15	13,547	13,547
Preferred shares	15	5,500	4,750
Contributed Surplus	15	821	-
Accumulated other comprehensive income		80	502
Accumulated deficit	7	(47,013)	(17,042)
Total shareholders' equity		56,304	63,491
Total liabilities and shareholders' equity		\$ 126,462	\$ 109,351



Consolidated Statements of Earnings and Other Comprehensive Income

(U.S. dollars in thousands except shares and per share data)	Notes	For the Years Ended December 31,	
		<u>2011</u>	<u>2010</u>
Revenue			
Oilfield services		\$ 58,785	\$ 33,577
Expenses			
Oilfield services		46,739	22,989
Depreciation of property plant and equipment		10,641	7,314
Amortization of intangible asset	27	2,547	172
Administrative expenses		13,241	6,834
Stock based compensation	22	821	-
Loss from associates	21	2,467	-
Interest and financial expenses, net		6,798	1,938
Other (income) expenses, net	20	1,809	(10,903)
Impairment	23	5,694	-
Foreign exchange loss		272	455
Earning (loss) before income taxes		(32,244)	4,778
Income taxes recovery (expense)	6	2,273	(1,925)
Net income (loss)	7	\$ (29,971)	\$ 2,853
Other comprehensive income			
Currency translation reserve		(422)	502
Comprehensive income (loss)		\$ (30,393)	\$ 3,355

Net Income (loss) per share for loss attributable to the equity holders of the group during the year:

Basic	7	\$ (0.2447)	\$ 0.0467
Fully Diluted	7	\$ (0.2447)	\$ 0.0465
Weighted average shares outstanding:			
Basic	7	123,265,519	60,403,811
Fully Diluted	7	123,265,519	61,299,861



Consolidated Statements of Cash Flows

(U.S. dollars in thousands)	Notes	For the Years Ended December 31,	
		2011	2010
Cash flows from operating activities:			
Net income (loss)		\$ (29,971)	\$ 2,853
Adjustments to reconcile net income to cash:			
Depreciation of property, plant and equipment		10,641	7,314
Amortization of intangible asset		2,547	172
Impairment losses		5,694	-
Stock based compensation		821	-
Gain from long-term debt retirement		-	(8163)
Interest and financial expenses		1,334	-
Loss from associates		2,467	-
Proceeds of disposal		584	-
Foreign exchange		(291)	320
Deferred tax		(2,776)	667
Changes in working capital:			
(Increase) decrease in current assets:			
Trade and other receivables		(6,174)	2,397
Taxes receivable		(4,560)	226
Inventories		(326)	(836)
Other current assets		(17)	13
Increase (decrease) in current liabilities:			
Trade and other payable		(1,469)	(150)
Salaries and social security payable		1,058	1,463
Taxes payable		1,562	(53)
Interest payable		-	(2,758)
Advances from customers		-	(2,494)
Other current liabilities		994	(187)
Other non-current assets		-	606
Cash provided by (used in) operating activities		(17,882)	1,390
Cash flows from investing activities:			
Property and equipment		(7,230)	(46,042)
Investment on acquisitions, net of cash acquired		(5,852)	(14,077)
Cash provided by (used in) investing activities		(13,082)	(60,119)
Cash flows from financing activities:			
Restricted cash	8	(239)	(2,136)
Proceeds from debt	14	15,934	26,881
Repayments of debt	14	(2,191)	-
Issuance of common shares	15	19,889	39,689
Cash provided by (used in) financing activities		33,393	64,434
Net increase (decrease) in cash and cash equivalents		\$ 2,429	\$ 5,705
Cash and cash equivalents, beginning of period	8	6,320	615
Cash and cash equivalents, end of period	8	\$ 8,749	\$ 6,320
Supplemental Information			
Cash paid for interest		\$ 5,464	\$ 1,546

Consolidated Statements of Changes in Equity For the Years Ended December 31, 2011 and 2010

(U.S. dollars in thousands)

	Notes	Common Shares	Preferred Shares	Special Warrants	Common Share Warrants	Accumulated Other Comprehensive Income (loss)	Stock Based Compensation	Retained Earnings (Deficit)	Total
Balance at December 31, 2009		\$ 824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,895)	\$ (19,071)
Special warrant issuances	15	-	-	74,258	-	-	-	-	74,258
Special warrant conversion	15	61,560	-	(74,258)	12,698	-	-	-	-
Reverse asset acquisition	15	53	-	-	-	-	-	-	53
Transferable warrant issuances	15	-	-	-	1,007	-	-	-	1,007
Preferred shares	15	-	4,750	-	-	-	-	-	4,750
Currency translation	15	-	-	-	-	502	-	-	502
Issuance costs	15	(763)	-	-	(158)	-	-	-	(921)
Options exercised	15	60	-	-	-	-	-	-	60
Net income		-	-	-	-	-	-	2,853	2,853
Balance at December 31, 2010		\$ 61,734	\$ 4,750	\$ -	\$ 13,547	\$ 502	\$ -	\$ (17,042)	\$ 63,491
Currency translation	15	-	-	-	-	(422)	-	-	(422)
Issuance cost	15	(1,178)	-	-	-	-	-	-	(1,178)
Preferred shares to be issued	15	-	750	-	-	-	-	-	750
Common shares issued	15	22,001	-	-	-	-	821	-	22,822
Common shares to be issued	15	812	-	-	-	-	-	-	812
Net Income		-	-	-	-	-	-	(29,971)	(29,971)
Balance at December 31, 2011		\$ 83,369	\$ 5,500	\$ -	\$ 13,547	\$ 80	\$ 821	\$ (47,013)	\$ 56,304

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data and where noted)

1. General information

Estrella International Energy Services Ltd. ("EEN") is a company continued under the laws of the province of Ontario, Canada. EEN and its subsidiaries (collectively "Estrella" or the "Company") are engaged in providing services to their business segment formed by the petroleum, mining and geothermal sectors. The type of services which the Company offers include drilling and workover rigs, directional drilling, wellbore services and consulting, as well as engineering and project management services.

The Company is headquartered in Buenos Aires, Argentina. The address of the head office is at 1023 Carlos Pellegrini Street – 1st. Floor – C1009ABU.

On June 25, 2010 Estrella Overseas Limited ("EOL") completed the reverse asset acquisition ("RAA"), as described in note 15, whereby EOL became a wholly owned subsidiary of EEN. On June 30, 2010, the TSX Venture Exchange (the "TSXV") authorized the completion of the RAA and the name change from Everest Ventures Corp. ("Everest") to Estrella International Energy Services Ltd. On July 5, 2010, EEN began trading on the TSXV under the symbol EEN.

These consolidated financial statements were approved for issue on April 30, 2012.

2. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Significant intercompany accounts and transactions have been eliminated on consolidation. In the Notes to the Consolidated Financial Statements, all dollar amounts are in thousands of U.S. dollars, unless otherwise indicated. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

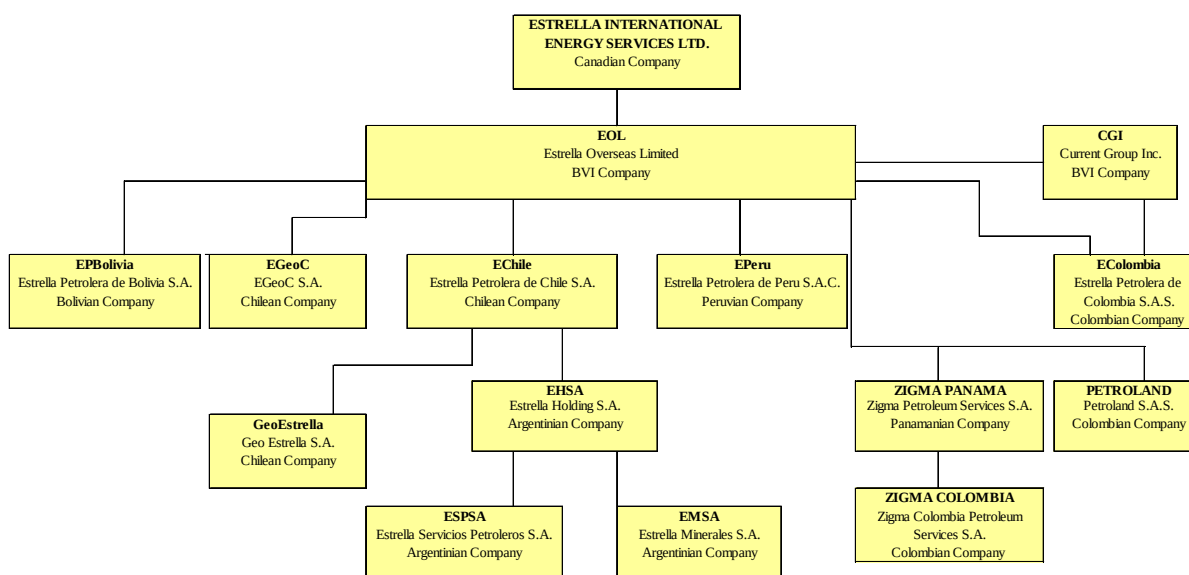
3. Significant Accounting Policies

a) Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. Estrella Overseas Limited (“EOL”), a B.V.I. company, is a subsidiary of the Company. Current Group Inc. (“CGI”), a B.V.I. company, Estrella Petrolera del Perú S.A.C. (“EPeru”), a Peruvian company, Estrella Petrolera de Chile S.A. (“EChile”), a Chilean company, EGeoC S.A. (“EGeoC”), a Chilean company, Estrella Petrolera de Bolivia S.A. (“EPBolivia”), a Bolivian company, Estrella Petrolera de Colombia S.A.S. (“EColombia”), a Colombian company and Zigma Petroleum Services S.A., a Panamanian company, are subsidiaries of EOL. Estrella Holding S.A. (“EHSA”), an Argentinian company, is a subsidiary of EChile. Estrella Servicios Petroleros S.A. (“ESPSA”) and Estrella Minerales S.A. (“EMSA”), both Argentine companies, are subsidiaries of EHSA. Zigma Colombia Petroleum Services S.A., a Colombian company, is a subsidiary of Zigma Petroleum Services S.A. (together “Zigma”). The consolidated financial statements also include the Peruvian and Colombian Trusts, constituted under the terms of the facility with Credit Suisse (described in note 14).

On October 13 2011, STS de los Andes S.A.S (“STS”), a company acquired by Estrella in November 2010 merged with Estrella Petrolera de Colombia S.A.S. and the new combined entity became Estrella Petrolera de Colombia S.A.S. (“EColombia”).

The fiscal year end for all the companies is December 31st with the exception of ESPSA whose fiscal year end is May 31st. All other companies constituted or purchased after that had December 31st as there year end. The consolidated financial statements include the balance sheets as of December 31, 2011 and December 31, 2010 and the results of operations for the full years ended December 31, 2011 and 2010 for all of the companies and trusts, except for Zigma, which includes results of operations for the last quarter of 2011, as it has been controlled since September 30, 2011.



Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

a) Consolidation (con't)

	Country of Incorporation	Ownership	
		2011	2010
<i>Parent entity</i>			
Estrella International Energy Services Ltd.	Canada		
<i>Subsidiaries</i>			
Estrella Overseas Limited	BVI	100%	100%
Current Group Incorporated	BVI	100%	100%
Estrella Petrolera de Chile S.A.	Chile	100%	100%
EGeoC S.A.	Chile	100%	100%
Estrella Petrolera del Perú S.A.C.	Peru	100%	100%
Estrella Petrolera de Colombia S.A.	Colombia	100%	100%
Zigma Colombia Petroleum Services S.A.*	Colombia	49%	-
Zigma Petroleum Services S.A.*	Panama	49%	-
Estrella Petrolera de Bolivia S.A.	Bolivia	100%	100%
Estrella Holding S.A.	Argentina	100%	100%
Estrella Minerales S.A.	Argentina	100%	100%
Estrella Servicios Petroleros S.A.	Argentina	100%	100%

*Zigma has been controlled by Estrella since September 30, 2011.

The remaining 51% of the shares of Zigma were legally transferred on February 23, 2012.

b) Equity Accounted Investment

Estrella International Energy Services Ltd. has directly and indirectly 50% ownership of the outstanding shares of GeoEstrella S.A. ("GeoEstrella"), and has 49% of the outstanding shares of Petroland S.A.S. ("PL").

c) Share based payments

The Company may issue share-based awards to certain employees and non-employees. The cost of equity-settled share-based transactions for employees is determined as the fair value of the awards on the grant date using a fair value model and for non employees as the fair value of the goods and services received, unless they cannot be reliably measured in which case the fair value of the awards using a fair value model is used. The cost of the awards is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. The cost of cash-settled awards are measured as the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is remeasured at each reporting date at fair value with changes in fair value recognized in income.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

d) Foreign currency translation

The Company uses the U.S. dollar as its functional and presentation currency. All subsidiaries except Zigma Colombia Petroleum Service S.A. and EColombia use the U.S. dollar as their functional currency. Zigma Colombia Petroleum Services S.A. and EColombia use Colombian pesos as their functional currency.

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate. All foreign currency adjustments are included in net income, except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

Assets and liabilities of subsidiaries or equity accounted investments which have a functional currency other than the U.S. dollar are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at average rates for the period or the exchange rates at the dates of the transaction if known. The resulting foreign currency translation adjustments are recognized in other comprehensive income.

e) Cash and cash equivalents

The "cash and cash equivalents" category consists of cash in banks, call deposits and other highly liquid investments with initial maturities of three months or less.

f) Trade and other receivables

Trade and other receivables are stated at their cost less any bad debt provisions.

g) Inventories

Inventory includes drill bits and other tools that are sold to, or used by customers. These tools are expensed as used.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of drill bits and other tool inventories are based on the first-in first-out principle and include expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. There are no manufactured inventories or work in progress.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

h) Property, plant and equipment

i) Assets owned by the Company

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed using the straight-line method based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.

Subsequent to initial recognition, the cost model is applied to property, plant and equipment.

ii) Subsequent costs

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing parts of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is written-off. All other costs are recognized in the income statement as an expense as incurred.

iii) Depreciation

Depreciation is charged to the statements of earnings and other comprehensive income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

Buildings & improvements	50 years
Rigs	10 years
Rental tools & equipment	5 years
Transportation equipment	5 years
Furniture and fixtures	10 years

The residual value, if not insignificant, is reassessed annually.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

i) Impairment

When events or changes in the economic environment indicate a risk of impairment of tangible and intangible assets, an impairment test is performed to determine whether the carrying amount of the asset or group of assets exceeds its or their recoverable amount. The recoverable amount is defined as the higher of an asset's fair value (less costs to sell) and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

Impairment losses recognized may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Conversely, impairment losses recognized in respect of goodwill cannot be reversed.

j) Finance lease

Assets held under finance leases are initially recognized as assets of the Company at the inception of the lease at the lower of their fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. A corresponding liability to the lessor is included in the statement of financial position as a finance lease liability.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding finance lease liability using the effective interest method. The finance cost, net of lease inducements, is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the finance lease liability.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

k) Investment in associate

An associate is an entity over which the Company has the right to exercise significant influence, but not control, over the financial and operating policies. The investment in associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recorded at cost and subsequently adjusted for the post-acquisition changes in the Company's share of net assets of associate, after adjustment to align the accounting policies with those of the Company. The Company's net earnings or loss reflects the Company's share of the net earnings or loss after tax of the associate.

The Company assesses the investment in associate for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs to sell and value in use. Where the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

The Company ceases to use the equity method of accounting on the date from which it no longer has significant influence over the associate, or when the investment becomes held for sale.

Losses of an associate in excess of the Company's equity interest in that associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

l) Trade and other payables

Trade and other payables are stated at amortized cost.

m) Other current liabilities

Other current liabilities include accruals, insurance payable, provisions and payables to employees, managers or third parties.

n) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each reporting date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

o) Interest-bearing loans and other borrowings

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with interest recognized on an effective interest basis.

p) Asset retirement obligation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying value of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

q) Revenue

The rig and equipment services are generally provided based upon purchase orders or contracts with the customer that include fixed or determinable prices and that do not include right of return or other similar provisions or other significant post-delivery obligations. In the case of drilling rigs, the contracts are either short term or multi-year with potential minimum payment obligations. Services are provided in the ordinary course of business through the Company's regular marketing channels. Revenue for services and rentals is recognized as the services are rendered and when collectability is reasonably assured. Rates for services are typically priced on a per-day, per meter, per man hour or similar basis.

The Company recognizes revenue at the time persuasive evidence of an agreement exists, price is fixed and determinable, the delivery of service has occurred and collectability is reasonably assured. Revenue from the sale of products is recognized when the goods are received by the customer. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria.

r) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

s) Financial Instruments

i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in income.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment indicators at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

s) Financial Instruments (con't)

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

Other financial liabilities are recognized at amortized cost.

t) Fair value of Financial Instruments

The financial instruments held by the Company as of December 31, 2011 and 2010 included cash and cash equivalents, restricted cash, trade and other assets, trade and other payables, salaries and social security payable, interest payable, other current liabilities and long term debt.

The following methods were used to produce the fair value of the various financial instruments:

- Cash and cash equivalents, restricted cash, trade and other assets, trade and other payables, salaries and social security payable, interest payable, and other current liabilities. Fair value is based on the carrying amounts due to the short term nature of these instruments.
- Long term debt: the fair value of the long-term debt approximates its carrying value due its interest fluctuating with market rates.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

t) Fair value of Financial Instruments (con't)

The Company's cash and cash equivalents, restricted cash and derivative financial liabilities are measured subsequent to initial recognition at fair value. Cash and cash equivalents and restricted cash are Level 2 financial instruments at December 31, 2011 and 2010. Derivative financial liabilities are Level 3 financial instruments at December 31, 2011. There were no transfers between levels during the year ended December 31, 2011 and 2010.

Level 3 Reconciliation	2011
Opening balance	\$ -
Issued	4,033
Gain on revaluation	(3,762)
Ending balance	\$ 271

u) Deferred taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax basis and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized directly in equity.

v) Employee benefits

Wages and salaries paid to employees are recognized as expense in current period. In addition, the Company creates an accrual for vacations earned. The Company does not provide additional pension benefits to its employees.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

w) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company has one business segment; petroleum, mining and geothermal services. The Company has the following geographical segments; Argentina, Bolivia, Colombia, Chile and Perú.

x) Current Assets and Liabilities

Assets and liabilities expected to be realized in, or intended for sale or consumption in, the entity's normal operating cycle, usually equal to 12 months, are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

y) Consolidated statement of cash flows

The Company prepares its consolidated statement of cash flows using the indirect method. The Company classifies interest received and paid in operating activities in the consolidated statements of cash flows.

z) Interests in joint ventures

A joint venture is a contractual arrangement pursuant to which the Company and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Company reports its interests in jointly controlled entities using the equity method of accounting in accordance with IAS 31.

The Company has one jointly owned entity, Geo Estrella SA, of which it owns 50%. The Company uses the equity basis of accounting to pick up its interest.

aa) Intangibles

Intangible assets, consisting primarily of customer related intangibles are recorded at cost and are amortized by the straight-line method over three years.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

bb) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees and consultants.

cc) Borrowing costs

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in income in the period in which they are incurred using the effective interest method.

dd) Future changes in accounting policies

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

3. Significant Accounting Policies (con't)

dd) Future changes in accounting policies (con't)

IFRS 11, Joint Arrangements, establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12, Disclosure of Involvement with Other Entities, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 13, Fair Value Measurement, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 19, Employee Benefits, amends the recognition and measurements of defined benefits pension expenses and expands disclosures for all employee benefit plans.

IAS 27, Separate Financial Statements, has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. This standard will not have an impact on the consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

The Company is currently evaluating the impact and timing of adoption of these standards in its consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

4. Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimated. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts, inventory valuation reserves, recoverability of long-lived assets, useful lives used in depreciation and amortization, purchase price allocation, bifurcation of convertible, debentures, measurement of intangibles, income taxes and related recognized deferred taxes and insurance, environmental, legal obligations, determination of functional currency, components of property, plant and equipment, share-based payments, discount rate on convertible debenture and measurement of derivative financial liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. Going Concern

At December 31, 2011, the Company has an accumulated deficit of \$47,456 (2010 – \$17,042), a current year loss of \$30,414 (2010 - \$2,853 of income) and negative cash from operations of \$17,452 (2010 – positive cash of \$1,070).

The current business and operations are substantially dependent upon conditions in the oil and natural gas industry and specifically, the exploration and production expenditures of oil and natural gas companies. The demand for drilling equipment and related services is influenced by, among other things, oil and natural gas prices, expectations about future prices, the cost of producing and delivering oil and natural gas, government regulations and local and international political and economic conditions. There can be no assurance that current levels of exploration and production expenditures of oil and natural gas companies will be maintained or that demand for the Company's services will reflect the level of such activities.

6. Income taxes

The Company computes income tax in line with the tax legislation of the various countries where it operates.

Estrella International Energy Services Ltd. is incorporated in Canada and is subject to Canadian corporate income tax. The Company's subsidiaries are subject to income taxes in the jurisdictions in which they are domiciled.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

6. Income taxes (con't)

a) Provision for Income Taxes

	2011	2010
Current income tax expense (benefit)	\$ 503	\$ 45
Deferred income tax expense (benefit)	(2,776)	1,880
Income tax expense (benefit)	<u>\$ (2,273)</u>	<u>\$ 1,925</u>

Significant items causing the Company's effective income tax rate of year 2011 to differ from the combined Canadian federal and provincial statutory rate of approximately 28.25% (2010 – 28%) are as follows:

	2011	2010
Income for the year before income taxes	\$(32,244)	\$ 4,778
Expected income tax expense based on statutory rate	(9,109)	1,338
Adjustments to expense (benefit) resulting from:		
Non taxable (gains) losses	4,957	(355)
Difference in foreign income tax rates	(468)	1,645
Foreign exchange, and other permanent differences	275	(1,858)
Share base compensation	232	-
Non deductible accretion and expenses	304	-
Change in estimate	1,706	-
Change in unrecognized deferred taxes	(170)	1,155
Income tax expense (benefit)	<u>\$ (2,273)</u>	<u>\$ 1,925</u>

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

6. Income taxes (con't)**b) Deferred Income Tax Balances**

The deferred tax on the balance sheet is comprised of the following:

Deferred income tax assets (liabilities).	2011	2010
Canada		
Other	\$ (976)	\$ -
Net operating losses	419	55
	<u>\$ (557)</u>	<u>\$ 55</u>
Colombia		
Property, plant and equipment	\$ (1,442)	\$ (932)
Other	236	97
Intangibles	-	(2,002)
Net operating losses	931	-
	<u>\$ (275)</u>	<u>\$ (2,837)</u>
Chile		
Property, plant and equipment	\$ 28	\$ -
Other	62	-
Net operating losses	58	81
	<u>\$ 148</u>	<u>\$ 81</u>
Argentina		
Property, plant and equipment	\$(1,314)	\$ -
Net operating losses	3,062	1,540
	<u>\$ 1,748</u>	<u>\$ 1,540</u>
Peru		
Property, plant and equipment	\$ 88	\$ -
Other	13	-
Net operating losses	-	169
	<u>\$ 101</u>	<u>\$ 169</u>
Bolivia		
Property, plant and equipment	\$ (241)	\$ -
Other	319	-
Non-capital losses	61	\$ 73
	<u>\$ 139</u>	<u>\$ 73</u>
Deferred tax asset not recognized	<u>\$ (1,748)</u>	<u>\$ (1,918)</u>
Deferred taxes net	<u>\$ (444)</u>	<u>\$ (2,837)</u>

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

6. Income taxes (con't)

b) Deferred Income Tax Balances (con't)

Presented on the balance sheet as at December 31,

	2011	2010
Deferred tax assets	\$ 388	\$ -
Deferred taxes liabilities	(832)	(2,837)
Net deferred income tax asset / liability	\$ 444	\$(2,837)

c) Expiry Dates of Tax Losses

At December 31, 2011 the Company has non-capital losses available to apply against future income for tax purposes as per the following detail:

	2012	2013	2014	2015	2016	2017	2030	2031	No expiry date
Tax losses									
Argentina	\$ 79	\$ 15	\$ 11	\$5,095	\$ 2	\$ 4,365	\$ -	\$ -	\$ -
Bolivia	-	-	-	-	-	-	-	-	255
Canada	-	-	-	-	-	-	178	696	-
Chile	-	-	-	-	-	-	-	-	288
Colombia	-	-	-	-	-	-	-	-	4,414
Peru	-	-	421	130	-	-	-	-	-
Total	\$ 79	\$ 15	\$ 432	\$ 5,225	\$ 2	\$ 4,365	\$ 178	\$ 696	\$ 4,957

EC Chile S.A. has \$3,000 of VAT credit as of December 31, 2011. The Company anticipates the collection of this VAT in the second quarter of 2012.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

7. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to common share holders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares for the prior year earnings per share has been adjusted to reflect the stock split described in note 15.

Basic earnings per share	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
<i>Profit (loss) attributable to shareholders</i> <i>(in thousands of dollars)</i>		
Income / (loss) for the year from all operations	\$ (29,971)	\$ 2,853
Less: Cumulative dividend on preferred shares	(190)	(34)
Adjusted income / (loss) for the year from all operations	<u>\$ (30,161)</u>	<u>\$ 2,819</u>
<i>Weighted average number of shares</i>		
Number of shares at beginning of year	102,281,215	15,000,001
Weighted average shares issued during the year	20,984,304	45,374,863
Options exercised during the year	-	28,947
Weighted average number of shares for the year	<u>123,265,519</u>	<u>60,403,811</u>
<i>Basic earnings per share</i>	\$ (0.2447)	\$ 0.0467

Diluted earnings per share amounts are calculated by dividing the net profit attributable to common share holders of the Company by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares (options and warrants) into common shares.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

7. Earnings per share (con't)**Diluted earnings per share**

**For the year
Ended
December 31,
2010**

Profit (loss) attributable to shareholders*(in thousands of dollars)*

Income / (loss) for the year from all operations	\$ 2,853
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Weighted average number of diluted shares

Number of shares at beginning of year	15,000,001
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Shares issued during the year	45,374,863
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Existing options	79,107
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Preferred shares	845,890
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Weighted average number of shares for the year	61,299,861
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<i>Fully diluted earnings per share*</i>	\$ 0.0465
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*2011 diluted earnings per share information has not been presented as the effect would be anti-dilutive

8. Cash and cash equivalents

Cash and cash equivalents are comprised of cash in the bank for the periods presented. The carrying values of cash and cash equivalents approximate their fair values.

	December 31, 2011	December 31, 2010
Cash on hand	\$ 24	\$ 23
Other accounts including term deposits	8,725	6,297
Total	\$ 8,749	\$ 6,320

a) Restricted cash

On May 21, 2010 EOL signed an agreement with Exile Drilling for the purchase of a rig for EPeru. Under this agreement, the Company delivered to the vendor an irrevocable letter of credit or other warranty from Banco de Chile. As a condition for granting the letter of credit, the bank requested that a deposit of \$800 be made with the bank to serve as a guarantee as long as the letter of credit is in effect.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

8. Cash and cash equivalents (con't)

a) Restricted cash (con't)

As of December 30, 2010 EPeru had a total deposit amount of \$590 made with Scotia Bank in Peru to serve as a guarantee to the future payment of the VAT if and when Rig 552 was imported permanently in Peru. The rig was under the temporary import mode which allows deferring the corresponding VAT payment until it is nationalized when supported by the appropriate bank guarantee.

As part of the senior secured loan contracted with Credit Suisse, the Company needed to maintain a debt service account with an amount of cash to fund the interest and principal payments due one quarter in advance. As of December 31, 2011, the amount of cash held in the debt service reserve account was \$2,326 (2010 – \$663).

	December 31, 2011	December 31, 2010
Credit Suisse, reserve account	\$ 2,326	\$ 663
Exile Drilling – EPeru	-	800
VAT – EPeru	-	590
Other	49	83
Total	\$ 2,375	\$ 2,136

9. Inventories

Inventories are comprised of drill bits and other service tools. As these are all acquired by the Company as finished goods, there is no inventory in a raw material or work in progress stage.

	December 31, 2011	December 31, 2010
Materials	\$ 303	\$ 275
Spare parts	1,540	1,242
Total	\$ 1,843	\$ 1,517

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

10. Other current assets

	December 31, 2011	December 31, 2010
Deposits	\$ 124	\$ 768
Prepaid insurance	171	112
Reimbursable costs	529	455
Other credits	323	286
Advances to suppliers	1,079	580
Advances to personnel	27	35
Total	\$ 2,253	\$ 2,236

11. Property, plant and equipment

The capitalized cost of property, plant and equipment and the related accumulated depreciation as of the periods presented is as follows:

Cost	Rigs	Rental tools and equipment	Transportation equipment	Furniture & Fixtures	Buildings & improvements	Total
Balance as at January 1, 2010	\$ 22,018	\$ 10,550	\$ 1,036	\$ 676	\$ 413	\$ 34,693
Assets acquired	\$ 41,285	\$ 3,672	\$ -	\$ 155	\$ 1,037	\$ 46,149
Assets acquired through company acquisition	7,734	-	-	90	-	7,824
Disposals	-	(298)	-	-	-	(298)
Foreign exchange movement	(182)	-	-	(2)	-	(184)
Balance as at December 31, 2010	\$ 70,855	\$ 13,924	\$ 1,036	\$ 919	\$ 1,450	\$ 88,184
Assets acquired	\$ 5,618	\$ 1,172	\$ 310	\$ 130	\$ -	\$ 7,230
Assets acquired through company acquisition	6,681	704	80	86	-	7,731
Disposals and Impairment	-	(239)	-	-	(470)	(709)
Analysis adjustment	-	(239)	-	-	(470)	(709)
Foreign exchange movement	(219)	-	(2)	(7)	-	(228)
Balance as at December 31, 2011	\$ 83,115	\$ 15,561	\$ 1,424	\$ 1,128	\$ 980	\$ 102,208

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

11. Property, plant and equipment

Accumulated depreciation and impairment losses

Balance as at January 1, 2010	\$ 3,172	\$ 4,732	\$ 425	\$ 212	\$ 12	\$ 8,553
Depreciation for the year	\$ 4,175	\$ 2,943	\$ 157	\$ 184	\$ 5	\$ 7,464
Disposals	-	(298)	-	-	-	(298)
Foreign exchange movement	(147)	-	-	(1)	-	(148)
Balance as at December 31, 2010	\$ 7,200	\$ 7,377	\$ 582	\$ 395	\$ 17	\$ 15,571
Depreciation for the year	\$ 8,930	\$ 1,303	\$ 142	\$ 129	\$ 137	\$ 10,641
Impairment analysis adjustments	-	625	121	74	32	852
Disposals	-	(125)	-	-	-	(125)
Foreign exchange movement	(151)	-	(1)	(4)	-	(156)
Balance as at December 31, 2011	\$ 15,979	\$ 9,180	\$ 844	\$ 594	\$ 186	\$ 26,783

Carrying amounts

At January 1, 2010	\$ 18,846	\$ 5,818	\$ 611	\$ 464	\$ 401	\$ 26,140
At December 31, 2010	63,655	6,547	454	524	1,433	72,613
At December 31, 2011	\$ 67,136	\$ 6,381	\$ 580	\$ 534	\$ 794	\$ 75,425

Pledged assets in connection with Credit Suisse Facility (Note 14)

Following herewith is a summary of the collateral granted by the Company and its subsidiaries in connection with the Credit Agreement dated as of November 24, 2010, made among Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Special Collateral Agent, Estrella Overseas Limited and Estrella Petrolera del Peru S.A.C, as co-borrowers, certain other parties named therein (the "Credit Agreement").

1. *Shares.* Pledge of shares of EOL, CGI, EColombia, EChile, EGeoC, EHSA, ESPSA and EMSA and collateral assignment of shares of EPeru to a trust.
3. *Rigs and Equipment.* Collateral assignment of all drilling rigs of EColombia and EPeru to a trust, pledge of drilling rigs owned by EOL located in Chile and pledge of material equipment of EChile.
4. *Receivables.* Collateral assignment of all major contract receivables of EColombia and EPeru to a trust and pledge of major contract receivables of EChile and EGeoC.
5. *Joint Venture.* Pledge of all interests of EChile in GeoEstrella joint venture.
6. *Collection Accounts.* Collection accounts have been set up in New York, Colombia, Peru and Chile where collection of receivables have to be made. Funds in those accounts are available for the companies unless there is an event of default.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

12. Trade and other payables

Trade and other payables consist of payables to suppliers of goods and services.

	December 31, 2011	December 31, 2010
Domestic suppliers	\$ 6,656	\$ 4,618
International suppliers	1,768	1,408
Provisions related to STS acquisition *	750	750
Accruals for costs and expenses	1,590	626
Total	\$ 10,764	\$ 7,402

* In accordance with the Purchase Agreement signed between the Company and the previous owners of EColombia a portion of the purchase price of EColombia (\$750) is based upon some balance sheet metrics which had to be met as a condition for this payment. In line with the Purchase Agreement, the corresponding funds have been retained by the Company until there is an agreement on the required purchase price adjustment.

As of December 31, 2011 the two parties remain in discussion with the objective to reach a final agreement during the second quarter of 2012.

13. Salaries and social security payable

	December 31, 2011	December 31, 2010
Salaries payable – current	\$ 1,369	\$ 967
Social security - payment plans	450	1,049
Social security – current	741	383
Accruals for vacations and others	1,616	714
Sundry debts	308	313
Total	\$ 4,484	\$ 3,426

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

14. Interest-bearing loans and other borrowings

ECChile has available total lines of credit of \$288 (2010 - \$2,130) and has a balance of \$172 outstanding as of December 31, 2011 (2010 - \$235).

a) Fourth Third Debt

On March 3, 2010, Estrella retired its long term debt, including interest and fees payable at the time, with Fourth Third LLC, a subsidiary of Medley Capital, in exchange for 36,000,000 Special Warrants valued at \$36,000. Each of these special warrants converted into one and one-tenths common shares and one-half (0.5) of one warrant to purchase common shares with a strike price of \$1.50 and an expiration date of June 25, 2015.

The principal balance was \$46,048 on March 3, 2010. This balance included interest capitalized at the loan interest rate of 12%.

The Company amortizes debt issuance costs and fees over the term of the debt using the effective interest method. The net amount is included as a reduction in long term debt. The amortization expense of these costs is included in interest expense.

The loan included a \$500 back-end fee note due on the final maturity date. The loan had monthly interest payments at the rate of LIBOR plus 9% with a LIBOR floor of 3% and ceiling of 7%. The principal payments, starting in May 2009, were monthly based on excess free cash flows with a minimum quarterly amortization of \$1,000 starting on March 31, 2010.

b) Credit Suisse facility

The Corporation entered into the credit agreement on November 24, 2010 with Credit Suisse (the "Lender"). In 2010, \$32 million of the facility was made available for drawdown (the collectively Facility) and was used to satisfy the cash portion of the purchase price of EColombia, to finance the purchase of one additional rig in Bolivia, and for working capital purposes. In connection with the Facility, Estrella issued 3,072,000 transferable common share purchase warrants ("Credit Suisse Warrants") to the Lender. Each Credit Suisse Warrant entitles the holder to purchase 1 common share in the capital of Estrella for a purchase price of \$0.91 per share, for a period of 4 years from the date of issuance. As the fair value of the service could not be determined, the fair value of the 3,072,000 warrants issue were estimated to be approximately \$1 million using the Black Scholes methodology and the following assumptions: an expected life of 4 years, expected volatility of 63% (determined by reference to comparable companies), risk free rate 2.76%, an expected dividend yield of nil, strike price of \$0.91 and fair value of Estrella shares of \$0.74 per share.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

14. Interest-bearing loans and other borrowings (con't)

b) Credit Suisse facility (con't)

The Facility bears an interest at a rate of LIBOR plus 8%, and is repaid quarterly with first quarterly payment on February 28, 2012. At December 31, 2011 the LIBOR rate was 8.52% (2010 – 8.30%). On the final repayment of the Facility, there is an additional payment due to ensure that the effective internal rate of return (“IRR”) of the Facility is equal to 13% over the term of the Facility. The effective interest rate on the Facility is 17.76% (2010 – 16.86%).

In connection with this facility, trusts were created to secure payment of the Facility. Estrella is the ultimate beneficiary of the trusts. The trusts receive the assets in trust and operate them as instructed by Estrella until such time as there is a default under the Facility. Upon a default the lenders can take action and have priority over the assets in trust. Once the Facility is repaid the assets revert back to Estrella. See note 11 for securities pledged against Facility.

On May 27, 2011, the Company signed an amendment agreement to the Credit Facility. This amended a number of terms of the Facility, including modification to certain covenants.

In addition, in line with the November 24, 2010 agreement requirements, Estrella agreed to pay an additional fee of approximately \$3,000 to Credit Suisse as a result of the syndication of the Facility to other investors. As a result of the revision of cash flow, the estimated future payments were revised leading to a loss of \$2,487.

Paid in 2011	\$ (1,628)
Due in 2012	(585)
Due in 2013	(422)
Due in 2014	(261)
Due in 2015	<u>(104)</u>
	\$ (3,000)

As of September 30, 2011 the agreement was further amended to vary certain payment terms. The effective interest rate was modified to 17.76%. No gain or loss was recorded on the transaction. This agreement included a mandatory payment of \$2,000 of principal on November 30, 2011, a future mandatory payment of \$3,000 and the modification of other financial covenants.

As a result of the \$2,000 principal payment on November 30, 2011, the new amortization schedule was as follows as of December 31, 2011:

Due in 2012	\$ 9,750
Due in 2013	6,750
Due in 2014	6,750
Due in 2015	<u>6,750</u>
	\$ 30,000

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

14. Interest-bearing loans and other borrowings (con't)

b) Credit Suisse facility (con't)

Estrella failed to meet certain financial covenants with respect to the Credit Suisse credit facility during the year and at year-end. Credit Suisse has waived the violation of these covenants at every quarter and at the year end. Accordingly, the loan has been presented as long-term.

A third amendment was signed on April 27, 2012. The future mandatory payment of \$3,000 was deferred until May 30, 2012 and certain financial covenants were modified.

c) Convertible debentures

On January 24, 2011, the Company closed a CDN\$15,000 (\$14,901) private placement of subscription receipts (the "January 2011 Subscription Receipts") underwritten by Canaccord Genuity Corp. Each January 2011 Subscription Receipt entitles the holder to receive, without payment of additional consideration or further action, one unit ("January 2011 Unit") at a price of CDN\$100 per unit (the "Offering Price"). Each January 2011 Unit consists of: (a) CDN\$100 par value of one 5-year convertible subordinated unsecured debentures bearing a coupon interest rate of 12% per annum, payable semi-annually in arrears in cash or common shares (the "January 2011 Convertible Debentures"); and (b) one common share purchase warrant (the "January 2011 Warrants") entitling the holder to acquire 12,500 Common Shares at CDN\$0.80 per share, exercisable for a period of 5 years from the closing date.

The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest is, at the option of debenture-holders, convertible into common shares at any time at a conversion price of CDN\$1.00 per share. The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest will be redeemable, in whole or in part, at the option of Estrella without penalty, provided that the weighted average trading price of the Common Shares, for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than CDN\$1.50 per share. Estrella may satisfy its obligation to repay the principal amount of the January 2011 Convertible Debentures on redemption or maturity, by payment in Common Shares with a price equal to 95% of the current market price of the Common Shares on the TSXV or the TSX as applicable. The proceeds of the debenture offering were partly used by Estrella for acquisition of 49% of the issued and outstanding shares of each of Petroland S.A.S. ("Petroland") and Zigma.

The liability component of the January 2011 Convertible Debentures is calculated as the present value of the principal amount, discounted at a rate of 21%, which is equivalent to what reasonably would have been charged for a similar interest bearing instrument without the conversion feature or warrants. Each January 2011 Convertible Debenture is accreted to its face value over the life of the instrument, by charges to interest and financial expenses. The effective interest rate on the convertible debenture is 23.2%.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

14. Interest-bearing loans and other borrowings (con't)

c) Convertible debentures (con't)

The difference between the face value of each January 2011 Convertible Debenture and the fair value of the liability is allocated between the warrants and the conversion feature of the convertible debenture based on the pro-rata fair value using the Black Scholes methodology.

The pro-rata value of the conversion feature of the convertible debenture liability was \$3,527 and pro-rata value of the warrants liability was \$506.

As the conversion feature of the convertible debt and the warrants are denominated in Canadian dollars and the functional currency of the Company is US dollars, they are accounted for as derivative liabilities which are measured at fair value using Black-Scholes. As a result the conversion feature of the convertible debenture liability decreased in value to \$231 resulting in a gain of \$3,296 and the warrants decreased in value to \$40 resulting in a gain of \$466. The gains are included in interest and finance expenses.

The following Black-Scholes assumptions were used for the initial value of the warrants: an expected life of 5 years, expected volatility of 55%, risk free rate 2.00%, an expected dividend yield of nil, a strike price of CDN\$0.80 and fair value of Estrella shares of CDN\$0.74 per share. At the year end value of the warrants: an expected life of 4 years, expected volatility of 55%, risk free rate 1.18%, an expected dividend yield of nil, a strike price of CDN\$0.80 and fair value of Estrella shares of CDN\$0.20 per share. For the initial value of the conversion feature of the convertible debenture: an expected life of 5 years, expected volatility of 55%, risk free rate 2.00%, an expected dividend yield of nil, a strike price of CDN\$1.00 and fair value of Estrella shares of CDN\$0.74 per share. At the year end value of the conversion feature of the convertible debenture: an expected life of 4 years, expected volatility of 55%, risk free rate 1.18%, an expected dividend yield of nil, a strike price of CDN\$1.00 and fair value of Estrella shares of CDN\$0.20 per share.

On August 1, 2011, the Company issued 1,928,558 common shares to satisfy the semi-annual interest payment of CDN\$893 (\$934) due to holders of convertible debentures. The price of the shares was set at a price of CDN\$0.4628.

The Company paid the second semi-annual interest payment in January 2012 in cash.

d) Financial Debt at Estrella Petrolera de Colombia SAS and Zigma Petroleum Services S.A.

As part of the acquisition of Zigma Petroleum Services S.A., the Company agreed to assume its financial debt and leases.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

14. Interest-bearing loans and other borrowings (con't)

d) Financial Debt at Estrella Petrolera de Colombia SAS and Zigma Petroleum Services S.A. (con't)

In addition, Estrella Petrolera de Colombia S.A.S. has used credit lines with local Banks.

As of December 31, 2011, the financial debt of these two companies was as follows:

	E Colombia	Zigma	Total
Short Term Debt	\$ 1,033	\$ 2,387	\$ 3,420
Long Term Debt	-	1,822	1,822
Total	\$ 1,033	\$ 4,209	\$ 5,242

This debt includes bank debts, financial leases and other private loans.

\$3,700 of the combined financial debt is denominated in Colombian Pesos with the rest in US dollars.

The average cost of the Colombian denominated debt is at the local bank rate Depositos a Termino Fijo ("DTF") plus 7%.

The average cost of the USD denominated debt is at 23.42%.

These debts have been fully consolidated on the Company's consolidated balance sheet as of December 31, 2011 and the schedule of payment is the following:

Due in 2012	\$ 3,420
Due in 2013	792
Due in 2014	515
Due in 2015	515
	\$ 5,242

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

15. Share capital and reserves

The Company has an authorized capitalization of an unlimited number of common shares and an unlimited number of preferred shares issuable in series which may contain the rights, privileges and restrictions as determined by the Board of Directors. As of December 31, 2011, Estrella has 132,809,783 common shares, 4,750,000 non-voting Series A preferred shares with a 4% annual cumulative dividend, redeemable for \$1 per share and convertible into common shares on a 1 for 1 basis, 4,010,338 options for common shares, 38,712,500 warrants exercisable into 12,500 common shares of Estrella at a price of \$1.50 per share until June 25, 2015, 3,072,000 transferable common share purchase warrants issued in connection with the Credit Suisse facility, exercisable into one common share of Estrella at a price of \$0.91 per share for a period of 4 years from the date of issuance and 150 transferable common share purchase warrants issued in connection with the January 2011 Convertible Debentures, exercisable into 12,500 common shares of Estrella at a price of CDN\$0.80 per share for a period of 5 years from the date of issuance.

The tables below show the history up to and the balances as of December 31, 2011.

Estrella Overseas Limited (EOL)

Authorized Capital

500,000,000 authorized common shares, with a par value per share of \$0.01

Common Shares Issued	Number of Shares	Amount \$
Balance, December 31, 2008	9,607	\$ 824
Balance, December 31, 2009	9,607	824
Share issuance and conversion	14,990,394	-
Special warrants exercised (net of issuance costs)	83,600,000	72,833
Fair value assigned to warrants		(12,698)
Balance, March 31, 2010	98,600,001	60,959
Founders' Special warrants exercised (net of issuance costs)	1,567,500	1,425
Balance transferred on June 25, 2010	100,167,501	\$ 62,384

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

15. Share capital and reserves (con't)
Estrella International Energy Services Ltd. (EEN)
Authorized Capital

Common Shares Issued	Number of Shares	Amount \$
Balance, December 31, 2009	10,552,500	\$ 579
Share consolidation	(8,552,500)	-
Balance before reverse asset acquisition (RAA)	2,000,000	579
Transfer from Estrella Overseas Limited	100,167,501	62,384
Reversal of Everest Ventures Corp. share capital	-	(579)
RAA adjustment	-	53
Issuance costs	-	(763)
Options exercised	113,714	60
Post RAA combined balance, Dec. 31, 2010	102,281,215	61,734
Issuance	28,600,000	21,067
Issuance costs	-	(1,178)
Convertible Debentures Interest	1,928,568	934
Balance, December 31, 2011	132,809,783	\$ 82,557

Common Shares to be Issued	Number of Shares	Amount \$
Balance, December 31, 2010	-	\$ -
Common Shares Zigma	3,125,000	812
Balance, December 31, 2011	3,125,000	\$ 812

Common Shares Issued and Common Shares To Be Issued	Number of Shares	Amount \$
Balance, December 31, 2011	135,934,783	\$ 83,369

Preferred Shares Series A	Number of Shares	Amount \$
Balance, December 31, 2010	4,750,000	\$ 4,750
Balance, December 31, 2011	4,750,000	\$ 4,750

Preferred Shares Series B To Be Issued	Number of Shares	Amount \$
Balance, December 31, 2010	-	-
Preferred Shares Series B (note 25)	750,000	\$ 750
Balance, December 31, 2011	750,000	\$ 750

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

15. Share capital and reserves (con't)

Options for Common Shares Issued	Weighted Average exercise price	Number	Amount \$
Balance, December 31, 2009	\$ 0.538	950,000	\$ -
Share consolidation	0.538	(769,948)	-
Balance before reverse asset acquisition	0.538	180,052	-
Options exercised	0.538	(113,714)	-
Balance, December 31, 2010	0.538	66,338	-
Stock Based Compensation	0.587	3,944,000	821
Balance, December 31, 2011	\$ 0.586	4,010,338	\$ 821

Warrants for Common Shares Issued		Number	Amount \$
Balance, December 31, 2009		-	-
Transfer from Estrella Overseas Limited	\$ 1.500	38,712,500	\$ 12,698
Warrants issued – Credit Suisse facility	0.910	3,072,000	1,007
Issuance costs		-	(158)
Balance, December 31, 2010	1.457	41,784,500	13,547
Warrants issued – Convertible Debentures *,**	0.787	1,875,000	-
Balance, December 31, 2011	\$ 1.428	43,659,500	\$ 13,547

*In accordance with IAS 39 – Financial Instruments Recognition and Measurement (“IAS 39”), warrants issued in connection with a convertible debenture which are quoted in a different currency than the functional currency of the company are accounted for as liabilities.

**Consists of 150 warrants each exercisable into 12,500 common shares.

On June 25, 2010, EEN, formerly Everest Ventures Corp. (“Everest”), completed its merger with Estrella Overseas Limited (“EOL”). The acquisition of the shares of Estrella has been accounted for as a reverse asset acquisition (“RAA”) transaction. As Everest did not qualify as a business for accounting purposes, the transaction has been accounted for as a capital transaction. The transaction is equivalent to the issuance of shares by the non-public operating enterprise (EOL) for the net monetary assets of the non-operating public enterprise (EEN), accompanied by a recapitalization of the non-public operating enterprise (EEN). An RAA transaction is viewed as the issuance of equity by the non-public operating enterprise (EOL) to the extent there is cash in the non-operating public enterprise (EEN). Accordingly transaction costs are charged to equity only to the extent of cash received, while all costs in excess of cash received should be charged to expense. The consolidated financial statements are issued under the name of the legal parent (EEN), but are deemed to be a continuation of the legal subsidiary (EOL).

Below is a description of the share issuances that resulted in the December 31, 2011 share capital structure.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

15. Share capital and reserves (con't)

As December 31, 2009 EOL had nine thousand six hundred seven (9,607) common shares.

On March 3, 2010, EOL issued 76,000,000 special warrants, 40,000,000 as part of a \$40 million private placement and 36,000,000 as consideration for the cancellation and discharge of EOL's existing long term debt and warrants with Fourth Third LLC, a subsidiary of Medley Capital. Each of these special warrants convert into one and one-tenths common shares and one-half (0.5) of one warrant to purchase common shares with a strike price of \$1.50 and an expiration date of June 25, 2015. Simultaneously, EOL completed a stock split of 14,990,394 common shares. The completion of these transactions resulted in EOL having 15,000,001 common shares outstanding and 76,000,000 special warrants outstanding as of March 3, 2010. The conversion of these special warrants in the RAA resulted in the issuance of 83,600,000 common shares and 38,000,000 common share warrants.

On May 31, 2010, EOL issued 1,425,000 special warrants in a \$1.425 million private placement. The transaction was completed under the same terms as the \$40 million private placement described above. The conversion of these special warrants in the RAA resulted in the issuance of 1,567,500 common shares and 712,500 common share warrants.

On June 25, 2010 EOL completed the RAA whereby EOL became a wholly owned subsidiary of EEN. Concurrent therewith, each Special Warrant was converted into one and one-tenth common share of Estrella and one-half of one common share purchase warrant of Estrella (each whole common share purchase warrant a "Common Share Warrant"). Each Common Share Warrant is exercisable into one common share of Estrella at a price of \$1.50 per share until June 25, 2015. As part of the same transaction, the common shares and Common Share Warrants of EOL were exchanged for the same shares and warrants in EEN, leaving EOL with 100,167,501 shares outstanding, all of which are owned by EEN. Immediately prior thereto, EEN completed a reverse stock split for its current issued and outstanding common shares on the basis of each 5.27625 pre-consolidated common shares for one post-consolidated common share, resulting in 2,000,000 common shares issued and outstanding and 180,052 options issued and outstanding immediately prior to the RAA with EOL. Subsequent to the completion of the RAA, EEN had a total of 102,167,501 common shares issued and outstanding, nil preferred shares issued and outstanding, 180,052 options for common shares issued and outstanding, and 38,712,500 warrants for common shares issued and outstanding.

On November 28, 2010, Estrella issued 4,750,000 Series A preferred shares in connection with the acquisition of STS de los Andes S.A.S. (note 28).

The fair value of the 38,712,500 warrants issued with respect to the above financings has estimated to be approximately \$12.7 million using the Black Scholes methodology and the following assumptions: an expected life of 5 years, expected volatility of 75%, risk free rate 2.76%, an expected dividend yield of nil and fair value of Estrella shares of \$0.70 per share.

On January 24, 2011, Estrella closed a CDN\$15,000 private placement of subscription receipts, as described in note 14.

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(U.S. dollars in thousands, except per share data, shares and where noted)

15. Share capital and reserves (con't)

On April 29, 2011 the Company completed a bought deal public offering (the "Offering") of 28,600,000 common shares. The Offering was made pursuant to a short form prospectus dated April 21, 2011 filed with the securities commissions in the provinces of the British Columbia, Alberta and Ontario. The common shares were issued at a price of CDN\$0.70 per share for aggregate gross proceeds of CDN\$20,020 to the Company. The Offering was conducted by a syndicate of underwriters and the Company paid a cash commission of CDN\$1,001 to such underwriters, representing 5% of the gross proceeds of the Offering.

On August 1, 2011, the Company issued 1,928,558 common shares to satisfy the semi-annual interest payment of CDN\$893 (\$934) due to holders of convertible debentures.

As consideration for the acquisition of Zigma as described in note 25, the Company agreed to issue 3,125,000 common shares and 750,000 Series B preference shares with a price of \$1.00. The Series B preference shares are convertible into common shares after a period of five years and carry an annual dividend, as and when declared by the board of directors of 6% per annum, which dividend may, at the option of the Company, be paid and satisfied by the issuance of Series B preference shares to the Holder.

The Series B preference shares also include provisions of forced conversion to common shares if the common shares of Estrella trade at a price greater than \$1.00 for a period of twenty days.

These common shares and Series B preference shares had not been issued as at December 31, 2011 but are already accounted for in the Shareholders' equity of the Company for the year ended 2011.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the Company. The cumulative translation adjustment (CTA) resulting from the above translation process is presented as a component of Accumulated Other Comprehensive Income.

Options for Common Shares

In connection with the RAA of June 25, 2010 whereby EOL became a wholly owned subsidiary of EEN, one hundred eighty thousand and fifty-two (180,052) options for common shares were issued with an exercise price of \$0.538 per common share, expiring on September 14, 2012.

As of December 31, 2011 sixty six thousand three hundred and thirty eight (66,338) of these options are outstanding.

Notes to the Consolidated Financial Statements

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(U.S. dollars in thousands, except per share data, shares and where noted)

15. Share capital and reserves (con't)

Stock Option Plan

Pursuant to the Company's stock option plan (the "Option Plan"), options to purchase Common Shares may be granted by the Board of Directors to directors, officers, employees of and consultants to the Company. Options granted under the Option Plan will have an exercise price as determined by the Board of Directors which price shall not be less than the price allowed by regulatory authorities. The options will be non-transferable and will be exercisable for a period not to exceed five years. The aggregate number of Common Shares subject to options granted under the Option Plan, from time to time, cannot exceed 10% of the Common Shares outstanding after giving effect to the issuance of the options and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Common Shares.

On July 19, 2011, the Board of Directors approved stock options to purchase an aggregate of 3,944,000 common shares pursuant to the provisions of the Option Plan of the Corporation, with the exercise price of each option being \$0.5865 per common share and with all options expiring on July 19, 2016. All of the stock options vested immediately.

The fair value of the 3,944,000 stock options is estimated to be approximately \$821 using the Black and Scholes methodology and the following assumptions: an expected life of 5 years, expected volatility of 55% (determined by reference to comparable companies), risk free rate of 0.90% and expected dividend yield of nil and fair value of Estrella share of \$0.51 per share.

Stock Option Plan (con't)

All of the \$821 cost estimation was expensed during 2011 in line with IFRS guidelines for immediately vested options.

As of December 31, 2011 all of the 3,944,000 stock options described above are fully vested and outstanding.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

16. Capital management

The objectives of the Company's capital structure are to allow continued revenue growth, maintain a prudent risk profile and in the long term provide attractive shareholder return. The Company manages its capital structure based on economic conditions and the risk characteristics of the underlying assets.

The Company uses several instruments to maintain or adjust its capital structure, like issuing shares, issuing new debt, replacing existing debt and/or selling assets. All sources of financing are approved by its Board of Directors.

The Company has certain external capital restrictions which were violated during the year for which waivers were obtained as described in Note 14.

The Company's capital consists of long term debt including current portion and shareholders' equity. The balances of each of these items as of December 31, 2011 and December 31, 2010 are outlined below:

	December 31, 2011	December 31, 2010
Long term debt, including current portion	\$ 46,493	\$ 28,673
Shareholders' equity	55,861	63,491
Total	\$ 102,354	\$ 92,164

17. Financial risk management objectives and policies

The Company uses various types of financial instruments to provide more financial flexibility.

As such, during the calendar year 2011, in order to support its growth plan, the Company raised a total of CDN\$35,020 (\$36,523) of capital through convertible debentures and common equity offerings.

The company has classified its financial instruments as follows:

- Fair value through profit or loss: Cash and cash equivalents, restricted cash, conversion feature and warrants.
- Loans and receivables: Trade and other receivables.
- Other financial liabilities: Trade and other payables, salaries and social security payable, taxes payable, interest payable, other current liabilities, current portion of long-term debt and long-term debt.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

17. Financial risk management objectives and policies (con't)

Risk disclosures

The Company is exposed to certain risks in the normal course of its business:

Interest rate risk:

Interest rate risk for the Company is primarily related to its floating rate debt. As of December 31, 2011 there was a total of \$30 million of long term floating rate debt whose interest cost is indexed to the three month LIBOR rate. In addition, there was approximately \$3,700 of debt at the Company's Colombian affiliates which is indexed to the DTF.

Foreign currency risk

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than US dollar.

Most contracts with customers excluding Colombia have revenue either in US dollars or indexed to the US dollar. In addition, the US dollar is the functional currency of all its subsidiaries outside of Colombia.

Although the Company does not have a hedging program in place to mitigate its foreign currency risk, a constant revision of foreign currency exchange rates applies on the different entities.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

17. Financial risk management objectives and policies (con't)**Foreign currency risk (con't)**

The following table discloses the Company's foreign currency exposure. The Company is exposed to foreign currency fluctuations denominated in Canadian Dollars ("CAD"), Colombian pesos ("COP"), Chilean pesos ("CLP"), Argentine pesos ("ARS"), Bolivian bolivianos ("BOB") and Peruvian soles ("PEN"). All amounts are expressed in US\$ Dollars:

	December 31, 2011						
	CAD	COP	CLP	ARS	BOB	PEN	TOTAL
Financial assets							
Cash and cash equivalents	\$ 203	\$ 1,008	\$ 437	\$ 123	\$ 73	\$ 4	\$ 1,848
Trade and other receivables, net	-	2,179	-	-	-	-	2,179
Total financial assets as at December 31, 2011	\$ 203	\$ 3,187	\$ 437	\$ 123	\$ 73	\$ 4	\$ 4,027
Financial liabilities							
Trade and other payables	\$ 456	\$ 4,583	\$ 545	\$ 2,065	\$ 13	\$ 134	\$ 7,796
Salaries and social security payable	-	812	718	2,748	144	62	4,484
Long term debt, including current portion	12,946	3,700	172	-	-	-	16,818
Total financial liabilities as at December 31, 2011	\$ 13,402	\$ 9,095	\$ 1,435	\$ 4,813	\$ 157	\$ 196	\$ 28,021
Currency risk as at December 31, 2011, net	\$ (12,122)	\$ (5,908)	\$ (998)	\$ (4,690)	\$ (84)	\$ (192)	\$ 23,994

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

17. Financial risk management objectives and policies (con't)

Foreign currency risk (con't)

The following table shows the impact of a 5% change in the value of the other currencies against the US Dollar as of December 31, 2011 and December 31, 2010:

December 31, 2011							
	CAD	COP	CLP	ARS	BOB	PEN	TOTAL
5% increase / decrease - impact on net earnings	\$ 606	\$ -	\$ 50	\$ 235	\$ 4	\$ 10	\$ 905
5% increase / decrease - impact on comprehensive income	\$ -	\$ 295	\$ -	\$ -	\$ -	\$ -	\$ 295

December 31, 2010							
	CAD	COP	CLP	ARS	BOB	PEN	TOTAL
5% increase / decrease - impact on net earnings	\$ -	\$ -	\$ 23	\$ 296	\$ -	\$ 6	\$ 324
5% increase / decrease - impact on comprehensive income	\$ -	\$ 99	\$ -	\$ -	\$ -	\$ -	\$ 99

Credit risk

The Company sells its drilling services in South America to domestic and international customers. When it signs a long term contract with a customer, the Company creates a relationship whereby it is dependent upon the customer to perform and pay. To mitigate such risk, the Company performs credit evaluations of its customers and in some cases will request a corporate parent guarantee. The maximum credit exposure as at December 31, 2011 is \$16,035 (2010 - \$6,633) which is the trade and other receivables balance as of that date. In addition, the Company had approximately \$3,000 deposited with major financial institutions.

As of December 31, 2011, the Company's largest credit exposure was represented by a receivable balance of \$1,096 (2010 - \$1,707) with its largest customer.

Included in trade and other receivables are receivables with a carrying value of \$310 (2010 - \$121) that are past due but have not been provided for. The past due amounts are considered recoverable. As of December 31, 2011, the Company had allowed for \$145 (2010 - \$145) of trade receivables.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

17. Financial risk management objectives and policies (con't)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial or other payable obligations as they fall due. The Company is exposed to liquidity risk primarily as a result of its trade accounts payable and the payment of interest and capital on its financial debts.

The Company constantly monitors its operating, investing and financing cash flows so as to minimize liquidity risks by accessing additional funding sources if necessary.

As of December 31, 2011, the Company had a positive net working capital balance (cash + receivables less trade and other payables) of \$14,020 (2010 - \$5,551) including cash balances totaling \$8,749 (2010 - \$6,320).

Payments Due By Year

	2012	2013	2014	2015	2016
Trade and other payables	\$ 8,424	-	-	-	-
Accrued liabilities	\$ 2,340	-	-	-	-
Taxes payable	\$ 4,403	-	-	-	-
Salaries payable	\$ 4,484	-	-	-	-
Interest payments on Financial debt	\$ 4,535	\$ 3,733	\$ 2,996	\$ 8,322	\$ 900
Principal payments on Financial debt	\$ 13,170	\$ 8,743	\$ 6,750	\$ 6,750	\$ 15,000
TOTAL	\$ 37,108	\$ 12,476	\$ 9,746	\$ 15,072	\$ 15,900

Assumptions :

Libor interest at 0.52% for 2012-2016

Interest payment includes redemption premium to ensure 13% IRR for Credit Suisse Facility.

Payment of convertible debenture interest assumed to be paid in cash.

Notes to the Consolidated Financial Statements

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(U.S. dollars in thousands, except per share data, shares and where noted)

18. Operating leases

The Company leases certain office and warehouse facilities under operating leases. The leases typically run for a period of 1 - 5 years, with a renewal option at the end of the lease term. Lease payments are fixed for the duration of the initial term. There are no contingent rental clauses. These lease agreements have various termination dates with the longest one lasting until 2014.

Minimum lease payments for 2012	\$ 122
Minimum lease payments for 2013	\$ 163
Minimum lease payments for 2014	\$ 62

19. Contingencies

The Company is subject to legal proceedings, claims and contingencies arising in the ordinary course of business. When such amounts can be estimated and are probable, management accrues the corresponding liability.

Management is of the opinion that provisions are not required in respect of the matters set out below, as a successful claim against the Company is not probable.

Legal proceedings

B Group LLC.

B Group LLC ("BGroup") initiated legal proceedings against the Company ("B Group v. Estrella, Index No. 650602/2011 (NY Sup. Ct NY Co.)"). B Group claimed fees and reimbursement of expenses in connection with financial services which BGroup alleges to have provided for in the Credit Agreement. In December 2011, Estrella and B Group agreed on a settlement whereby Estrella will pay B-Group a total of \$350 with \$250 paid in December 2011 and the remaining \$100 to be paid in four quarterly installments starting April 1, 2012, which has been included in trade and other payables. As a result of the settlement, the case was dismissed by the courts in December 2011.

Notes to the Consolidated Financial Statements

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(U.S. dollars in thousands, except per share data, shares and where noted)

19. Contingencies (con't)

Hernán Lezaca and NL Contapa SA CI

In the month of February 2011, Hernán Lezaca and NL Contapa SA CI (collectively “Lezaca”) made an out of court claim to STS claiming 20% of the shares of EColombia and repayment of an amount of COP\$2,250 (approximately \$1,200) for loans and funding provided by Lezaca to EColombia. Claims arise from certain agreements that Lezaca alleges to have entered into with the former shareholders of EColombia and from guarantees and collateral provided by Lezaca that allowed EColombia to access credit facilities with local banks in Colombia. No formal court proceedings have been initiated by Lezaca against EColombia. The Company has received an indemnity from the former shareholders of EColombia in connection with any claims from Lezaca. No indemnification asset has been recorded in accordance with IFRS 3 – Business Combinations, as no liability has been recorded relating this potential claim. The claims are against the former shareholders of EColombia.

The Company is also subject to various legal proceedings and claims that arise in the ordinary course of business. Management does not believe that the outcome of these claims will have a material adverse effect upon its financial condition or results of operations but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect upon its financial condition or results of operations.

20. Other income and expenses

Other income and expenses comprise the following:

	December 31, 2011	December 31, 2010
Expenses related to Rig 1201 top drive incident	\$ 1,066	\$ -
Startup costs – Estrella Bolivia	479	-
Gain from long-term debt retirement	-	(11,293)
Other	264	390
Total	\$ 1,809	\$ (10,903)

Notes to the Consolidated Financial Statements

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21. Loss from associates and joint venture

Loss from associates and joint venture comprises the following:

	December 31, 2011	December 31, 2010
50% ownership of GeoEstrella – equity pick up	\$ 833	\$ -
49% ownership Petroland – equity pick up	446	-
49% ownership Zigma – equity pick up prior to acquisition of control	1,188	\$ -
Total	\$ 2,467	\$ -

The group's 49% shares of the results in Petroland S.A.S and 100% of its revenues, assets and liabilities:

Petroland – twelve months ended December 31, 2011:

Assets	\$ 16,563
Liabilities	(11,224)
Revenues	7,042
Expenses	(7,952)
Share of loss	(446)
Percentage held	49%

22. Stock based compensation

During the year ended December 31, 2011, the Company booked \$821 of non cash expense related to stock based compensation. As all the stock options vested immediately on grant date, 100% of the option value was expensed during the year ended December 31, 2011.

Notes to the Consolidated Financial Statements

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23. Impairment

As described in Note 3, the Company performs an impairment test of indefinite life intangible assets on an annual basis or tangible and definite life intangibles when events or changes in the economic environment indicate that those might be impaired.

The impairment tests performed as of December 31, 2011 led to the Company's decision to impair the following assets:

- a) On November 30, 2010, Estrella completed the acquisition of 100% of Ecolombia. At the time of the acquisition, EColombia had long term contracts with 2 longstanding customers in the Barranca Bermeja region of Colombia. The value of these long term contracts had been estimated at \$7,208 and was reported as intangible assets in the Company's year-end 2010 balance sheet. The value net of amortization and before impairment as of December 31, 2011 was \$4,642.

In December 2011, labour unrest and community demonstrations in the Barranca Bermeja region of Colombia impacted all of the Company's rigs operating in the area. As a result, a loss equivalent to the full book value of its intangible assets was recorded as of December 31, 2011 in accordance IFRS. This represented a loss before income tax of \$4,642.

- b) The Company's has assets which are used to perform directional drilling work and to provide other drilling related services at its base in the southern part of Argentina (Comodoro Rivadavia). These assets are included in the rental tools and equipment column in note 11 of the financial statements.

The Companies service business at the Comodoro base is not expected to generate positive returns in the predictable future. As a result, the Company decided to impair the full book value of these assets. This negatively impacted the Company's pre tax income during the year 2011 in the amount of \$852.

- c) One of the rigs, which is considered a cash generating unit, acquired with the purchase of EColombia was sold in February 2012 for an amount less than the carrying value plus allocated goodwill. \$200 of the goodwill allocated to this cash-generating unit was recorded as an impairment loss as of December 31, 2011 based on fair value less costs to sell.

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24. Petroland S.A.S. acquisition

In March 2011, the Company completed the acquisition of 49% of the issued and outstanding shares of Petroland, a drilling and workover rig company with operations in Colombia.

The Company paid \$1,100 in cash for consideration of 49% of the issued and outstanding shares of Petroland.

Concurrently with these acquisitions, Estrella also acquired an option to purchase the remaining 51% of the shares of Petroland.

On February 23, 2012, the Company announced that it had elected not to proceed with the acquisition of the remaining 51% of the shares of Petroland due to the inability of the sellers to satisfy certain key conditions precedent to closing.

The Company currently holds 49% of the outstanding shares of Petroland.

25. Zigma acquisition

In March 2011, the Company completed the acquisition of 49% of the issued and outstanding shares of Zigma, a drilling and workover rig company with operations in Colombia. In consideration for 49% of the shares of Zigma, the Company paid \$4,312 in cash.

Concurrently with this acquisition, Estrella also acquired an option to purchase the remaining 51% of the shares of the company. In September, 2011, the Company renegotiated the final business terms to complete the acquisition of 100% of the issued and outstanding shares. Conditions of the referred negotiation were a payment in cash of \$500, issuance of 3,125,000 common shares, issuance of 750,000 Series B preferred shares, assignment of net receivables of Zigma to the sellers and assumption of debt. As described in note 33, the acquisition of the remaining 51% interest in Zigma was completed in February 2012.

The acquisition of Zigma, a company with a reemerging presence in the Llanos basing, added five rigs to Estrella's fleet, with two of this rigs on overhaul to ensure that are fully compliant with the Company's operational standards on a go forward basis, and the other three rigs sold in 2012.

Estrella has had effective operating control of Zigma as of September 2011. Earnings of Zigma were included in the Company's consolidated financial statements of the Company for the period from when control was acquired.

Although the remaining 51% shares were not legally transferred until after year-end, the Company has been entitled to 100% of the earnings of Zigma since September 30, 2011. Zigma has not earned any revenue since acquisition.

The purchase price for 100% of the shares of Zigma has been allocated as follows:

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25. Zigma acquisition (con't)

	September 30, 2011
Cash	\$ 60
Account receivable**	3,212
Property, Plant and Equipment	7,731
Debt	(4,400)
Accounts payable	(4,401)
Other accounts payable	(430)
Deferred income taxes	(90)
Identified net assets acquired	\$ 1,682
Cash*	\$ 4,812
Common shares	812
Preferred shares	750
Consideration paid	\$ 6,374

Equity pick up and re-measurement of non-controlling participation	\$ (1,188)
Net unallocated purchase price	\$ 3,504

*Includes \$500 paid in cash on February 23, 2012

**Represents gross contractual receivables which are expected to be fully collected

Identified net assets acquired	\$ (1,682)
Equity pick up and re-measurement of non-controlling participation	(1,188)
Consideration paid	6,374
Net unallocated purchase price	\$ 3,504

Notes to the Consolidated Financial Statements

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26. Joint Venture - GeoEstrella

As a result of the joint venture of the Company and GeoEstrella the Company's share of the carrying value as of December 31, 2011 was as follows:

	December 31, 2011
Cash	\$ 536
Receivables	1,295
Inventories	23
Property, plant and equipment, net	47
Accounts payable and accrued	(2,734)
Total assets and liabilities	\$ (833)
Revenue – Oilfield services	\$ 5,147
Expenses – Oilfield services	(5,982)
Administrative expenses	(284)
Foreign exchange gain	96
Deferred taxes	190
Total Loss	\$ 833

27. Intangible

On November 30, 2010, Estrella completed the 100% acquisition of EColombia (formerly STS de los Andes S.A.), a Colombian service company. The acquisition of EColombia was effective on November 30, 2010.

At the time of the acquisition, EColombia had long term contracts for its 5 rigs with 2 longstanding relationship customers. The value of these long term contracts had been estimated at \$7,208 and was reported as intangible assets in the Company's year-end 2010 balance sheet. The value of these intangible assets had been amortized over three years by the straight-line method.

As of December 31, 2011, and in line with IFRS accounting standards, loss equivalent to the full unamortized book value of the intangible (\$4,642) was recorded due to the events described in note 23.

There is no intangible balance as of December 31, 2011.

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28. Goodwill and unallocated purchase price

Goodwill STS acquisition	\$ 7,793
Balance as at December 31, 2010	\$ 7,793
Foreign exchange movement	\$ 32
Impairment	(200)
Unallocated Purchase Price Zigma	3,504
Balance as at December 31, 2011	\$ 11,129

EColombia Goodwill

On November 30, 2010, Estrella completed the 100% acquisition of EColombia (formerly STS de los Andes), a Colombian service company operating five rigs. The acquisition effective on November 30, 2010, brings five work-over rigs into Estrella's fleet, all based in Barranca Bermeja, Colombia. The fleet consists of rigs with horsepower ratings between 250 and 550 HP. Four of the five rigs were on term contracts.

The purchase price of the acquisition included \$14,250 in cash and 4,750 Series A Preference Shares valued at a \$1 each for total consideration of \$19,000. Consideration includes \$750 of contingent payments.

Goodwill of \$ 7,793 was registered as of December 31, 2010 in connection with EColombia acquisition. As described in note 23, in December 2011 an impairment test was performed and an adjustment of the goodwill of \$200 was recorded. As of December 31, 2011 the value of this goodwill is \$7,625 including other income of \$31.

ZIGMA Goodwill

As described in note 25 the Company completed the acquisition of Zigma. As the Company is still finalizing its valuations, there is an unallocated amount of \$3,504 on the purchase price allocation.

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29. Related party transactions

Except as disclosed in below, no director, executive officer or principal shareholder of Estrella, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the preceding year or in any proposed transaction that has materially affected or will materially affect Estrella.

- **LCL Consulting Limited (“LCL”)**

LCL, a company that is beneficially owned by the President and Chief Executive Officer of Estrella, has contracts with Estrella subsidiaries to provide technical services and compensation to certain Estrella employees and third party consultants who work internationally or in multiple regions. The President and Chief Executive Officer does not realize any direct or indirect benefit from LCL.

For providing these services, LCL is paid the cost plus expenses and withholdings taxes, if any. The services provided by LCL were ended as of December 31, 2011.

During the year ended December 31, 2011, there was a total of \$3,088 (\$ 1,881 in 2010) invoiced by LCL to Estrella.

- **Estrella Management Group Limited**

On July 22, 2010 Estrella Management Group Limited (“EMGL”), a Company owned by some employees of Estrella, sold and transferred to EOL its rights, interest and obligations in an agreement between EMGL, Perm Technologies Limited and Fundamental Technologies International for a cash consideration of \$300,000.

- **B Group LLC**

B Group LLC, a company controlled by Bryan Kornegay, had been retained to provide financial advisory and capital raising services to Estrella. For providing these services, B Group LLC was paid an annual fee of \$200,000 and 2% finder’s fee on capital raised by B Group LLC. As of December 31, 2009, Mr. Kornegay was formally appointed as CFO of the Company and received a salary for his position, which was paid through B Group. Mr Kornegay was replaced by Mr Bauwens as CFO as of August 15, 2010. He also resigned as a director at that time.

- **Geoestrella**

Estrella International Energy Services Ltd. has directly and indirectly 50% ownership of the outstanding shares of GeoEstrella S.A. (“GeoEstrella”).

During 2011 EChile invoiced Geoestrella, a total amount of \$ 7,151. These transactions were related to the rent of one rig and personnel costs, which supported the operation of the joint venture. As at December 31, 2011, there was an outstanding amount of \$ 2,094 included in account receivables.

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

29. Related party transactions (con't)

- **Petroland SAS**

Estrella owns 49% of Petroland SAS. The total invoiced amount to this company during the year was 1,219 related to equipment rental to support daily operations. As of December 31, 2011 all the previously mentioned invoiced amounts were outstanding. During 2011, Petroland SAS invoiced Estrella a total amount of \$124, which consisted of recovery of expenses incurred by Petroland on behalf of Estrella. As of December 31, 2011, these amounts were payable to Petroland.

- **Petroland UT**

Petroland UT is a joint venture owned by certain shareholders of Petroland SAS. This company was the owner of the rigs that were transferred to Petroland SAS as part of the purchase agreement. During 2011 Estrella invoiced Petroland UT \$ 1,350, which consisted of equipment rental to support the daily operations and a recovery of expenses. During 2011, Petroland UT invoiced Estrella a total amount of \$420 which consisted of a recovery of expenses.

As at December 31, 2011 there are balances outstanding from Petroland SAS and Petroland UT in the amount of \$ 1,271 for Petroland SAS and \$ 1,031 for Petroland UT.

On February 23, 2012 Estrella announced that it had elected not to close on the acquisition of the remaining 51% of Petroland S.A.S. Estrella remains in discussions with the other shareholders of Petroland with respect to the future direction of Petroland. Estrella holds 49% of the shares of Petroland.

30. Main customer invoicing

The top three customers represent 60% of the revenues for the year ended December 31, 2011 with the largest customer representing 29%. The top three customers represented 74% of 2010 revenues with the largest customer representing 40%. This revenue is included in the geographic segments of Argentina, Bolivia, Chile, Colombia and Peru. (2010 – Argentina, Chile and Peru).

Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

31. Segmented information

- (a) Operating segment - The Company has only one operating segment, which is engaged in providing services to the petroleum, mining and geothermal sectors.
- (b) Geographic segments - The Company's assets, revenues and expenses by geographic areas for the years ended December 31, 2011 and 2010 are as follows:

	Argentina	Bolivia	Chile	Colombia	Peru	BVI	Canada	Total
Property, plant and equipment								
Balance as at December 31, 2010 (net)	\$ 19,285	\$ 492	\$ 1,992	\$ 8,771	\$ 5,014	\$ 37,059	\$ -	\$ 72,613
Balance as at December 31, 2011 (net)	\$ 14,812	\$ 1,195	\$ 2,559	\$ 17,182	\$ 6,117	\$ 33,560	\$ -	\$ 75,425
Restricted Cash								
Balance as at December 31, 2010	\$ -	\$ -	\$ -	\$ -	\$ 1,473	\$ 663	\$ -	\$ 2,136
Balance as at December 31, 2011	\$ -	\$ -	\$ -	\$ -	\$ 49	\$ 2,326	\$ -	\$ 2,375
Intangible assets								
Balance as at December 31, 2010 (net)	\$ -	\$ -	\$ -	\$ 7,036	\$ -	\$ -	\$ -	\$ 7,036
Balance as at December 31, 2011 (net)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Goodwill and unallocated purchase price								
Balance as at December 31, 2010	\$ -	\$ -	\$ -	\$ 7,793	\$ -	\$ -	\$ -	\$ 7,793
Balance as at December 31, 2011	\$ -	\$ -	\$ -	\$ 11,129	\$ -	\$ -	\$ -	\$ 11,129
Investment in associates								
Balance as at December 31, 2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance as at December 31, 2011	\$ -	\$ -	\$ -	\$ 638	\$ -	\$ -	\$ -	\$ 638
Impairment losses								
Balance as at December 31, 2010 (net)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance as at December 31, 2011 (net)	\$ 852	\$ -	\$ -	\$ 4,842	\$ -	\$ -	\$ -	\$ 5,694
Revenue								
Revenue for the year ended December 31, 2010	\$ 20,987	\$ -	\$ 10,375	\$ 1,450	\$ 315	\$ 450	\$ -	\$ 33,577
Revenue for the year ended December 31, 2011	\$ 20,391	\$ 4,480	\$ 12,394	\$ 18,612	\$ 2,743	\$ 165	\$ -	\$ 58,785

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Notes to the Consolidated Financial Statements

December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

32. Key Management Compensation

The compensation of the Chief Executive Officer, Chief Financial Officer and the directors of the Company that are not members of management is included in the summary table below:

	December 31, 2011	December 31, 2010
Salaries and short term employee benefits	\$ 757	\$ 810
Total	\$ 757	\$ 810

33. Subsequent Events

On February 23, 2012, the Company announced that it had completed the acquisition of the remaining 51% interest in Zigma to hold 100% of the issued and outstanding shares of Zigma. The purchase price was satisfied as follows:

- Payment of \$500 in cash
- The assignment of \$2,450 in net receivables of Zigma to the sellers
- The assumption of approximately \$4,000 in debt

In addition, the company has also reserved up to 3,125,000 common shares and up to 750,000 Class B Preference Shares for issuance to the Sellers. These shares are being reserved by Estrella as security for outstanding contingencies of Zigma. Class B preference Shares will be entitled to a 6% cumulative dividend, if and when declared by the Board, payable semi-annually. Estrella may, at its sole option, elect to convert the preference shares into common shares, in the event that the 20 consecutive trading day closing price of the common shares of Estrella is greater than or equal to US\$1.00. The conversion rate shall be 1 common share of the Company for each preference share. The preference shares will be automatically convertible into common shares on the fifth anniversary of the date of issuance.

On the same date, the Company also announced that it had elected not to close on the acquisition of the remaining 51% of Petroland S.A.S. due to the inability of the sellers to satisfy certain key conditions precedent to closing. Estrella remains in discussions with the other shareholders of Petroland with respect to the future direction of Petroland. Estrella holds 49% of the shares of Petroland.

At March 30, 2012, the Company was in violation of its covenants for which they received a waiver (Note 14).

In March 2012, the Company reached a final agreement with its insurers on the damage amount to be refunded for the technical incident which impacted Rig 1201 in Chile in October 2011(see note 20). On April 13, 2012, a refund of approximately \$1,225 was paid to Estrella.

Notes to the Consolidated Financial Statements December 31, 2011 and 2010

(U.S. dollars in thousands, except per share data, shares and where noted)

34. Comparative Figures

Certain prior period balances have been reclassified for presentation purposes, with no impact on net income

APPENDIX D

MD&A FOR THE YEAR ENDED DECEMBER 31, 2011

This Management's Discussion and Analysis ("**MD&A**") for Estrella International Energy Services Ltd. (the "**Company**" or "**Estrella**") should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010. The audited consolidated financial statements have been prepared in accordance with international financial reporting standards ("**IFRS**"). All financial measures presented in this MD&A are expressed in United States dollars unless otherwise indicated. This MD&A is dated April 27, 2012.

All amounts are stated in thousands, except per share amounts, unless otherwise identified.

Overall Performance

During the year ended December 31, 2011, the Company was moving through a major transitional phase, completing final stages of the acquisition of Zigma Petroleum Services S.A. ("**Zigma**") and its 49% investment in Petroland S.A.S. ("**Petroland**") both located in Colombia, as well as consolidating its overall operational footprint. In addition, significant effort continued through the year to bring the rigs located in Colombia that it acquired in connection with its acquisition of Estrella Petrolera de Colombia S.A.S. ("**EColombia**") up to Estrella standards. *

Management is looking to expand the financial contribution of the Company's directional drilling and consulting services, improving the Company's financial performance and also reducing the corporate SG&A. Management is also focused on negotiating contract extensions and price increases for its current rig fleet. Management's goals for 2012 are to have over 80% of its rig fleet on term contracts and to have disposed of underperforming assets to ensure that the Company is well positioned for future growth.

Management has provided a summary on the following seven areas for shareholders to measure performance: 1) rig utilization rate; 2) revenue from rig operations and services; 3) revenues from consulting services; 4) cash flow from operating activities; 5) gross margins; 6) general and administrative expenses; and 7) rig safety. In presenting the results for each of these categories going forward, management believes shareholders should gain a clearer understanding of the management of the Company and its performance:

Category	Results for the year ended December 31, 2011	Explanation
Rig Utilization	78% (94% in 2010)	Rig utilization for the year was down due to the following factors: Overhaul of rigs acquired in connection with acquisitions of STS in Q4 2010 and Zigma in 2011. Rig 551, located in Argentina, came off contract in August 2011. It recommenced operations with new customer in November 2011. Rig 552, located in Peru, completed only periodic operations during the year. Rig 1201, located in Chile, was in a standby period between contracts for a portion of the year.
Revenue from Rig Operations and Services	\$56,519 (\$31,291 in 2010)	Revenues from rig operations were up by 81% compared to 2010. The increase in revenues is principally due to the start of Estrella's operations in Bolivia, the consolidation of the Company's operations in Colombia and strong directional service activity in Chile.

* In October 13 2011, STS de los Andes S.A.S. ("STS"), a company acquired by Estrella in November 2010 merged with Estrella Petrolera de Colombia S.A.S. and the new combined entity became Estrella Petrolera de Colombia ("EColombia").

Category	Results for the year ended December 31, 2011	Explanation
Revenue from Consulting Services	\$2,266 (\$2,286 in 2010)	Revenue from consulting services stayed flat in 2011 as compared to 2010. The Company continued to perform consulting projects that were started in previous years. In addition a new consulting contract was signed and commenced in the last quarter of 2011 with additional contracts signed in early 2012.
Cash flow from Operating Activities	\$-17,882 (\$1,070 in 2010)	Cash flow from operations was negatively impacted by the increased operational expenses, lower rig utilization rate experienced during the year as well as a temporary increase in accounts receivable and tax receivable.
Gross Margin (Revenues minus oilfield expenses as a percentage of revenues)	20% (32% in 2010)	The lower gross margin was principally impacted by the lower rig utilization levels leading to lower revenues which were not fully offset by a corresponding decrease in oilfield services expenses.
General and Administrative Expenses	\$13,241 (\$6,834 in 2010)	The increase is principally driven by the incorporation of expenses attributable to the full year consolidation of EColombia, costs related to the acquisition of Zigma, costs associated with the investment in Petroland, labor cost inflation in Argentina and the acquisition and operation of Rigs 552 in the last quarter of 2010 and 1001 in 2011.
Rig Safety (accidents of all kinds per million hours worked)	17 (22 in 2010)	The Company did suffer one severe incident in Bolivia with a fatality on Rig 1001. The investigations performed by Estrella, the client and the authorities in Bolivia all concurred that the accident was caused by a tragic imprudent act by the deceased. The customer commended Estrella's timely response, thorough investigation and support of the family and co workers of the deceased.

Management is focused on optimizing the items above, together with other cost control measures, as it believes these will drive revenue growth, cash flow generation and shareholder value.

During the year ended December 31, 2011, the Company recorded a net loss of \$29,971 (net profit \$2,853 in 2010) or -\$0.2447 per common share (\$0.0467 in 2010). During the year ended December 31, 2011, the Company recorded revenues from operations and services of \$58,785 (\$33,577 in 2010).

The revenue for the year ended December 31, 2011 was offset by general and administrative expenses of \$13,241 (\$6,834 in 2010), depreciation of \$13,188 (\$7,486 in 2010), interest expense of \$6,798 (\$1,938 in 2010) and oilfield expenses of \$46,739 (\$22,989 in 2010). For the year ended December 31, 2011, the Company also recorded other losses of \$1,809 (income of \$10,903 during 2010). The income in 2010 was due primarily to the conversion of a long term debt into equity.

The general and administrative expenses included expenses attributable to the full year consolidation of EColombia, and one-time costs related to the acquisition of Zigma, investment in Petroland and the acquisition and starting of operations of Rigs 552 in last quarter of 2010 and 1001 in 2011. In Argentina, the Company's operations continue to be challenged due to the rapid pace of inflation, in many cases, outstripping the pace at which market pricing is increasing. The Company is focused on making substantial reductions on overall SG&A as a function of revenues.

During the year ended December 31, 2011 Estrella raised approximately CDN\$35,000 (CDN\$73,500 in 2010) from new capital raise activities, this includes approximately CDN\$15,000 raised in connection with the issuance of convertible debentures and approximately CDN\$20,000 from a public offering of common shares. The net

proceeds of these capital raising activities were used in part to finance the acquisition of 49% of the shares of Petroland and 100% of the shares of Zigma, as well as for working capital purposes.

The Company is also focused on reducing the overall indebtedness of the business. In November 2011, \$2,000 was prepaid early on the Credit Suisse senior debt facility, with a further \$1,700 paid as part of normal amortization in Feb of 2012.

Consolidated Statements of Operations and Other Comprehensive Income

(U.S. dollars in thousands except shares and per share data)	For the Years Ended December 31,	
	<u>2011</u>	<u>2010</u>
Revenue		
Oilfield services	\$ 58,785	\$ 33,577
Expenses		
Oilfield services	46,739	22,989
Depreciation of property plant and equipment	10,641	7,314
Amortization of intangible asset	2,547	172
Administrative expenses	13,241	6,834
Stock based compensation	821	-
Loss from associates	2,467	-
Interest and financial expenses, net	6,798	1,938
Other (income) expenses, net	1,809	(10,903)
Impairment	5,694	-
Foreign exchange loss	272	455
Earning (loss) before income taxes	(32,244)	4,778
Income taxes (recovery)	(2,273)	1,925
Net income (loss)	\$ (29,971)	\$ 2,853
Other comprehensive income		
Currency translation reserve	(422)	502
Comprehensive income (loss)	\$ (30,393)	\$ 3,355
Net Income (loss) per share for loss attributable to the equity holders of the group during the year:		
Basic	\$ (0.2483)	\$ 0.0467
Fully Diluted	\$ (0.2483)	\$ 0.0465
Weighted average shares outstanding:		
Basic	123,265,519	60,403,811
Fully Diluted	-	61,299,861

Discussion of Operations

Revenue *

For the year ended December 31, 2011 compared to the year ended December 30, 2010, Estrella's revenue increased by 75% to \$58,785 (\$33,577 in 2010).

The increase in revenues year over year was primarily driven by strong revenue growth for all of the Company's rigs and service business, and the consolidation its operations in Columbia. Revenues from the Argentina located rigs increased significantly for the year due to a combination of renegotiated terms and inflationary adjustments.

For the quarter ended December 31, 2011 compared to the quarter ended December 31, 2010, revenues increased by 91% to \$16,384 (\$8,586 in 2010).

Source of Revenue in US\$000			For the Year Ended December 31			For the Quarter Ended December 31			Explanation of annual revenue variances for
			2011	2010	Diff.	2011	2010	Diff.	
Rigs	551	Argentina	6,777	9,501	-2,724	637	2522	-1885	551 completed a 3 year 8 month contract in August 2011 and was put into periodic maintenance before starting another project in late Nov.2011
	101	Argentina	2,979	2,281	698	729	640	89	Better net utilization of the rig was seen in 2011, and inflation impact on pricing.
	102	Argentina	2,921	2,415	506	696	605	91	Better net utilization of the rig was seen in 2011, and inflation impact on pricing.
	103	Argentina	3,692	3,202	490	885	721	164	Inflation impacts on pricing.
	1201	Chile	5,828	7,025	-1,197	1,371	482	889	Lower year revenues due to standby rate between contracts
	351	Peru	807	-	807	348	-	348	Rig was purchased in 2010 and started operations after an extensive refit in 2011.
	552	Peru	1,718	115	1,603	283	115	168	Arrived in Peru in late 2010.
	1001	Bolivia	4,480	-	4,480	2,045	-	2045	Rig was purchased in 2011 and started operations after arriving in Bolivia in June 2011.
	STS1	Colombia	-	-	-	-	-	-	Rig sold in 2012.
	STS2	Colombia	4,597	444	4,153	1,111	444	667	Consolidated one month in 2010
	STS3	Colombia	2,792	520	2,272	738	520	218	Consolidated one month in 2010
	STS4	Colombia	3,673	486	3,187	1,087	486	601	Consolidated one month in 2010
	STS5	Colombia	4,549	-	4,549	1,291	-	1,291	Consolidated one month in 2010
	STS6	Colombia	1,935	-	1,935	1,069	-	1,069	Started operations in July 2011.
	STS7	Colombia	1,053	-	1,053	970	-	970	Started operations in Sept. 2011.
	553	Colombia	-	-	-	-	-	-	In refit in 2011.
	Z3	Colombia	-	-	-	-	-	-	Rig sold in 2012.
	1002	Colombia	-	-	-	-	-	-	In refit in 2011.
	Z5	Colombia	-	-	-	-	-	-	Rig sold in 2012.
	Z6	Colombia	-	-	-	-	-	-	Rig sold in 2012.
Services	Neuquen	Argentina	1,531	1,334	197	177	545	-368	Fourth quarter saw slower service revenues but the year was slightly stronger.
	Comodoro	Argentina	621	611	10	81	227	-146	Fourth quarter saw slower service revenues due to labour disputes, but overall the year was slightly stronger.
	P. Arenas	Chile	6,566	3,357	3,209	2,473	878	1,595	Strong directional revenues drove growth, in particular the entry into the geothermal market.
Other	Consulting/others		2,266	2,286	-20	393	401	-8	Flat revenues through the year.
TOTAL			58,785	33,577	25,208	16,384	8,586	7,798	

* During the third quarter of 2011 (Q3), the Company presented approximately \$1.1 million dollars as part of our consolidated revenue which related to Petroland. Subsequent to Q3, it was determined that the expected effective control of Petroland did not take place during the year, and consequently any amounts relating to Petroland should not have been consolidated in the financial statements and MD&A. Accordingly,

we have removed this revenue from the respective totals that they were previously presented in Q3. Petroland is now accounted for as an equity accounted investment in which we own 49%.

Rig Utilization

Rig utilization is calculated as follows:

The total number of day that a rig is on contract, subtracting 20% of the time the rig is on Force Majuere rate and the time the rig is not generating revenue (off contract or on zero rate) divided by the total amount of time a rig is available to be contracted.

$$\frac{\text{Actual Operating Hours} - \text{No Revenue Hours} - 20\% \text{ of Major Force hours}}{\text{Total Available Hours}}$$

Rig utilization for the year ended December 31, 2011 for Estrella's wholly owned rigs was 78% (94% in 2010). Rig utilization for the year ended December 31, 2011, for all other rigs for which Estrella has an interest was 80% (n/a in 2010).

The utilization rate of the Company's wholly owned rigs in Colombia was impacted by the program instituted by the Company to overhaul the rigs it acquired in connection with its acquisition of EColombia in Q4 2010 and from Zigma in 2011. This overhaul was done to ensure that these rigs are fully compliant with the Company's operational standards on a go forward basis. This program is close to being finalized and should be completed in the second quarter of 2012.

Rig utilization for Estrella's wholly owned rigs for the quarter ended December 31, 2011 was 83% (83% in 2010). Rig utilization for the quarter ended December 31, 2011 for all other rigs for which Estrella has an interest was 69% (n/a in 2010).

Rig utilization from Consolidated Entities: *

<u>Quarter</u>	<u>Utilization Rate</u>	<u>Rigs available for utilization</u>	<u>Rigs removed from service</u>	<u>Fleet size</u>
Q1 2010	98%	5.0	-	5.0
Q2 2010	99%	5.0	-	5.0
Q3 2010	97%	5.0	-	5.0
Q4 2010	83%	11.0	-	11.0
Q1 2011	78%	10.3	1.7	12.0
Q2 2011	82%	11.3	1.0	12.7
Q3 2011	69%	12.7	1.0	13.7
Q4 2011	83%	14.0	6.0	20.0

* Rigs on sold or on refit are not considered as available for utilization.

Rig utilization from Unconsolidated Entities:

Quarter	Utilization Rate
Q1 2010	n/a
Q2 2010	n/a
Q3 2010	n/a
Q4 2010	n/a
Q1 2011	98%
Q2 2011	82%
Q3 2011	83%
Q4 2011	69%

Rig Updates:

Rig Name	Discussion
551	Located in Argentina, came off contract in August 2011 after operating for 3 years and 8 months in the same field. The rig awarded a new contract and recommenced operations in November 2011.
101	Located and operating in Argentina, this rig had its contract extended for one year.
102	Located and operating in Argentina, this rig had its contract extended for one year.
103	Located and operating in Argentina, this rig had their contracts extended for eighteen months.
1201	Located and operating in Chile, lower revenue in 2011 due to standby rate between contracts.
351	Located in Peru, Rig 351 was awarded a one year contract in Talara, Peru.
552	Located in Peru, Rig 552 was mobilized back out of the central Peruvian jungle to restart operations in the Talara region, and completed only periodic operations during the quarter. The rig is currently being marketed in Colombia.
1001	Located and operating in Bolivia, this rig continues operations.
STS 2 STS 3 STS 4 STS 5 STS 6 STS 7	Located in Colombia, these rigs completed the quarter with normal utilization rates, however a strike between the community and Ecopetrol (the state run oil company) in the Barranca Bermeja area of Colombia impacted 6 of Estrella's rigs operating in the region. All These rigs were shut down. The Company estimates to have all these rigs operating for the mid second quarter 2012.
553	Located in Colombia, refit finished in March 2012.
1002	Located in Colombia, rig in refit.
STS 1 Z3 Z5 Z6	Located in Colombia, sold in 2012.

Oilfield Services Expenses

Oilfield services expenses include operating salary and labour costs, fuel, rent, maintenance , working clothes, technical services, materials inspections, safety inspections, small tools and supplies, lubricants, electrical components, hardware store, steel and piping, consumable spares, welding equipment, transportation of personnel and materials, transportation of rigs between locations, maintenance expenses, equipment rentals and operative vehicle rentals amongst others.

For the year ended December 31, 2011 Oilfield services expenses were \$46,700 (\$23,000 in 2010); this represents 80% of total revenues (68% in 2010). For the quarter ended December 31, 2011, Oilfield services expenses were \$15,200 (\$7,700 in 2010); this represents 93% of total revenues (90% in 2010).

The increase in Oilfield services expenses year over year and on a quarterly basis is principally driven by expenses attributable to: i) the consolidation of Estrella's Colombian operations; ii) Rig 351 refitted and returned to operations in late 2010 and iii) the incorporation of Rigs 552 and 1001 into the Company's rig fleet in 2011.

The increase as a percentage of revenue was principally driven by the lower rig fleet utilization as the resulting lower revenues were not fully offset by a corresponding decrease in services expenses due to the inability of adjusting costs immediately.

Administrative Expenses

Administrative expenses include expenses that are not associated with a specific function as other direct costs mentioned herein, as well as salaries of non-operating staff and head office management. These expenses also include communications, accounting, legal and other professional fees, advertising, sales and marketing expenses, special projects, travel expenses, turnover tax and other non-income taxes, corporate and other office expenses, and other general expenses.

For year ended December 31, 2011 administrative expenses were \$13,200 (\$6,800 in 2010), this represents a 94% increase compared to 2010. Administrative expenses for the year ended December 31, 2011, as a percentage of revenues were 23% (20% in 2010). Additionally, included in the administrative expenses for the year ended December 31, 2011, is a non-cash one time expense of \$821 (\$0 in 2010), relating to the issuance of stock options to certain employees, executives, directors and consultants.

The increase in administrative expenses was driven by the following factors: i) costs associated with the acquisition of a 49% interest in Petroland and a 100% interest in Zigma; ii) costs associated with the integration of the operations of EColombia and Zigma into the operations of the Company; and iii) labour cost inflation in Argentina. Approximately \$2,000 of this expenses are one-time expenses related to some of the factors mentioned above.

For the quarter ended December 31, 2011 administrative expenses were \$2,800 (\$2,800 in 2010). Administrative expenses for the quarter ended December 31, 2011 as a percentage of revenues decreased to 18% (33% in 2010).

Depreciation Expense

For the year ended December 31, depreciation expense increased by 75% to \$13,100 (\$7,500 in 2010). The additional depreciation expense is attributable to amortization of assets acquired in Q4 2010 (Rigs STS 1, 2, 3, 4, 5, Rig 351, Rig 552) and in 2011 (Rig 1001, Zigma Rig 553 and Zigma Rig 1002).

For the quarter ended December 31, 2011, Estrella's depreciation expense increased by 110% to \$4,200 (\$2,000 in 2010) for the same reasons mentioned above.

Included in depreciation expense is the intangible depreciation for an amount of \$2,547. At the time of acquisition, EColombia had long term contracts for 5 rigs with 2 longstanding relationship customers. The value of these long

term contracts was reported as intangible assets in the Company's year-end 2010 balance sheet. Due to the labour unrest and community demonstrations in the Barranca Bermeja region of Colombia in January 2012, and the affect these had on the Company's contractual situation, a loss equivalent to the full unamortized book value of these intangible assets as of December 31, 2011 was recorded, in accordance with IFRS accounting standards.

Interest and Financial Expenses

For the year ended December 31, 2011 interest and financial expenses increased to \$6,800 (\$1,900 in 2010). For the quarter ended December 31, 2011 interest and financial expenses decrease by 25% to \$900 (\$1,200 in 2010).

This fluctuation is a direct result of the interest expense related to the \$32,000 credit facility closed with Credit Suisse on November 30, 2010 and the CDN\$15,400 of convertible debentures issued in January 2011, as well as the additional debt assumed as part of the Zigma acquisition.

Other (Income)/ Expenses

For the year ended December 31, 2011, other (income)/expense was \$1,800 (-\$10,900 in 2010). A onetime gain of \$11,292 is included in the 2010 number and is attributable to the conversion of approximately \$46,000 of financial debt into 36 million of common shares on March 3, 2010. Excluding this onetime gain, other (income)/expense was \$389 in 2010. For the year ended December 2011, the Company realized a loss of \$1,100 from a rig accident in Chile and \$480 related to the start up cost of Bolivia activities.

For the quarter ended December 31, 2011, other (income)/ expense was \$2,200 (\$100 in 2010). These figures represented 13% and 1% of revenue in 2011 and 2010, respectively.

Impairment

The Company performs an impairment test of tangible and intangible assets on an annual basis or when events or changes in the economic environment indicate that those might be impaired.

The impairment tests performed as of December 31, 2011 led to the Company's decision to impair the following assets:

On November 30, 2010, Estrella completed the acquisition of 100% of EColombia. At the time of the acquisition, EColombia had long term contracts with 2 longstanding customers in the Barranca Bermeja region of Colombia. The value of these long term contracts had been estimated at \$7,208 and was reported as intangible assets in the Company's year-end 2010 balance sheet. The value net of amortization as of December 31, 2011 was \$4,642.

In December 2011, labour unrest and community demonstrations in the Barranca Bermeja region of Colombia impacted all of the Company's rigs operating in the area. As a result, a loss equivalent to the full book value of its intangible assets was recorded as of December 31, 2011 in accordance IFRS. This represented a loss before income tax of \$4,642.

The Company has assets which are used to perform minor worker services at its base in the southern part of Argentina (Comodoro Rivadavia). These assets are included in the rental tools and equipment column in note 11 of the financial statements.

The Companies service business at the Comodoro base is not expected to generate positive returns in the predictable future. As a result, the Company decided to impair the full book value of these assets. This negatively impacted the Company's pre tax income during the year 2011 in the amount of \$852.

One of the rigs acquired with the purchase of EColombia was sold in February 2012. \$200 of a portion of the goodwill allocated to this cash-generating unit was recorded as an impairment loss as of December 31, 2011.

Estrella Overview

Operating Locations and Update

The Company is headquartered and administered from Buenos Aires, and has extensive operations and sales locations around Latin America.

Country	Location	Type	Year Opened
Argentina	Buenos Aires	Headquarters	2005
	Comodoro Rivadavia	Operations Base	2005
	Neuquen	Operations Base	2006
	ECN	Storage Depot	2007
Chile	Punta Arenas	Operations Base	2005
	Santiago	Sales Office	2009
	Calama	Operations Center	2009
Peru	Lima	Sales Office	2008
	Los Altos, Talara	Operations Base	2010
Colombia	Bogota	Sales Office and Operations Base	2010
	Yopal	Operations Base	2010
	Barranca Bermeja	Operations Base	2010
Bolivia	Santa Cruz de la Sierra	Operations Center	2010

Rig Utilization

As of December 31, 2011, Estrella operates a fleet of 16 rigs (in addition the Company has 4 older rigs that have been sold in 2012), ranging in size from 350 HP through to 1200 HP. As of December 31, 2011, fourteen of the sixteen available rigs were operating on contract.

In addition, Estrella has a 49% interest in Petroland, which has 7 Rigs.

Services and Consulting

Estrella saw regular directional drilling activity in Argentina and Chile during the year ended December 31, 2011. Notably, the Company began operating high temperature directional and “*measurement while drilling*” (“**MWD**”) equipment for a geothermal operator in Chile.

The long term consulting contract to which the Company is a party to, in respect of the PRC potash solution mine in Argentina, was extended to include the supervision of the fabrication and delivery of two additional drilling rigs. The Company added a new contract with Arpetrol Ltd. to assist them with their preparations to start drilling in late 2011 in Argentina. Additionally, letters of intent have been signed with two other customers who expect to begin operations in 2012.

Key Events

In November, 2010, Estrella completed the planned acquisition of STS de los Andes S.A.S., which was subsequently merged with Estrella Petrolera de Colombia S.A.S. and maintained that name (EColombia), a Colombian rig operator which added 5 rigs to Estrella's fleet, all located in Colombia. The acquisition of EColombia gave Estrella an operational presence in the Barranca Bermejo region. Estrella subsequently opened an administrative office in Bogota. In 2011, the Company added two new rigs into the fleet, rigs STS 6 and STS 7.

In March 2011, the Company completed the acquisition of 49% of the issued and outstanding shares of each Petroland SAS and Zigma Petroleum Services S.A., two drilling and workover rig companies with operations in Colombia. As at December 31, 2011, approximately \$5,400 had been paid in connection with these acquisitions.

Concurrently with these acquisitions, Estrella also acquired an option to purchase the remaining 51% of the shares of each company.

In February 2012, the Company announced that it had elected not to proceed with the acquisition of the remaining 51% of the shares of Petroland due to the inability of the sellers to satisfy certain key conditions precedent to closing.

The Company also announced that it had completed the acquisition of the remaining 51% interest in Zigma for a purchase price of \$500 in cash, the assignment of \$2,450 in net receivables of Zigma to the sellers and the assumption of approximately \$4,000 in debt.

Estrella continues to hold 49% of the shares of Petroland.

With the addition of Zigma, the rig count under Estrella management will be divided in the following manner:

Argentina - 4

Chile - 1

Bolivia - 1

Colombia – 12 (4 sold in 2012)

Peru – 2

On October 12, 2011 the Company announced a strategic agreement with Scientific Drilling International (“SDI”), from of California, USA. SDI is the largest independent provider of gyro, MWD and directional services. The exclusive agreement will see SDI provide their proprietary MWD and gyro technology to Estrella to operate in Latin and South America.

The Company did suffer one severe incident in Bolivia with a fatality on Rig 1001. The investigations performed by Estrella, the client and the authorities in Bolivia all concurred that the accident was caused by a tragic imprudent act by the deceased. The customer commended Estrella’s timely response, thorough investigation and support of the family and co-workers of the deceased. The rig has continued to operate and has had its contract recently extended for additional work.

Estrella’s Rig 1001 continues operations in Bolivia with the same client.

Estrella Petrolera de Chile S.A. has \$3,000 of VAT credit as of December 31, 2011. The Company anticipates the collection of this VAT in the second quarter of 2012 and is expected to use the proceeds to reduce indebtedness.

Market Overview[‡]

Region wide, the rig count was down 4 rigs (-1%) quarter on quarter, and up forty three rigs (12% from the same quarter last year). Quarter on quarter market decreases in Venezuela (-11) were offset by small increases in Brazil (+3) Chile (+1), Colombia (+1) Ecuador (+2) and Peru (+1).

[‡] Regional rig count data sourced from Baker Hughes Inc. (bakerhughes.com)

Argentina

Activity in Argentina continues to be challenged by union related shut downs in the south.

The shale gas and oil potential that is starting to be realized in Argentina on the back of such discoveries of YPF, Total, Apache and others is resulting in major movement in the central Neuquén basin. These discoveries are expected to fuel a substantial increase in activity levels over the medium term, but thus far have not generated any substantial increase in service activity. Strong international interest in the non conventional reserves have been somewhat dampened by a highly inflationary cost structure. Long term the reserves potential are expected to attract major investment, though this is not likely to result in significant activity increases in the short term.

On April 16, 2012, the Argentine government announced plans to expropriate and nationalise 51% of YPF, the former state oil company, which had been sold to Repsol, a Spanish firm, in 1999. The Argentine government indicated that its justification for this action was as a result of Repsol failing to invest in domestic production. It is not yet clear what effect if any this proposed action will have on the domestic production of oil or the Company's business in general.

Chile

The Chilean market continues with, small, but constant activity. Drilling activity has slowed slightly in Punta Arenas with two projects between drilling phases. The geothermal market continues to show signs of strong potential. The coming year is expected to see further growth in this market.

Peru

The active rig count in Peru stayed essentially flat quarter on quarter. Activity in northern Peru and in the offshore market stayed flat. Confidence in President Humala appears to be growing with a number of operators announcing plans to move forward into new developments. Environmental approvals appear to be moving forward for jungle development programs.

Colombia

Colombia saw activity levels stay strong this quarter. The industry continues to be concerned about signs of increasing security risk. In many cases, community relations are also causing operational delays.

Bolivia

Bolivian activity continues to be strong, with projects underway to develop both deep and shallow gas. The government has moderated the anti-foreign investment stance a great deal, and the result has been an increase in activity.

Rig Counts

Overall, rig count in Latin and South America for the three month period ended December 31, 2011 was down 1% from the previous quarter, and up over 12% from the same quarter in 2010.

Active Drilling Rig Count (average for the quarter) ^{3‡}				
	Quarter ended December 31, 2011	Quarter ended September 30, 2011	Quarter ended December 31, 2010	Quarter ended September 30, 2010
Argentina	64	64	65	78

[‡] Baker Hughes Inc. (bakerhughes.com)

Active Drilling Rig Count (average for the quarter)^{3E}				
	Quarter ended December 31, 2011	Quarter ended September 30, 2011	Quarter ended December 31, 2010	Quarter ended September 30, 2010
Chile	4 + 1 Geothermal	2 + 1 Geothermal	3+ 1 Geothermal	4 + 1 Geothermal
Peru	9	8	9	10
Colombia	71	70	53	45
Bolivia	5	7	5	8
LATAM	433	437	385	385

Summary of Quarterly Results

(U.S. dollars in thousands, except per share data – Unaudited)	<u>December 31, 2011</u>	<u>September 30, 2011</u>	<u>June 30, 2011</u>	<u>March 31, 2011</u>
Net sales	\$16,384	\$14,078	\$14,210	\$14,114
Operating income (loss)	(5,738)	(5,659)	(2,055)	(1,752)
Net income (loss)	(12,750)	(9,266)	(3,606)	(4,349)
Income (loss) per share for loss attributable to the equity holders of the group during the quarter:				
Basic	\$(0.0938)	\$(0.0645)	\$(0.0299)	\$(0.0430)
Fully Diluted	\$(0.0901)	\$(0.0625)	\$(0.0284)	\$(0.0406)
Weighted average shares outstanding:				
Basic	135,934,783	132,317,449	122,081,215	102,281,215
Fully Diluted	141,473,037	156,837,224	126,869,469	107,069,469
(U.S. dollars in thousands, except per share data – Unaudited)	<u>December 31, 2010</u>	<u>September 30, 2010</u>	<u>June 30, 2010</u>	<u>March 31, 2010</u>
Net sales	\$8,586	\$8,777	\$8,141	\$ 8,073
Operating income (loss)	(4,023)	144	367	(220)
Net income (loss)	(8,624)	(258)	374	11,361
Income (loss) per share for loss attributable to the equity holders of the group during the quarter:				
Basic	\$(0.0846)	\$ (0.0022)	\$ 0.0037	\$ 0.7574
Fully Diluted	\$(0.0843)	\$ (0.0022)	\$ 0.0037	\$ 0.7574
Weighted average shares outstanding:				
Basic	102,252,174	102,197,151	100,167,501	15,000,001
Fully Diluted	102,319,469	102,347,553	100,347,553	15,000,001

Liquidity and Capital Resources

Changes in Cash Flow

The table below summarizes cash flow information for Estrella for the year ended December 31, 2011, and December 31, 2010.

	Year ended December 31, 2011	Year ended December 31, 2010
	(\$)	(\$)
Cash Flows		
Cash Flow From Operating Activities	(17,882)	1,390
Cash Flow From Investing Activities	(13,082)	(60,119)
Cash Flow From Financing Activities	33,393	64,434
Net Increase/(Decrease) in Cash	2,429	5,705
Cash at Beginning of Year	6,320	615
Cash at End of Year	8,749	6,320

The cash flow from operating activities for the year ended December 31, 2011 was \$-17,882 (\$1,390 in 2010). This difference in cash flow is attributable to: net losses of the Company, temporary increase of account receivables, temporary increase of tax receivables and payment of interests in connection with the Credit Suisse facility described on page 16.

The cash outflow on investing activities for the year ended December 31, 2011 was \$-13,082 (\$-60,119 in 2010). The difference is attributable to: acquisition of Zigma, the acquisition of tools and maintenance capital expenditures for drilling and work-over rigs as well as investment in upgrading of Colombian rigs and rig 1001 (Bolivia).

The cash flow from financing activities for the year ended December 31, 2011 was \$33,393 (\$64,434 in 2010). The Cash flows were related to a CDN\$15,000 private placement of convertible debentures, and a CDN\$20,000 public offering of common shares.

Disclosure of Contractual Obligations

	Payments due by Period (U.S. dollars in thousands)					
Contractual Obligations	Total	2012	2013	2014	2015	2016/+
Bank Debt Obligations (principal and interest)	48,664	12,463	11,513	9,231	14,557	15,900
Finance Lease Obligations	-	-	-	-	-	-
Operating Leases	-	-	-	-	-	-
Purchase Obligations	-	-	-	-	-	-
Other Debt Obligations	7,064	5,242	792	515	515	-
Total	55,728	17,705	12,305	9,746	15,072	15,900

Assumptions

Libor interest at 0.52% for 2012-2016

Interest payment includes redemption premium to ensure 13% IRR for Credit Suisse facility.

Payment of convertible debenture interest assumed to be paid in cash.

Long-Term Debt

Credit Suisse facility

The Corporation entered into the credit agreement on November 24, 2010 with Credit Suisse (the “Lender”). In 2010, \$32,000 million of the facility was made available for drawdown (the collectively Facility) and was used to satisfy the cash portion of the purchase price of EColombia, to finance the purchase of one additional rig in Bolivia, and for working capital purposes. In connection with the Facility, Estrella issued 3,072,000 transferable common share purchase warrants (“Credit Suisse Warrants”) to the Lender. Each Credit Suisse Warrant entitles the holder to purchase 1 common share in the capital of Estrella for a purchase price of \$0.91 per share, for a period of 4 years from the date of issuance. As the fair value of the service could not be determine, the fair value of the 3,072,000 warrants issue were estimated to be approximately \$1 million using the Black Scholes methodology and the following assumptions: an expected life of 4 years, expected volatility of 63% (determined by reference to comparable companies), risk free rate 2.76%, an expected dividend yield of nil, strike price of \$0.91 and fair value of Estrella shares of \$0.74 per share.

The Facility bears an interest at a rate of LIBOR plus 8%, and is repaid quarterly with first quarterly payment on February 28, 2012. At December 31, 2011 the LIBOR rate was 8.52% (2010 – 8.30%). On the final repayment of the Facility, there is an additional payment due to ensure that the effective internal rate of return (“IRR”) of the Facility is equal to 13% over the term of the Facility. The effective interest rate on the Facility is 17.76% (2010 – 16.86%).

In connection with this facility, trusts were created to secure payment of the Facility. Estrella is the ultimate beneficiary of the trusts. The trusts receive the assets in trust and operate them as instructed by Estrella until such time as there is a default under the Facility. Upon a default the lenders can take action and have priority over the assets in trust. Once the Facility is repaid the assets revert back to Estrella. See note 11 for securities pledged against Facility.

On May 27, 2011, the Company signed an amendment agreement to the Credit Facility. This amended a number of terms of the Facility, including modification to certain covenants.

In addition, in line with the November 24, 2010 agreement requirements, Estrella agreed to pay an additional fee of approximately \$3,000 to Credit Suisse as a result of the syndication of the Facility to other investors. As a result of the revision of cash flow, the estimated future payments were revised leading to a loss of \$2,487.

As of September 30, 2011 the agreement was further amended to vary certain payment terms. The effective interest rate was modified to 17.76%. No gain or loss was recorded on the transaction. This agreement included a mandatory payment of \$2,000 of principal on November 30, 2011, a future mandatory payment of \$3,000 and the modification of other financial covenants.

As a result of the \$2,000 principal payment on November 30, 2011, the new amortization schedule was as follows as of December 31, 2011:

Due in 2012	\$ 9,750
Due in 2013	\$ 6,750
Due in 2014	\$ 6,750
Due in 2015	<u>\$ 6,750</u>
	\$30,000

Estrella failed to meet certain financial covenants with respect to the Credit Suisse credit facility during the year and at year-end. Credit Suisse has waived the violation of these covenants at every quarter and at the year end. Accordingly, the loan has been presented as long-term.

A third amendment was signed on April 27, 2012. The future mandatory payment of \$3,000 was deferred until May 30, 2012 and certain financial covenants were modified.

Convertible debentures

On January 24, 2011, the Company closed a CDN\$15,000 (\$15,456) private placement of subscription receipts (the **"January 2011 Subscription Receipts"**) underwritten by Canaccord Genuity Corp. Each January 2011 Subscription Receipt entitles the holder to receive, without payment of additional consideration or further action, one unit (**"January 2011 Unit"**) at a price of CDN\$100 per unit (the **"Offering Price"**). Each January 2011 Unit consists of: (a) CDN\$100 par value of one 5-year convertible subordinated unsecured debentures bearing a coupon interest rate of 12% per annum, payable semi-annually in arrears in cash or common shares (the **"January 2011 Convertible Debentures"**); and (b) one common share purchase warrant (the **"January 2011 Warrants"**) entitling the holder to acquire 12,500 Common Shares at CDN\$0.80 per share, exercisable for a period of 5 years from the closing date.

The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest is, at the option of debenture-holders, convertible into common shares at any time at a conversion price of CDN\$1.00 per share. The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest will be redeemable, in whole or in part, at the option of Estrella without penalty, provided that the weighted average trading price of the Common Shares, for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than CDN\$1.50 per share. Estrella may satisfy its obligation to repay the principal amount of the January 2011 Convertible Debentures on redemption or maturity, by payment in Common Shares with a price equal to 95% of the current market price of the Common Shares on the TSXV or the TSX as applicable. The proceeds of the debenture offering were partly used by Estrella for acquisition of 49% of the issued and outstanding shares of each of Petroland S.A.S. (**"Petroland"**) and Zigma.

The liability component of the January 2011 Convertible Debentures is calculated as the present value of the principal amount, discounted at a rate of 21%, which is equivalent to what reasonably would have been charged for a similar interest bearing instrument without the conversion feature or warrants. Each January 2011 Convertible Debenture is accreted to its face value over the life of the instrument, by charges to interest and financial expenses. The effective interest rate on the convertible debenture is 23.2%.

The difference between the face value of each January 2011 Convertible Debenture and the fair value of the liability is allocated between the warrants and the conversion feature of the convertible debenture based on the pro-rata fair value using the Black Scholes methodology.

The pro-rata value of the conversion feature of the convertible debenture liability was \$3,527 and pro-rata value of the warrants liability was \$506.

As the conversion feature of the convertible debt and the warrants are denominated in Canadian dollars and the functional currency of the Company is US dollars, they are accounted for as derivative liabilities which are measured at fair value using Black-Scholes. As a result the conversion feature of the convertible debenture liability decreased in value to \$231 resulting in a gain of \$3,296 and the warrants decreased in value to \$40 resulting in a gain of \$466. The gains are included in interest and finance expenses.

The following Black-Scholes assumptions were used for the initial value of the warrants: an expected life of 5 years, expected volatility of 55%, risk free rate 2.00%, an expected dividend yield of nil, a strike price of CDN\$0.80 and fair value of Estrella shares of CDN\$0.74 per share. At the year end value of the warrants: an expected life of 4 years, expected volatility of 55%, risk free rate 1.18%, an expected dividend yield of nil, a strike price of CDN\$0.80

and fair value of Estrella shares of CDN\$0.20 per share. For the initial value of the conversion feature of the convertible debenture: an expected life of 5 years, expected volatility of 55%, risk free rate 2.00%, an expected dividend yield of nil, a strike price of CDN\$1.00 and fair value of Estrella shares of CDN\$0.74 per share. At the year end value of the conversion feature of the convertible debenture: an expected life of 4 years, expected volatility of 55%, risk free rate 1.18%, an expected dividend yield of nil, a strike price of CDN\$1.00 and fair value of Estrella shares of CDN\$0.20 per share.

On August 1, 2011, the Company issued 1,928,558 common shares to satisfy the semi-annual interest payment of CDN\$893 (\$934) due to holders of convertible debentures. The price of the shares was set at a price of CDN\$0.4628.

The Company paid the second semi-annual interest payment in January 2012 in cash.

Financial Debt at Estrella Petrolera de Colombia SAS and Zigma Petroleum Services S.A.

As part of the acquisition of Zigma, the Company agreed to assume its financial debt and leases.

In addition, EColombia has used credit lines with local banks.

As of December 31, 2011, the financial debt of these two companies was as follows:

	EColombia	Zigma	Total
Short Term Debt	\$ 1,033	\$ 2,387	\$ 3,420
Long Term Debt	-	1,822	1,822
Total	\$ 1,033	\$ 4,209	\$ 5,242

This debt includes bank debts, financial leases and other private loans.

\$3,700 of the combined financial debt is denominated in Colombian Pesos with the rest in US dollars.

The average cost of the Colombian denominated debt is at the local bank rate Depositos a Termino Fijo ("DTF") plus 7%.

The average cost of the US denominated debt is at 23.42%.

These debts have been fully consolidated on the Company's consolidated balance sheet as of December 31, 2011 and the schedule of payment is the following:

Due in 2012	\$ 3,420
Due in 2013	\$ 792
Due in 2014	\$ 515
Due in 2015	<u>\$ 515</u>
	<u>\$ 5,242</u>

Transactions with related parties

Except as disclosed in below, no director, executive officer or principal shareholder of Estrella, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the preceding year or in any proposed transaction that has materially affected or will materially affect Estrella.

- **LCL Consulting Limited (“LCL”)**

LCL, a company that is beneficially owned by the President and Chief Executive Officer of Estrella, has contracts with Estrella subsidiaries to provide technical services and compensation to certain Estrella employees and third party consultants who work internationally or in multiple regions. The President and Chief Executive Officer does not realize any direct or indirect benefit from LCL.

For providing these services, LCL is paid the cost plus expenses and withholdings taxes, if any. The services provided by LCL were ended as of December 31, 2011.

During the year ended December 31, 2011, there was a total of \$3,088 (\$ 1,881 in 2010) invoiced by LCL to Estrella.

- **Estrella Management Group Limited**

On July 22, 2010 Estrella Management Group Limited (“EMGL”), a Company owned by some employees of Estrella, sold and transferred to EOL its rights, interest and obligations in an agreement between EMGL, Perm Technologies Limited and Fundamental Technologies International for a cash consideration of \$300,000.

- **B Group LLC**

B Group LLC, a company controlled by Bryan Kornegay, had been retained to provide financial advisory and capital raising services to Estrella. For providing these services, B Group LLC was paid an annual fee of \$200,000 and 2% finder’s fee on capital raised by B Group LLC. As of December 31, 2009, Mr. Kornegay was formally appointed as CFO of the Company and received a salary for his position, which was paid through B Group. Mr Kornegay was replaced by Mr Bauwens as CFO as of August 15, 2010. He also resigned as a director at that time.

- **Geoestrella**

Estrella International Energy Services Ltd. has directly and indirectly 50% ownership of the outstanding shares of GeoEstrella S.A. (“GeoEstrella”).

During 2011 EChile invoiced Geoestrella, a total amount of \$ 7,151. These transactions were related to the rent of one rig and personnel costs, which supported the operation of the joint venture. As at December 31, 2011, there was an outstanding amount of \$ 2,094 included in account receivables.

- **Petroland SAS**

Estrella owns 49% of Petroland SAS. The total invoiced amount to this company during the year was \$1,219 related to equipment rental to support daily operations. As of December 31, 2011 all the previously mentioned invoiced amounts were outstanding. During 2011, Petroland SAS invoiced Estrella a total amount of \$124, which consisted of recovery of expenses incurred by Petroland on behalf of Estrella. As of December 31, 2011, these amounts were payable to Petroland.

Legal Proceedings

B Group LLC.

B Group LLC ("BGroup") initiated legal proceedings against the Company ("B Group v. Estrella, Index No. 650602/2011 (NY Sup. Ct NY Co.)"). B Group claimed fees and reimbursement of expenses in connection with financial services which BGroup alleges to have provided for in the Credit Agreement. In December 2011, Estrella and B Group agreed on a settlement whereby Estrella will pay B-Group a total of \$350 with \$250 paid in December 2011 and the remaining \$100 to be paid in four quarterly installments starting April 1, 2012 which has been included in trade and other payables. As a result of the settlement, the case was dismissed by the courts in December 2011.

Hernán Lezaca and NL Contapa SA CI

In the month of February 2011, Hernán Lezaca and NL Contapa SA CI (collectively "Lezaca") made an out of court claim to STS claiming 20% of the shares of EColombia and repayment of an amount of COP\$2,250 (approximately \$1,200) for loans and funding provided by Lezaca to EColombia. Claims arise from certain agreements that Lezaca alleges to have entered into with the former shareholders of EColombia and from guarantees and collateral provided by Lezaca that allowed EColombia to access credit facilities with local banks in Colombia. No formal court proceedings have been initiated by Lezaca against EColombia. The Company has received an indemnity from the former shareholders of EColombia in connection with any claims from Lezaca. No indemnification asset has been recorded in accordance with IFRS 3 – Business Combinations, as no liability has been recorded relating this potential claim. The claims are against the former shareholders of EColombia.

The Company is also subject to various legal proceedings and claims that arise in the ordinary course of business. Management does not believe that the outcome of these claims will have a material adverse effect upon its financial condition or results of operations but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect upon its financial condition or results of operations.

Critical Future Accounting Policies

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2015 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss.

IFRS 10, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 11, Joint Arrangements, establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12, Disclosure of Involvement with Other Entities, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 13, Fair Value Measurement, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 19, Post Employment Benefits, amends the recognition and measurements of defined benefits pension expenses and expands disclosures for all employee benefit plans.

IAS 27, Separate Financial Statements, has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. This standard will not have an impact on the consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

The Company is currently evaluating the impact of these standards in its consolidated financial statements.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

Revenue Recognition

The Company's products and services are generally sold and/or provided based upon purchase orders or contracts with the customer that include fixed or determinable prices and that do not include right of return or other similar provisions or other significant post-delivery obligations. In the case of drilling rigs, some contracts may have multi-year term with minimum payment obligations. The Company's products are provided in the ordinary course of business through its regular marketing channels. Estrella recognizes revenue for these products upon delivery, when title passes, when collectability is reasonably assured and there are no further significant obligations for future performance. Provisions for estimated warranty returns or similar types of items are made at the time the related revenue is recognized, if the risk of such a claim is material. Revenue for services and rentals is recognized as the services are rendered and when collectability is reasonably assured. Rates for services are typically priced on a per-day, per meter, per man hour or similar basis.

Commitments and Contingencies

The Company is subject to legal proceedings, claims and contingencies arising in the ordinary course of business. When such amounts can be estimated and are probable, management accrues the corresponding liability. While the ultimate outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty,

management does not believe the costs of such actions will have a material effect on the Company's financial position or results of operations. The Company has entered into agreements to lease certain office and warehouse premises. These lease agreements have various termination dates.

Foreign Currency Fluctuations

Even though Estrella's operations are carried out in Latin American countries, excluding Colombia all of the current drilling contracts of the Company are US\$-based and some contracts provide for take-or-pay minimums. Exposure to currency risk is normally limited to translation of monetary assets and liabilities. When entering into new contracts the Company will endeavour to apply the same type of exposure mitigation going forward.

Inflationary Cost Pressures

Even though inflationary pressures may be considerable in some Latin American countries, some of Estrella's contracts include inflation adjustment clauses, and thus, increases in costs are offset by increasing in revenue stream as the adjustment formulas are applied. As a result of these adjustment clauses, over time, the Company is partially insulated from inflationary pressures in the countries in which the Company operates.

Among the accounting estimates which have a significant impact on the Company financial results are the following:

Property, plant and equipment

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed using the straight-line method based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

Buildings	50 years
Rigs	10 years
Rental tools and equipment	5 years
Transportation equipment	5 years
Furniture and fixtures	10 years

The residual value, if not insignificant, is reassessed annually.

Deferred taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred income taxes relating to items recognized directly in equity are also recognized directly in equity.

APPENDIX E
AUDITED ANNUAL FINANCIAL STATEMENTS DECEMBER 31 2010 AND 2009



ESTRELLA INTERNATIONAL ENERGY SERVICES LTD.

Audited Consolidated Financial Statements

As of December 31, 2010 and December 31, 2009

And for the Years then Ended

(Expressed in US dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Estrella International Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Estrella International Energy Services Ltd. which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of earnings and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Estrella International Energy Services Ltd. as at December 31, 2010, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements of Estrella International Energy Services Ltd. for the year ended December 31, 2009, were audited by another auditor who expressed an unmodified opinion on those statements on April 2, 2010.

In addition, as part of our audit of the 2010 financial statements, we also audited the adjustments described in Note 2a that were applied to amend the 2009 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2009 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 financial statements taken as a whole.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants

May 2, 2011
Toronto, Ontario

Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009

(U.S. dollars in thousands)	Notes	December 31, <u>2010</u>	December 31, <u>2009</u> (restated, Note 2)
Assets			
Current			
Cash and cash equivalents	5	\$ 6,320	\$ 615
Trade and other receivables, net	6	6,633	7,209
Taxes receivable	3	3,067	2,024
Inventories	7	1,517	664
Other current assets	8	2,236	1,645
Total current assets		19,773	12,157
Noncurrent			
Restricted cash	5	2,136	-
Property, plant and equipment, net	9	72,613	26,140
Intangible asset	18	7,036	-
Goodwill	18	7,793	-
Deferred tax assets	3	-	2,586
Total assets		\$109,351	\$ 40,883
Liabilities			
Current			
Trade and other payables	10	\$ 7,402	\$ 4,669
Salaries and social security payable	11	3,426	1,766
Taxes payable	3	2,841	2,304
Interest payable	13	371	3,129
Advances from customers	12	-	2,494
Current portion of long term debt	13	-	4,000
Other current liabilities		310	1,429
Total current liabilities		14,350	19,791
Noncurrent			
Long term debt net of related costs, less current portion	13	28,673	40,163
Deferred tax liabilities	3	2,837	-
Total Liabilities		45,860	59,954
Shareholders' equity			
Common shares	14	61,734	824
Warrants	14	13,547	-
Preferred shares	14	4,750	-
Accumulated other comprehensive income		502	-
Retained earnings	4	(17,042)	(19,895)
Total shareholders' equity		63,491	(19,071)
Total liabilities and shareholders' equity		\$ 109,351	\$ 40,883

Consolidated Statements of Earnings and Other Comprehensive Income

(U.S. dollars in thousands, except per share data)	Notes	For the Years Ended December 31,	
		<u>2010</u>	<u>2009</u> (restated, Note 2)
Sales		\$33,577	\$ 31,078
Operating expenses			
Cost of sales		431	1,115
Depreciation expense		7,486	5,469
Other operating costs		8,762	9,179
Rent	16	359	285
Salary expenses		13,437	10,045
Administrative expenses		6,834	4,885
Total operating expenses		37,309	30,978
Earnings before undernoted items		(3,732)	100
Other (income) expenses			
Interest and financial expenses, net		1,938	9,907
Other (income) expenses, net	13	(10,903)	903
Total other (income) expenses, net		(8,965)	10,810
Foreign exchange gain (loss)		455	(1,747)
Net profit (loss) before income taxes		4,778	(12,457)
Income taxes (benefits)	3	1,925	(1,110)
Net income (loss)	4	\$ 2,853	\$ (11,347)
Other Comprehensive income			-
Currency Translation Reserve		502	-
Comprehensive income (loss)		\$ 3,355	\$ (11,347)
Net Income (loss) per share for loss attributable to the equity holders of the group during the year:			
Basic	4	\$ 0.0467	\$ (0.7565)
Fully Diluted	4	\$ 0.0465	\$ (0.7565)
Weighted average shares outstanding:			
Basic	4	60,403,811	15,000,001
Fully Diluted	4	61,299,861	15,000,001

Consolidated Statements of Cash Flows

		For the Years Ended December 31,	
(U.S. dollars in thousands, except per share data)	Notes	2010	2009
			(restated, Note 2)
Cash flows from operating activities:			
Net income (loss)		\$ 2,853	\$ (11,347)
Adjustments to reconcile net income to cash:			
Depreciation expense		7,486	5,469
Deferred tax		667	(1,720)
Foreign exchange adjustment		320	-
Gain from long-term debt retirement		(8,163)	-
Changes in working capital:			
(Increase) decrease in current assets:			
Trade and other receivables		2,397	(3,723)
Taxes receivable		226	462
Inventory		(836)	40
Other current assets		13	1,990
Increase (decrease) in current liabilities:			
Trade and other payables		(150)	(1,289)
Salaries and social security payable		1,463	768
Taxes payable		(53)	705
Interest payable		(2,758)	1,891
Advances from customers		(2,494)	2,494
Other current liabilities		(1,119)	1,360
Other non-current liabilities		932	-
Changes in other non-current assets		606	-
Cash provided by (used in) operating activities		1,390	(2,900)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(46,042)	(2,377)
Purchase of STS de Los Andes S.A.		(14,077)	-
Cash provided by (used in) investing activities		(60,119)	(2,377)
Cash flows from financing activities:			
Restricted cash	5	(2,136)	-
Issuance of long-term debt, net of related costs	13	26,881	5,280
Changes in equity	14	39,689	-
Cash provided by (used in) financing activities		64,434	5,280
Net increase (decrease) in cash and cash equivalents		\$ 5,705	\$ 3
Cash and cash equivalents, beginning of period	5	615	612
Cash and cash equivalents, end of period	5	\$ 6,320	\$ 615

Consolidated Statement of Changes in Equity

For the Years Ended December 31, 2010 and 2009

	Notes	<u>Common Shares</u>	<u>Preferred Shares</u>	<u>Special Warrant s</u>	<u>Common Share Warrant s</u>	<u>Accumulated Other Comprehensiv e Income (loss)</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
Balance at December 31, 2008, as previously reported		824	-	-	-	1,596	(10,144)	(7,724)
Prior period adjustment	2					(1,596)	1,596	-
Balance at December 31, 2008, restated		824				-	(8,548)	(7,724)
Stock issuance		-	-	-	-	-	-	-
Currency translation	14	-	-	-	-	-	-	-
Net loss		-	-	-	-	-	(11,347)	(11,347)
Balance at December 31, 2009, restated		824	-	-	-		(19,895)	(19,071)
Stock split	14	-	-	-	-	-	-	-
Special warrant issuances	14	-	-	74,258	-	-	-	74,258
Special warrant conversion	14	61,560	-	(74,258)	12,698	-	-	-
Reverse asset acquisition	14	53	-	-	-	-	-	53
Transferable warrant issuances	14		-	-	1,007	-	-	1,007
Preferred shares	14	-	4,750	-	-	-	-	4,750
Currency translation	14	-	-	-	-	502	-	502
Issuance costs	14	(763)	-	-	(158)	-	-	(921)
Options exercised	14	60	-	-	-	-	-	60
Net income		-	-	-	-	-	2,853	2,853
Balance at December 31, 2010		\$ 61,734	\$ 4,750	\$ -	\$ 13,547	\$ 502	\$ (17,042)	\$ 63,491

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

1. Organization

Estrella International Energy Services Ltd. (“EEN”) is a company incorporated under the laws of the province of Alberta, Canada. EEN and its subsidiaries (collectively “Estrella” or the “Company”) are engaged in providing services to their business segment formed by the petroleum, mining and geothermal sectors. The type of services which the Company offers include drilling and workover rigs, directional drilling, wellbore services and consulting, as well as engineering and project management services.

The Company is run by a team of experienced industry experts with extensive experience working in the oil & gas and geothermal sector in multinational companies across the globe. Estrella is headquartered in Buenos Aires, Argentina. The address of the head office is at 1023 Carlos Pellegrini Street – 1st. Floor – C1009ABU – Buenos Aires. The Company employs approximately 430 workers in five countries: Argentina, Chile, Colombia, Peru and Bolivia.

The Company is focused on delivering safe, high quality, modern, portable equipment and services. Estrella has all of its rigs with integrated automation, high efficiency/low emission engines. The Company is committed to regional growth, employs high quality personnel and is committed to providing customer driven solutions to the most challenging problems and in even the most hostile of environments.

On June 25, 2010 Estrella Overseas Limited (“EOL”) completed the reverse asset acquisition (“RAA”), as described in note 14, whereby EOL became a wholly owned subsidiary of Estrella International Energy Services Ltd. (“EEN”). On June 30, 2010, the Toronto Stock Exchange Venture Exchange (the “TSXV”) authorized the completion of the Reverse Asset Acquisition or Qualifying Transaction, the name change from Everest Ventures Corp. (“Everest”) to Estrella International Energy Services Ltd., and that trading resume. On July 5, 2010, EEN began trading on the TSXV under the symbol EEN.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies

a) Prior Year Adjustment

Certain foreign exchange losses have been reclassified from other comprehensive income to net income and retained earnings retrospectively as they do not qualify for direct treatment in equity or other comprehensive income ("OCI") under IAS 21. The change can be summarized as follows:

	2010	2009
Opening Retained Earnings	(151)	1,596
Net income	-	(1,747)
Closing Retained Earnings	(151)	(151)
Opening AOCI	151	(1,596)
Other comprehensive income	-	1,747
Closing AOCI	151	151

b) Basis of presentation and principles of consolidation

The financial statements are presented in U.S. dollars.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The consolidated financial statements include the accounts of the Company and all majority owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. In the Notes to Consolidated Financial Statements, all dollar amounts in tabulations are in thousands of U.S. dollars, unless otherwise indicated. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The consolidated financial statements include the accounts of the Company and all subsidiaries. Estrella Overseas Limited ("EOL"), a B.V.I. company, is a subsidiary of the Company. Current Group Inc. ("CGI"), a B.V.I. company, Estrella Petrolera del Perú S.A.C. ("EPeru"), a Peruvian company, Estrella Petrolera de Chile S.A. ("EChile"), a Chilean company, EGeoC S.A. ("EGeoC"), a Chilean company, Estrella Petrolera de Bolivia S.A. ("EPBolivia"), a Bolivian company, Estrella Petrolera de Colombia S.A.S. ("EColombia"), a Colombian company, and STS de los Andes S.A.S. ("STS"), a Colombian company, are subsidiaries of EOL. Estrella Holding S.A. ("EHSA"), an Argentine company, is a subsidiary of EChile. Geo Estrella S.A. ("GeoEstrella"), a Chilean company, is a joint venture of EChile and a third party. Estrella Servicios Petroleros S.A. ("ESPSA") and Estrella Minerales S.A. ("EMSA"), both Argentine companies, are subsidiaries of EHSA. The consolidated financial statements also include the Peruvian and Colombian Trusts, constituted under the terms of the facility with Credit Suisse (described in note 13).

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

The fiscal year end for all the companies is December 31st with the exception of Estrella Servicios Petroleros S.A. whose fiscal year end is May 31st. All other companies constituted or purchased after that had December 31st as year end. No change has been made for ESPSA due to local tax regulations. The consolidated financial statements include the balance sheets as of December 31,

2010 and December 31, 2009 and the results of operations for the full years ended December 31, 2010 and 2009 for all of the companies and trusts, except for STS de los Andes, which includes results of operations for the month of December 2010 only, as it was acquired on November 30, 2010. As EEN was acquired through a reverse merger, its results are also incorporated from the date of the merger, being July 5th, 2010.

Consolidated entities

	Country of Incorporation	Ownership	
		2010	2009
<i>Parent entity</i>			
Estrella International Energy Services Ltd.	Canada		
<i>Subsidiaries</i>			
Estrella Overseas Limited	BVI	100%	100%
Current Group Incorporated	BVI	100%	-
Estrella Petrolera de Chile S.A.	Chile	100%	100%
EGeoC S.A.	Chile	100%	-
Geo Estrella S.A.	Chile	50%	50%
Estrella Petrolera del Perú S.A.C.	Peru	100%	100%
Estrella Petrolera de Colombia S.A.S.	Colombia	100%	100%
STS de los Andes S.A.S.	Colombia	100%	-
Estrella Petrolera de Bolivia S.A.	Bolivia	100%	-
Estrella Holding S.A.	Argentina	100%	100%
Estrella Minerales S.A.	Argentina	100%	100%
Estrella Servicios Petroleros S.A.	Argentina	100%	100%

c) Conditions affecting Ongoing Operations

The current business and operations are substantially dependent upon conditions in the oil and natural gas industry and specifically, the exploration and production expenditures of oil and natural gas companies. The demand for drilling equipment and related services is influenced by, among other things, oil and natural gas prices, expectations about future prices, the cost of producing and delivering oil and natural gas, government regulations and local and international political and economic conditions. There can be no assurance that current levels of exploration and production expenditures of oil and natural gas companies will be maintained or that demand for our services will reflect the level of such activities.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

d) Changes in accounting policies

Effective January 1st 2010, the Company early adopted IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

IFRS – Future Accounting Pronouncements

Amendment to IAS 32 Financial Instruments: Presentation

Rights, options or warrants to acquire a fixed number of the Group's equity instruments for a fixed amount of any currency will be allowed to be classified as equity instruments so long as the Group offers the rights, options or warrants pro rata to all of the Group's existing owners of the same class of the Group's non-derivative equity instruments. The amendment is effective for annual periods beginning on or after February 1, 2010. The Company is currently evaluating the impact of the change on its consolidated financial statements.

Amendment to IAS 24 Related Party Disclosures

IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The Company is currently evaluating the impact of the change to IAS 24 on its consolidated financial statements.

Issuance of IFRS 9 Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

e) Share based payments

The Company may issue share-based awards to certain employees and non-employees. The cost of equity-settled share-based transactions is determined as the fair value of the awards on the grant date using a fair value model. The cost of the awards is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. The cost of cash-settled awards are measured as the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is remeasured at each reporting date at fair value with changes in fair value recognized in income.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

f) Foreign currency translation

The Company uses the U.S. dollar as its functional and presentation currency. All subsidiaries except STS and EColombia use the U.S. dollar as their functional currency. STS and EColombia use Colombian pesos as their functional currency.

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate. All foreign currency adjustments are included in net income, except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

Assets and liabilities of subsidiaries or equity accounted investments which have a functional currency other than the U.S. dollar are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at average rates for the period or the exchange rates at the dates of the transaction if known. The resulting foreign currency translation adjustments are recognized in other comprehensive income.

g) Cash and cash equivalents

The "cash and cash equivalents" category consists of cash in banks, call deposits and other highly liquid investments with initial maturities of three months or less.

h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

i) Inventories

Inventory includes drill bits and other tools that are sold to or used by customers. These tools are expensed as used.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of drill bits and other tool inventories are based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. There are no manufactured inventories or work in progress.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

j) Property, plant and equipment

i) Assets owned by the Company

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed using the straight-line method based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.

Subsequent to initial recognition, the cost model is applied to property, plant and equipment.

ii) Subsequent costs

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing parts of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is written-off. All other costs are recognized in the income statement as an expense as incurred.

iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

Buildings and improvements	50 years
Rigs	10 years
Rental tools and equipment	5 years
Transportation equipment	5 years
Furniture and fixtures	10 years

The residual value, if not insignificant, is reassessed annually.

k) Impairment

When events or changes in the economic environment indicate a risk of impairment of tangible and intangible assets, an impairment test is performed to determine whether the carrying amount of the asset or group of assets exceeds its or their recoverable amount. The recoverable amount is defined as the higher of an asset's fair value (less costs to sell) and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

Impairment losses recognized may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Conversely, impairment losses recognized in respect of goodwill cannot be reversed.

l) Trade and other payables

Trade and other payables are stated at amortized cost.

m) Other current liabilities

Other current liabilities include accruals, insurance payable, provisions and payables to employees, managers or third parties.

n) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

o) Asset retirement obligation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying value of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

p) Interest-bearing loans and other borrowings

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with interest recognized on an effective interest basis.

q) Revenue

The rig and equipment services are generally provided based upon purchase orders or contracts with the customer that include fixed or determinable prices and that do not include right of return or other similar provisions or other significant post-delivery obligations. In the case of drilling rigs, the contracts are multi-year with minimum payment obligations. Services are provided in the ordinary course of business through our regular marketing channels. Revenue for services and rentals is recognized as the services are rendered and when collectability is reasonably assured. Rates for services are typically priced on a per-day, per meter, per man hour or similar basis.

The Company recognizes revenue at the time persuasive evidence of an agreement exists, price is fixed and determinable, the delivery has occurred and collectability is reasonably assured. Revenue from the sale of products is recognized when the goods are shipped and received by the customer. The Company defers revenues that have been billed but which do not meet the revenue recognition criteria.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

r) Financial Instruments

i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

Other financial liabilities are recognized at amortized cost.

s) Fair value of Financial Instruments

The financial instruments held by the Company as of December 31, 2010 included cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, salaries and social security payable, interest payable, other current liabilities and long term debt.

The following methods were used to produce the fair value of the various financial instruments:

- Cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, salaries and social security payable, interest payable, and other current liabilities. Fair value is based on the carrying amounts due to the short term nature of these instruments.
- Long term debt: the fair value of the long-term debt approximates its carrying value due its interest fluctuating with market rates.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Company's cash and cash equivalents and restricted cash are measured subsequent to initial recognition at fair value and are Level 2 financial instruments at December 31, 2010. There were no transfers between levels during the year ended December 31, 2010.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

t) Deferred taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized directly in equity.

u) Employee benefits

Wages and salaries paid to employees are recognized as expense in current period. In addition, the Company creates an accrual for future vacations earned. The Company does not provide additional pension benefits to its employees.

v) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company has one business segment; petroleum, mining and geothermal services. The Company has the following geographical segments; Argentina, Bolivia, Colombia, Chile and Perú.

w) Current Assets and Liabilities

Assets and liabilities expected to be realized in, or intended for sale or consumption in, the entity's normal operating cycle, usually equal to 12 months, are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

x) Consolidated statement of cash flows

The Company prepares its consolidated statement of cash flows using the indirect method.

y) Interests in joint ventures

A joint venture is a contractual arrangement pursuant to which the Company and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Company reports its interests in jointly controlled entities using the equity method of accounting. The Company has one jointly controlled entity, Geo Estrella SA, of which it owns 50%.

z) Intangibles

Intangible assets, consisting primarily of customer related intangibles are recorded at cost and are amortized by the straight-line method over three years.

aa) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimated. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts, inventory valuation reserves, recoverability of long-lived assets, useful lives used in depreciation and amortization, purchase price allocation, measurement of intangibles, income taxes and related valuation allowances and insurance, environmental, and legal obligations. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

2. Summary of Significant Accounting Policies (con't)

bb) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees and consultants.

3. Income taxes

Estrella Overseas Limited is incorporated in the British Virgin Islands and is not subject to corporate income tax. Estrella Holding S.A., Estrella Servicios Petroleros S.A. and Estrella Minerales S.A. are subject to Argentine corporate income tax. Estrella Petrolera de Chile S.A. and EgeoC S.A. are subject to Chilean corporate income tax. Estrella Petrolera del Perú S.A.C. is subject to Peruvian corporate income tax. Estrella Petrolera de Colombia S.A.S. and STS de Los Andes S.A. are subject to Colombian corporate income tax. Estrella Petrolera de Bolivia S.A. is subject to Bolivian corporate income tax.

a) Provision for Income Taxes

	2010	2009
Current income tax expense (benefit)	\$ 45	\$ 610
Deferred income tax expense (benefit)	1,880	(1,720)
Income tax expense (benefit)	<u>\$ 1,925</u>	<u>\$ (1,110)</u>

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

3. Income Taxes (con't)

Significant items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of approximately 28% (2009 – 29%) are as follows:

	2010	2009
Income for the year before income taxes	\$4,778	(\$12,457)
Expected income tax expense based on statutory rate	1,338	(3,613)
Adjustments to expense (benefit) resulting from:		
Non taxable gains	(355)	-
Difference in foreign income tax rates	1,645	-
Foreign exchange, accretion and other permanent differences	(1,858)	1,740
Change in valuation allowance	1,155	763
Income tax expense (benefit)	\$1,925	(\$1,110)

b) Deferred Income Tax Balances

The deferred tax on the balance sheet is comprised of the following:

	2010	2009
Deferred income tax assets (liabilities):		
Canada		
Non-capital losses	\$55	-
	55	-
Colombia		
Capital assets	(932)	
Other	97	
Intangibles	(2,002)	
	(2,837)	-
Chile		
Net operating losses	81	
	81	-
Argentina		
Net operating losses	1,540	3,299
	1,540	3,299

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

3. Income Taxes (con't)

b) Deferred Income Tax Balances (con't)

Peru

Non-capital losses	169	\$50
	<u>169</u>	<u>\$50</u>

Bolivia

Non-capital losses	73	-
	<u>73</u>	<u>-</u>

Valuation allowance	(1,918)	(763)
Net deferred income tax asset	<u>(\$2,837)</u>	<u>\$2,586</u>

Presented on the balance sheet as at December 31

	2010	2009
Current deferred income tax asset	\$97	\$2,586
Non-current deferred income tax liability	(2,934)	-
Net deferred income tax asset / liability	<u>(\$2,837)</u>	<u>\$2,586</u>

Expiry Dates of Tax Losses

At December 31, 2010 the Company has non-capital losses available to apply against future income for tax purposes as per the following detail:

	2014	2015	2030	No expiry date
Tax losses				
Argentina	\$ 4,400	-	-	\$ -
Chile	-	-	-	474
Peru	166	398	-	-
Colombia	294	-	-	-
Canada	-	-	197	-
Total	\$ 4,860	\$ 398	\$ 197	\$ 474

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

4. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to common share holders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares for the prior year earnings per share has been adjusted to reflect the stock split described in note 14.

Basic earnings per share	For the year Ended December 31, 2010	For the year Ended December 31, 2009
<i>Profit (loss) attributable to shareholders</i> <i>(in thousands of dollars)</i>		
Income / (loss) for the year from all operations	\$ 2,853	\$ (11,347)
Less: Cumulative dividend on preferred shares	(34)	-
Adjusted income / (loss) for the year from all operations	2,819	(11,347)
<i>Weighted average number of diluted shares</i>		
Number of shares at beginning of year	15,000,001	15,000,001
Shares issued during the year	45,374,863	-
Options exercised during the year	28,947	-
Weighted average number of shares at year end	60,403,811	15,000,001
<i>Basic earnings per share</i>	\$ 0.0467	(\$ 0.7565)

Diluted earnings per share amounts are calculated by dividing the net profit attributable to common share holders of the Company by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares (options and warrants) into common shares.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

4. Earnings per share (cont'd)

Diluted earnings per share	For the year Ended December 31, 2010
<i>Profit (loss) attributable to shareholders (in thousands of dollars)</i>	
Income / (loss) for the year from all operations	\$ 2,853
<i>Weighted average number of diluted shares</i>	
Number of shares at beginning of year	15,000,001
Shares issued during the year	45,374,863
Existing options	79,107
Preferred shares	845,890
Weighted average number of shares at year end	61,299,861
<i>Fully diluted earnings per share*</i>	\$ 0.0465

*2009 diluted per share information has not been presented as the effect would be anti-dilutive

5. Cash and cash equivalents

Cash and cash equivalents are comprised of cash in the bank for the periods presented. The carrying values of cash and cash equivalents approximate their fair values.

	December 31, 2010	December 31, 2009
Cash on hand	\$ 23	\$ 29
Other accounts including term deposits	6,297	586
Total	6,320	615

Restricted cash

On May 21, 2010 EOL signed an agreement with Exile Drilling for the purchase of a rig for EPerú. Under this agreement, the Company delivered to the vendor an irrevocable letter of credit or other warranty from Banco de Chile. As a condition for granting the letter of credit, the bank requested that a deposit of \$800 be made with the bank to serve as a guarantee as long as the letter of credit is in effect.

EPerú has a total deposit amount of \$673 under two different guarantee schemes. The principal relates to a \$590 deposit made with Scotia Bank in Peru to serve as a guarantee to the future payment of the VAT if and when Rig 552 is imported permanently in Peru. The rig is currently under the temporary import mode which allows deferring the corresponding VAT payment until it is nationalized when supported by the appropriate bank guarantee.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

5. Cash and cash equivalents (con't)

As part of the senior secured loan contracted with Credit Suisse, the Company needs to maintain a debt service account with an amount of cash to fund the interest and principal payments due one quarter in advance. As of December 31, 2010, the amount of cash held in the debt service reserve account was \$663.

6. Trade and other receivables

Trade and other receivables are comprised of receivables from customers. The book values of trade and other receivables approximate their fair values.

7. Inventories

Inventories are comprised of drill bits and other service tools. As these are all acquired by the Company as finished goods, there is no inventory in a raw material or work in progress stage.

	December 31, 2010	December 31, 2009
Materials	\$ 275	\$ 250
Spare parts	1,242	414
Total	\$ 1,517	\$ 664

8. Other current assets

	December 31, 2010	December 31, 2009
Deposits	\$ 768	\$ 1,299
Prepaid insurance	112	119
Reimbursable costs	455	-
Other credits	286	104
Advances to suppliers	580	95
Advances to personnel	35	28
Total	\$ 2,236	\$ 1,645

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

9. Property, plant and equipment

The capitalized cost of property, plant and equipment and the related accumulated depreciation as of the periods presented is as follows:

Property, plant and equipment

	Rigs	Rental tools and equipment	Transportation equipment	Furniture & Fixture	Building & improvements	Total
Cost						
Balance as at January 1, 2009	\$ 21,363	\$ 11,633	\$ 705	\$ 564	\$ 280	\$ 34,545
Assets acquired	655	929	331	112	133	2,160
Disposals	-	(2,012)	-	-	-	(2,012)
Balance as at December 31, 2009	\$ 22,018	\$ 10,550	\$ 1,036	\$ 676	\$ 413	\$ 34,693
Assets acquired	41,285	3,672	-	155	1,037	46,149
Assets acquired through company acquisition	9,564	-	-	139	-	9,703
Disposals	-	(298)	-	-	-	(298)
Foreign exchange movement	(182)	-	-	(2)	-	184
Balance as at December 31, 2010	\$ 72,685	\$ 13,924	\$ 1,036	\$ 968	\$ 1,450	\$ 90,063
Accumulated depreciation and impairment losses						
Balance as at January 1, 2009	\$ 2,391	\$ 2,564	\$ 272	\$ 78	\$ 8	\$ 5,313
Depreciation for the year	781	2,168	153	134	4	3,240
Balance as at December 31, 2009	\$ 3,172	\$ 4,732	\$ 425	\$ 212	\$ 12	\$ 8,553
Depreciation for the year	4,175	2,943	157	184	5	7,464
Depreciation of acquired company acquisition	1,830	-	-	49	-	1,879
Disposals	-	(298)	-	-	-	(298)
Foreign exchange movement	(147)	-	-	(1)	-	(148)
Balance as at December 31, 2010	\$ 9,030	\$ 7,377	\$ 582	\$ 444	\$ 17	\$ 17,450
Carrying amounts						
At January 1, 2009	18,972	9,069	433	486	272	29,232
At December 31, 2009	18,846	5,818	611	464	401	26,140
At December 31, 2010	\$ 63,655	\$ 6,547	\$ 454	\$ 524	\$ 1,433	\$ 72,613

At year end, equipment with a value of \$1,921 is not being depreciated due to the equipment not being available for use.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

9. Property, plant and equipment (cont'd)

Pledged assets in connection with Credit Suisse Facility (Note 13)

Following herewith is a summary of the collateral granted by subsidiaries of the Company in connection with the \$80,000 Credit Agreement dated as of November 24, 2010, among Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Special Collateral Agent, Estrella Overseas Limited and Estrella Petrolera del Peru S.A.C, as Co-Borrowers, and the Guarantors, Lenders and Global Collateral Agent named therein (the "Credit Agreement").

1. *Shares.* Pledge of shares of EOL, CGI, EColombia, STS, EChile, EGeoC, EHSA, ESPSA and EMSA and collateral assignment of shares of EPerú to a trust.
2. *Rigs and Equipment.* Collateral assignment of all drilling rigs of EColombia, STS and EPerú to a trust, pledge of drilling rigs owned by EOL located in Chile and pledge of material equipment of EChile.
3. *Receivables.* Collateral assignment of all major contract receivables of EColombia, STS and EPerú to a trust and pledge of major contract receivables of EChile and EGeoC.
4. *Joint Venture.* Pledge of all interests of EChile in GeoEstrella joint venture.
5. *Collection Accounts.* Collection accounts have been set up in New York, Colombia, Peru and Chile where collection of receivables have to be made. Funds in those accounts are available for the companies unless there is an event of default.

10. Trade and other payables

Trade and other payables consist of payables to suppliers of goods and services.

	December 31, 2010	December 31, 2009
Domestic suppliers	\$ 4,618	\$ 2,499
International suppliers	1,408	1,878
Provisions related to STS acquisition *	750	-
Accruals for costs and expenses	626	292
Total	\$ 7,402	\$ 4,669

* In accordance with the Purchase Agreement signed between the Company and the previous owners of STS as described in note 18, a portion of the purchase price of STS (\$750) is based upon some balance sheet metrics which had to be met as a condition for this payment. In line with the Purchase Agreement, the corresponding funds have been retained by the Company until there is an agreement on the required purchase price adjustment.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

11. Salaries and social security payables

	December 31, 2010	December 31, 2009
Salaries payable – current	\$ 967	\$ 647
Social security - payment plans	1,049	599
Social security – current	383	300
Accruals for vacations and others	714	-
Sundry debts	313	220
Total	\$ 3,426	\$ 1,766

12. Advances from customers

Advances from customers consist of an advance in Chile related to a geothermal project in Chile ended during the year under analysis. The customer advanced funds which were deducted from each invoice payment in a proportion of 12.5%. As of December 31, 2010 the advance has been fully used

13. Interest-bearing loans and other borrowings

EChile has available total lines of credit of \$2,130. As at December 31, 2010 a balance of \$235 was outstanding.

Fourth Third Debt

On March 3, 2010, Estrella retired its long term debt, including interest and fees payable at the time, with Fourth Third LLC, a subsidiary of Medley Capital, in exchange for 36,000,000 Special Warrants valued at \$36,000. Each of these special warrants converted into one and one-tenths common shares and one-half (0.5) of one warrant to purchase common shares with a strike price of \$1.50 and an expiration date of June 25, 2015.

The principal balance was \$46,048 at March 3, 2010. This balance included interest capitalized at the loan interest rate of 12%.

The Company amortizes debt issuance costs and fees over the term of the debt using the effective interest method. The net amount is included as a reduction in long term debt. The amortization expense of these costs is included in interest expense.

The loan included a \$500 back-end fee note due on the final maturity date. The loan had monthly interest payments at the rate of LIBOR plus 9% with a LIBOR floor of 3% and ceiling of 7%. The principal payments, starting in May 2009, were monthly based on excess free cash flows with a minimum quarterly amortization of \$1,000 starting on March 31, 2010.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

13. Interest-bearing loans and other borrowings (con't)

As described in note 14, on March 3, 2010 the loan facility of \$46,048 was retired and converted into \$36 million of special warrants.

The gain associated with cancelling this debt was \$11,292 (as per the table below) is shown in other income.

Income per debt conversion into equity	\$ 8,163
Income per interest waived	3,129
Income, net	<u>\$ 11,292</u>

Excluded from this gain is the 2010 interest up to March 3, 2010 of \$939 which was not included in interest expense due to the negotiations to settle the debt and related interest with equity.

Credit Suisse facility

The Corporation closed a credit facility with Credit Suisse (the “Lender”) for a total capacity of \$32 million (the “Loan”). The Loan was used to satisfy the cash portion of the Purchase Price of STS (note 18), to finance the purchase of one additional rig in Bolivia, and for working capital purposes. The Credit Agreement also includes the possibility to increase the facility up to \$80 million. In connection with the initial \$32 million facility size, Estrella issued 3,072,000 transferable common share purchase warrants (“Credit Suisse Warrants”) to the Lender. Each Credit Suisse Warrant will entitle the holder to purchase 1 common share in the capital of Estrella for a purchase price of \$0.91 per share, for a period of 4 years from the date of issuance. Estrella may, in the future, issue additional Warrants in connection with the syndication of the Loan. The Loan will bear interest at a rate of \$ LIBOR plus 8%, and will be repaid quarterly over a period of 5 years with first payment happening 15 months post closing date. On the final repayment of the loan, there is an additional payment due to ensure that the effective internal rate of return (“IRR”) of the loan is equal to 13% over the term of the loan. The effective interest rate on the loan is 16.86%. See note 9 for the security pledged against the facility.

As at December 31, 2010, the principal balance was \$32,000 and there was accrued interest outstanding of \$347. Principal payments are due as follows:

Due in 2011	-
Due in 2012	\$ 8,000
Due in 2013	\$ 8,000
Due in 2014	\$ 8,000
Due in 2015	<u>\$ 8,000</u>
	\$32,000

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

13. Interest-bearing loans and other borrowings (con't)

The fair value of the three million seventy two thousand (3,072,000) warrants issued in the context of the Credit Suisse facility are estimated to be approximately \$1 million using the Black Scholes methodology and the following assumptions: an expected life of 4 years, expected volatility of 63%, risk free rate 2.76%, an expected dividend yield of nil and fair value of Estrella shares of \$0.74 per share.

In connection with this facility, Trusts were created to secure payment of the loan. Estrella is the ultimate beneficiary of the trusts. The Trusts receive the assets in trust and operate them as instructed by Estrella until such time as there is a default under the loan. Upon a default the lenders can take action and have priority over the assets in trust. Once the loan is repaid the assets revert back to Estrella.

14. Share capital and reserves

The Company has an authorized capitalization of an unlimited number of common shares and an unlimited number of preferred shares issuable in series which may contain the rights, privileges and restrictions as determined by the Board. As of December 31, 2010, Estrella has one hundred two million two hundred eight one thousand two hundred fifteen (102,281,215) common shares, four million seven hundred fifty thousand (4,750,000) non-voting preferred shares with a 4% annual cumulative dividend (as of December 31, 2010 cumulative dividends of \$34 have not been recognized), redeemable for \$1 per share and convertible into common shares on a 1 for 1 basis, sixty six thousand three hundred thirty eight (66,338) options for common shares, thirty eight million seven hundred twelve thousand five hundred (38,712,500) warrants exercisable into one common share of Estrella at a price of \$1.50 per share until June 25, 2015 and three million seventy two thousand (3,072,000) transferable common share purchase warrants issued in connection with the Credit Suisse facility, exercisable into one common share of Estrella at a price of \$0.91 per share for a period of 4 years from the date of issuance. As of December 31, 2009, EOL had nine thousand six hundred seven (9,607) common shares, fifteen million and one (15,000,001) common shares on a converted basis, nil preferred shares.

As of December 31, 2009, Everest Ventures Corp. had ten million five hundred fifty-two thousand five hundred (10,552,500) common shares, which represented two million (2,000,000) common shares on a converted basis, nil preferred shares and nine hundred fifty thousand (950,000) options for common shares which represents one hundred eighty thousand fifty-two (180,052) options on a converted basis upon completion of the reverse asset acquisition ("RAA") described below. Each option for common shares is exercisable into one common share of Estrella at a price of \$0.53 per share and has a term of five years, expiring on September 14, 2012. During current year, one hundred and thirteen thousand seven hundred fourteen (113,714) options were exercised. The tables below show the history up to and the balances as of December 31, 2010.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

14. Share capital and reserves (con't)

Estrella Overseas Limited (EOL)

Authorized Capital

500,000,000 authorized common shares, with a par value per share of \$0.01

Common Shares Issued	Number of Shares	Amount
Balance, December 31, 2008	9,607	\$ 824
Balance, December 31, 2009	9,607	\$ 824
Share issuance and conversion	14,990,394	-
Special warrants exercised (net of issuance costs)	83,600,000	72,833
Fair value assigned to warrants		(12,698)
Balance, March 31, 2010	98,600,001	60,959
Founders' Special warrants exercised (net of issuance costs)	1,567,500	1,425
Balance transferred on June 25, 2010	100,167,501	\$ 62,384

Estrella International Energy Services Ltd. (EEN) (formerly Everest Ventures Corp.)

Authorized Capital

Unlimited common shares, without par value
Unlimited preferred shares, issuable in series

Common Shares Issued	Number of Shares	Amount
Balance, December 31, 2008	10,552,500	\$ 579
Balance, December 31, 2009	10,552,500	\$ 579
Share consolidation	(8,552,500)	-
Balance before reverse asset acquisition (RAA)	2,000,000	579
Transfer from Estrella Overseas Limited	100,167,501	62,384
Reversal of Everest share capital	-	(579)
RAA adjustment	-	53
Issuance costs	-	(763)
Options exercised	113,714	60
Post RAA combined balance, Dec. 31, 2010	102,281,215	\$ 61,734
Options for Common Shares Issued	Number	Amount
Balance, December 31, 2008	950,000	\$ -
Balance, December 31, 2009	950,000	\$ -
Share consolidation	(769,948)	-
Balance before reverse asset acquisition	180,052	-
Options exercised	(113,714)	-
Balance, December 31, 2010	66,338	\$ -

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

14. Share capital and reserves (con't)

Warrants for Common Shares Issued	Number	Amount
Balance, December 31, 2008	-	\$ -
Balance, December 31, 2009	-	\$ -
Transfer from Estrella Overseas Limited	38,712,500	12,698
Warrants issued – Credit Suisse facility	3,072,000	1,007
Issuance costs		(158)
Balance, December 31, 2010	41,784,500	\$ 13,547

On June 25, 2010, EEN, formerly Everest, completed its merger with Estrella Overseas Limited (“EOL”). The acquisition of the shares of Estrella has been accounted for as a reverse asset acquisition (“RAA”) transaction. As Everest did not qualify as a business for accounting purposes, the transaction has been accounted for as a capital transaction. The transaction is equivalent to the issuance of shares by the non-public operating enterprise (EOL) for the net monetary assets of the non-operating public enterprise (EEN), accompanied by a recapitalization of the non-public operating enterprise (EEN). An RAA transaction is viewed as the issuance of equity by the non-public operating enterprise (EOL) to the extent there is cash in the non-operating public enterprise (EEN). Accordingly transaction costs are charged to equity only to the extent of cash received, while all costs in excess of cash received should be charged to expense. The consolidated financial statements are issued under the name of the legal parent (EEN), but are deemed to be a continuation of the legal subsidiary (EOL).

Below is a description of the share issuances that resulted in the December 31, 2010 share capital structure.

As of December 31, 2008 and December 31, 2009 EOL had nine thousand six hundred seven (9,607) common shares.

On March 3, 2010, EOL issued 76,000,000 special warrants, 40,000,000 as part of a \$40 million private placement and 36,000,000 as consideration for the cancellation and discharge of EOL’s existing long term debt and warrants with Fourth Third, a subsidiary of Medley Capital. Each of these special warrants convert into one and one-tenths common shares and one-half (0.5) of one warrant to purchase common shares with a strike price of \$1.50 and an expiration date of June 25, 2015. Simultaneously, EOL completed a stock split of 14,990,394 common shares. The completion of these transactions resulted in EOL having 15,000,001 common shares outstanding and 76,000,000 special warrants outstanding as of March 3, 2010. The conversion of these special warrants in the RAA resulted in the issuance of 83,600,000 common shares and 38,000,000 common share warrants.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

14. Share capital and reserves (con't)

On May 31, 2010, EOL issued 1,425,000 special warrants in a \$1.425 million private placement. The transaction was completed under the same terms as the \$40 million private placement described above. The conversion of these special warrants in the RAA resulted in the issuance of 1,567,500 common shares and 712,500 common share warrants.

On June 25, 2010 EOL completed the RAA whereby EOL became a wholly owned subsidiary of EEN. Concurrent therewith, each Special Warrant was converted into one and one-tenth common share of Estrella and one-half of one common share purchase warrant of Estrella (each whole common share purchase warrant a "Common Share Warrant"). Each Common Share Warrant is exercisable into one common share of Estrella at a price of \$1.50 per share until June 25, 2015. As part of the same transaction, the common shares and Common Share Warrants of EOL were exchanged for the same shares and warrants in EEN, leaving EOL with one hundred million one hundred sixty seven thousand five hundred one (100,167,501) shares outstanding, all of which are owned by EEN. Immediately prior thereto, EEN completed a reverse stock split for its current issued and outstanding common shares on the basis of each 5.27625 pre-consolidated common shares for one post-consolidated common share, resulting in two million (2,000,000) common shares issued and outstanding and one hundred eighty thousand fifty-two (180,052) options issued and outstanding immediately prior to the RAA with EOL. Subsequent to the completion of the RAA, EEN had a total of 102,167,501 common shares issued and outstanding, nil preferred shares

issued and outstanding, one hundred eighty thousand fifty-two (180,052) options for common shares issued and outstanding, and thirty eight million seven hundred twelve thousand five hundred (38,712,500) warrants for common shares issued and outstanding.

On November 28, 2010 , Estrella issued 4,750,000 preferred shares as described in note 18.

The fair value of the thirty eight million seven hundred twelve thousand five hundred (38,712,500) warrants issued with respect to the above financings are estimated to be approximately \$12.7 million using the Black Scholes methodology and the following assumptions: an expected life of 5 years, expected volatility of 75%, risk free rate 2.76%, an expected dividend yield of nil and fair value of Estrella shares of \$0.70 per share.

The fair value of the three million seventy two thousand (3,072,000) warrants issued in the context of the Credit Suisse facility are estimated to be approximately \$1 million using the Black Scholes methodology and the following assumptions: an expected life of 4 years, expected volatility of 63%, risk free rate 2.76%, an expected dividend yield of nil and fair value of Estrella shares of \$0.74 per share.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

14. Share capital and reserves (con't)

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the functional currency of the Company. The cumulative translation adjustment (CTA) resulting from the above translation process was presented as a component of Accumulated Other Comprehensive Income.

Stock Option Plan

Pursuant to the Company's stock option plan (the "Option Plan"), options to purchase Common Shares may be granted by the Board of Directors to directors, officers, employees of and consultants to the Company. Options granted under the Option Plan will have an exercise price as determined by the Board of Directors which price shall not be less than the price allowed by regulatory authorities. The options will be non-transferable and will be exercisable for a period not to exceed five years. The aggregate number of Common Shares subject to options granted under the Option Plan, from time to time, cannot exceed 10% of the Common Shares outstanding after giving effect to the issuance of the options and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Common Shares.

15. Financial risk management objectives and policies

Capital risk and capital management objectives

The capital of the Company consists of equity.

The Company is not subject to any capital requirements imposed by a regulator.

The objectives of the Company's capital structure are to allow strong shareholder returns in the long term, foster growth both organically and through potential acquisitions and maintain a prudent risk profile.

As a result, the Company will seek to limit its financial debt to a level consistent with these objectives, in addition to keeping a prudent debt maturity profile.

It also uses various types of financial instruments to provide more financial flexibility.

As of Dec 31, 2010, aside from a strong common equity base (note 14), the Company had issued \$4,750,000 preferred shares in the context of the acquisition of STS and had \$32 million of Long term debt outstanding.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

15. Financial risk management objectives and policies (cont'd)

The Credit Suisse facility includes a number of financial covenants as is customary in similar credit facilities, including maximum leverage ratio and minimum interest coverage ratios. However these covenants will only apply in the first quarter of 2011.

Categories of Financial Instruments

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
Financial Assets		
Cash and cash equivalents	\$ 6,320	\$ 615
Trade and other receivables	6,633	7,209
Other assets	741	104
Restricted cash	2136	-
Total financial assets	\$ 15,830	\$ 7,928
Financial Liabilities		
Trade and other payables	\$ 7,402	\$ 4,669
Salaries and social security payable	3,426	1,766
Interest payable	371	3,129
Other current liabilities	310	1,429
Current portion of long term debt	-	4,000
Long term debt less current portion	28,673	40,163
Total Financial Liabilities	40,182	55,156

Cash and cash equivalents and restricted cash are classified in fair value through profit or loss, trade and other receivables and other assets are classified in loans and receivables. All financial liabilities are classified in other financial liabilities.

Risk disclosures

Exposure to credit, interest rate and currency risks arise from the normal course of the Company's business.

Interest rate risk:

Interest rate risk for the Company is primarily related to its floating rate debt. As of December 31, 2010 there was a total of \$32 million of long term floating rate debt which interest cost is indexed to the three month LIBOR rate.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

15. Financial risk management objectives and policies (cont'd)

Foreign currency risk

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than US dollar.

Most contracts with customers excluding Colombia have either revenue in US dollars which significantly reduces the FX risk. The Company's principal FX risk is currently driven by the translation of STS earnings from Colombian peso to the US Dollar.

The Company is exposed to the Colombian peso exchange rate to the US Dollar in that, as of December 31, 2010 it had net monetary assets of \$133. 5% increase (decrease) in the value of the US Dollar against Colombian peso as of December 31, 2010 would result in an estimated change in net loss (income) and comprehensive loss (income) of \$6.6.

Credit risk

The Company sells its drilling services in South America to domestic and international customers. When it signs a long term contract with a customer, the Company creates a relationship whereby it is dependent upon the customer to perform and pay. To mitigate such risk, the Company performs credit evaluations of its customers and in some cases will request a corporate parent guarantee. The maximum credit exposure as at December 31, 2010 is \$6,633 which is the trade and other receivables balance as of that date.

As of December 31, 2010, the Company's largest credit exposure was represented by a receivable balance of \$1,707 with its largest customer.

Included in trade and other receivables are receivables with a carrying value of \$121 that are past due but have not been provided for. The past due amounts are considered recoverable. As of December 31, 2010, the Company had allowed for \$145 of trade receivables.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is exposed to liquidity risk primarily as a result of its trade accounts payable and the payment of interest and capital on its long term debt. The Company regularly assesses its cash position and feels that its cash flows from operating activities are sufficient to fully cover its cash requirements in regards to its activities. As of December 31, 2010, the Company had a positive net working capital balance (cash + receivables less payables) of \$4,487 including cash balances totaling \$8,456.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

15. Financial risk management objectives and policies (con't)

	2011	2012	2013	2014	2015
Accounts payable	\$ 5,731	\$ 668	-	-	-
Accrued liabilities	\$ 1,003	-	-	-	-
Income tax payable	\$ 2,841	-	-	-	-
Salaries and social security payable	\$ 3,426	-	-	-	-
Interest payments on long term debt	\$ 2,864	\$ 2,506	\$ 1,790	\$ 1,074	\$ 5,108
Principal payments on long term debt	\$ -	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000

16. Operating leases

The Company leases certain office and warehouse facilities under operating leases. The leases typically run for a period of 1 - 5 years, with a renewal option at the end of the initial lease term. Lease payments are fixed for the duration of the initial term. There are no contingent rental clauses. These lease agreements have various termination dates with the longest one lasting until 2013.

Minimum lease payments for 2011	\$ 319.3
Minimum lease payments for 2012	\$ 165.3
Minimum lease payments for 2013	\$ 75.6

17. Contingencies

The Company is subject to legal proceedings, claims and contingencies arising in the ordinary course of business. When such amounts can be estimated and are probable, management accrues the corresponding liability.

Management is of the opinion that provisions are not required in respect of the matters set out below, as a successful claim against the Company is not probable.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

17. Contingencies (cont'd)

Legal proceedings

B Group LLC (“BGroup”) initiated legal proceedings against EEN and EOL (“B Group v. Estrella, Index No. 650602/2011 (NY Sup. Ct NY Co.)”). B Group claims fees and reimbursement of expenses in connection with financial services which BGroup alleges to have provided for the Credit Agreement dated as of November 24, 2010, among Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Special Collateral Agent, Estrella Overseas Limited and Estrella Petrolera del Peru S.A.C, as Co-Borrowers, and the Guarantors, Lenders and Global Collateral Agent named therein (the “Credit Agreement”). The amount claimed is 2% of committed funds under the Credit Agreement, plus reimbursement of fees and expenses. BGroup alleges that funds committed under the Credit Agreement amount to \$80,000 but the committed amount under the Credit Agreement was \$32,000. EEN and EOL are defending the claim in court on the basis that there was no agreement with BGroup in connection with the fees claimed, no services were provided by BGroup in connection with the Credit Agreement and no fees are owed to it.

In the month of February 2011, Hernán Lezaca and NL Contapa SA CI. (collectively “Lezaca”) made an out of court claim to STS de los Andes SAS (“STS”) claiming 20% of the shares of STS and repayment of an amount of COP \$2,250 million (\$ 1,153) for loans and funding provided by Lezaca to STS. Claims arose from certain agreements that Lezaca alleges to have entered into with the former shareholders of STS and from guarantees and collateral provided by Lezaca that allowed STS to access credit facilities with local banks in Colombia. No formal court proceedings have been initiated by Lezaca against STS. STS’s records show indebtedness owed to Lezaca in the amount of approximately \$700,000 but no other debts or obligations. EEN has received an indemnity from the former shareholders of STS in connection with any claims from Lezaca. No indemnification asset has been recorded in accordance with IFRS3 as no liability has been recorded relating this potential claim. The claims are against the former shareholders of STS.

The Company is also subject to various legal proceedings and claims that arise in the ordinary course of business. Management does not believe that the outcome of these claims will have a material adverse effect upon its financial condition or results of operations but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect upon its financial condition or results of operations.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

18. Business acquisitions

On November 30, 2010, Estrella completed the 100% acquisition of STS de los Andes S.A. ("STS"), a Colombian service company operating five rigs. The acquisition of STS., effective on November 30, 2010, brings five work-over rigs into Estrella's fleet, all based in Barranca Bermeja, Colombia. The fleet consists of rigs with horsepower ratings between 250 and 550 HP. Four of the five rigs are currently on term contracts.

The purchase price of the acquisition included \$14.25 million in cash and 4.75 million Series A Preference Shares valued at a \$1 each for total consideration of \$19 million. Consideration includes \$750 of contingent payments as described in note 10. The purchase price allocated as follows:

Total consideration	\$ 19,000
Fair value of net assets acquired:	
Cash	754
Receivables	2,935
Property, plant and equipment	7,935
Customer list	7,208
Accounts payable, accrued and provisions	(4,706)
Deferred tax liability	<u>(2,857)</u>
Goodwill at acquisition date	7,731
Other comprehensive income	62
Goodwill as at December 31, 2010	7,793

The amounts of revenue and profit of STS since the acquisition date included in the consolidated statement of comprehensive income for the reporting period are \$1,449 and \$46 respectively. The revenue and profit of STS that would have been included in the consolidated statement of comprehensive income if it had been acquired at the beginning of the year are \$13,966 and \$596 respectively.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

19. Related party transactions

On July 22, 2010 Estrella Management Group Limited (“EMGL”), a Company owned by some employees of Estrella, sold and transferred to EOL its rights, interest and obligations in an agreement between EMGL, Perm Technologies Limited and Fundamental Technologies International for a cash consideration of \$300,000.

LCL Consulting Limited (“LCL”), a company that is beneficially owned by Warren Levy, President and Chief Executive Officer of Estrella, has contracts with Estrella subsidiaries to provide technical services and compensation to certain Estrella employees and third party consultants who work internationally or in multiple regions.

For providing these services, LCL is paid the cost plus expenses and withholdings taxes, if any.

B Group LLC, a company controlled by Bryan Kornegay, had been retained to provide financial advisory and capital raising services to Estrella. For providing these services, B Group LLC was paid an annual fee of \$200,000 and 2% finder’s fee on capital raised by B Group LLC. As of December 31, 2009, Mr. Kornegay was formally appointed as CFO of the Company and received a salary for his position, which was paid through B Group. Mr Kornegay was replaced by Mr Bauwens as CFO as of August 15, 2010. He also resigned as a director at that time.

During the year, Estrella had sales of \$10,828 to GeoEstrella.

20. Main customer invoicing

The top three customers represent 74% of 2010 revenues for the year with the largest customer representing 40%. The top four customers represent 78% of 2009 revenues with the largest customer representing 40%. Below, the revenue for customers representing 10% or more of the total revenue of the group.

Customer	Country	Total	Percentage
Client 1	Argentina/Peru	13,419	40%
Client 2	Chile	7,092	21%
Client 3	Argentina	4,404	13%

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

21. Segmented information

(a) Operating segment - The Company is engaged in providing services to the petroleum, mining and geothermal sectors as a whole.

(b) Geographic segments - The Company's assets, revenues and expenses by geographic areas for the years ended December 31, 2010 and 2009 are as follows:

December 31, 2010								
	Argentina	Bolivia	Chile	Colombia	Peru	BVI	Canada	Total
Property, plant and equipment								
Cost as at January 1, 2009	\$ 31,223	\$ 0	\$ 1,726	\$ 0	\$ 0	\$ 1,596	\$ 0	\$ 34,545
Accumulated depreciation as at January 1, 2009	-5,000	0	-238	0	0	-75	0	-5,313
Balance as at January 1, 2009 (net)	\$ 26,223	\$ 0	\$ 1,488	\$ 0	\$ 0	\$ 1,521	\$ 0	\$ 29,232
Cost	-440	0	470	0	46	72	0	148
Accumulated depreciation	-2,881	0	-170	0	0	-189	0	-3,240
Balance as at December 31, 2009 (net)	\$ 22,902	\$ 0	\$ 1,788	\$ 0	\$ 46	\$ 1,404	\$ 0	\$ 26,140
Cost	740	492	548	10,612	5,018	37,960	0	55,370
Accumulated depreciation	-4,357	0	-344	-1,841	-50	-2,305	0	-8,897
Balance as at December 31, 2010 (net)	\$ 19,285	\$ 492	\$ 1,992	\$ 8,771	\$ 5,014	\$ 37,059	\$ 0	\$ 72,613

December 31, 2010								
	Argentina	Bolivia	Chile	Colombia	Peru	BVI	Canada	Total
Revenue for the year ended December 31, 2009	\$ 19,669	\$ 0	\$ 6,631	\$ 0	\$ 4,251	\$ 527	\$ 0	\$ 31,078
Revenue for the year ended December 31, 2010	\$ 20,987	\$ 0	\$ 10,375	\$ 1,450	\$ 315	\$ 450	\$ 0	\$ 33,577

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

22. Key Management Compensation

The compensation of the CEO and the directors of the Company that are not members of management is included in the summary table below:

	Short term compensation	Long term compensation	Post employment	Termination benefits	Share based compensation
2010	\$ 425	-	-	-	-
2009	\$ 265	-	-	-	-
2008	\$ 235	-	-	-	-

23. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation. The net loss previously reported has not been affected by this reclassification.

24. Events after the balance sheet date

On January 24, 2011, the Company closed a \$15,000 private placement of subscription receipts (the “**January 2011 Subscription Receipts**”) underwritten by Canaccord Genuity Corp. Each January 2011 Subscription Receipt entitles the holder to receive, without payment of additional consideration or further action, one unit (“**January 2011 Unit**”) at a price of \$100 per Unit (the “**Offering Price**”). Each January 2011 Unit consists of: (a) \$100 par value of one 5-year convertible subordinated unsecured debentures bearing a coupon interest rate of 12% per annum, payable semi-annually in arrears in cash or common shares (the “**January 2011 Convertible Debentures**”); and (b) one common share purchase warrant (the “**January 2011 Warrants**”) entitling the holder to acquire 12,500 Common Shares at \$0.80 per share, exercisable for a period of 5 years from the closing date of the Offering (the “**Closing Date**”).

The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest is at the option of debenture-holders convertible into common shares at any time at a conversion price of \$1.00 per share. The principal amount of the January 2011 Convertible Debentures, plus all accrued and unpaid interest will be redeemable, in whole or in part, at the option of Estrella without penalty, provided that the weighted average trading price of the Common Shares, for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than \$1.50. Estrella may satisfy its obligation to repay the principal amount of the January 2011 Convertible Debentures on redemption or maturity, by payment in Common Shares with a deemed issue price equal to 95% of the current market price of the Common Shares on the TSXV or the TSX as applicable.

Notes to the Financial Statements

December 31, 2010

(U.S. dollars in thousands, except per share data and where noted)

24. Events after the balance sheet date (con't)

The proceeds of the Private Placement were used by the Company for the previously announced acquisition of 49% of the issued and outstanding shares of each Petroland SAS ("**Petroland**") and Zigma Columbia Petroleum Services S.A. ("**Zigma**"), two drilling and workover rig companies with operations in Colombia. The transaction also gives Estrella the option to acquire the balance of the companies during the 2011 calendar year. The acquisition of the 49% of both companies was completed in March 2011.

The Company has purchased 49% of the issued and outstanding shares of each of Petroland and Zigma for an aggregate purchase price of approximately \$10,500 (the "**Purchase Price**"). In connection with the Acquisition, the Company was granted an option to acquire an additional 11% of the issued and outstanding shares (the "**First Option**") and the final 40% of the issued and outstanding shares (the "**Second Option**") of each of Petroland and Zigma. The Purchase price for the First Option is approximately \$2,300 and shall be exercisable up to five (5) Business Days prior to December 31, 2011. If Estrella decides to exercise the First Option, it will automatically exercise the Second Option for which the purchase price will be based on the actual earnings of Petroland and Zigma for the 2011 fiscal year. Estrella may elect to pay any portion, up to the entire Second Option of 40% of the value of the Acquisition in common shares of Estrella stock.

Petroland is a well established company, with a primary operations base in Barranca Bermeja, Colombia. The company has six workover rigs and one drilling rig. Zigma is a company with a reemerging presence in the Llanos basin which operates three drilling and two workover rigs. With the addition of these rigs Estrella has seventeen rigs in Colombia. Both companies are headquartered in Bogota and are managed by the same senior management team who will continue with the company going forward.

On April 29, 2011 the Company completed a bought deal public offering (the "Offering") of 28,600,000 Common Shares. The Offering was made pursuant to a short form prospectus dated April 21, 2011 filed with the securities commissions in the provinces of the British Columbia, Alberta and Ontario. The Common Shares were issued at a price of CDN\$0.70 per share for aggregate gross proceeds of CDN\$20,020 to the Company. The Offering was conducted by a syndicate of underwriters and the Company paid a cash commission of CDN\$1,001 to such underwriters, representing 5% of the gross proceeds of the Offering.

APPENDIX F

AUDIT COMMITTEE CHARTER

The Audit Committee of the Board of Directors (the “**Committee**”) of Estrella International Energy Services Ltd. (the “**Company**”) has the responsibilities and duties as outlined below:

1. Mandate

The mandate of the Committee is:

- (a) to perform such duties as may be required by applicable legislation, regulations and policies including those of the Alberta Securities Commission (“**OSC**”), the Toronto Stock Exchange and/or the TSX Venture Exchange (collectively, the “**TSX**”) as more fully described under the heading “Duties” below;
- (b) to assist the Board of Directors (the “**Board**”) in fulfilling its oversight responsibilities for:
 - (i) the integrity of the Company’s financial statements;
 - (ii) the Company’s compliance with legal and regulatory requirements;
 - (iii) the external auditor(s)’ qualifications and independence;
 - (iv) the performance of the Company’s independent auditors; and
 - (v) the system of internal control over financial reporting (“**internal controls**”);
- (c) to perform such other duties as may from time to time be assigned to the Committee by the Board.

2. Authority

The Committee has authority to:

- (a) conduct or authorize investigations into any matters within its scope of responsibility;
- (b) retain independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation;
- (c) meet with Company officers, external auditors and outside counsel, as necessary; and
- (d) determine appropriate funding for independent advisors.

3. Financial Information

The Committee shall:

- (a) review the quarterly and annual consolidated financial statements of the Company prior to approval by the Board and disclosure to the public, which review should include discussion

with management and external auditors of significant issues regarding the financial results, accounting principles, practices and management estimates and judgments;

(b) review the quarterly and annual Management's Discussion & Analysis ("MD&A") of the Company's current financial results, position and future prospects prior to review and approval by the Board;

(c) review earnings press releases and earnings guidance press releases;

(d) discuss significant financial risk exposures and the steps management of the Company has taken to monitor, control and report such exposures;

(e) review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards;

(f) review the Company's Annual Information Form; and

(g) review the process relating to and all certifications of the Chief Executive Officer and the Chief Financial Officer on the integrity of the Company's quarterly and annual consolidated financial statements as may be required under applicable securities legislation.

4. Compliance

The Committee shall:

(a) review investments and transactions that could adversely affect the well-being of the Company which may be brought to its attention by the external auditor(s) or by any officer of the Company;

(b) review the period reports on litigation matters; and

(c) periodically, review the Charter for the Committee and evaluate the Committee's effectiveness in fulfilling its mandate.

5. Internal Controls

The Committee shall:

(a) require Company management to implement and maintain appropriate internal control procedures over financial reporting and review, evaluate and approve these procedures; and

(b) establish procedures for processing complaints regarding accounting, internal controls or auditing matters.

6. External Auditors

The Committee shall:

(a) have responsibility for the oversight of the external auditor(s) who shall report directly to the Committee;

- (b) retain and terminate the Company's external auditor(s), subject to shareholder ratification;
- (c) review the annual audit plan and letter(s) of engagement;
- (d) at least annually review the report of the external auditor(s);
- (e) review and recommend to the Board the annual fee for the audit, review the Company's audit related expenses and pre-approve permitted non-audit services;
- (f) approve any significant non-audit relationship with the external auditor(s);
- (g) meet with the external auditor(s) and with management to discuss the quarterly and the annual consolidated financial statements including the Company's disclosure under MD&A; and
- (h) review with the external auditor(s) any audit problems or difficulties and management's response.

7. Reporting / Other Duties

The Committee shall:

- (a) report to the Board on the proceedings of each Committee meeting and on the Committee's recommendations at the next regularly scheduled Board meeting;
- (b) provide for an open avenue of communication between internal audit, the external auditors and the Board of Directors; and
- (c) institute and oversee special investigations as needed.

8. Composition

(a) Structure

(i) The Committee shall be composed of not less than three directors, a majority of whom must be "independent directors" until such time as the Company is listed on the Toronto Stock Exchange, when all members must be "independent directors".

(ii) Each member of the Committee shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her judgment as a member of the Committee. All members of the Committee shall have a working familiarity with basic finance and accounting practices.

(iii) All members of the Committee must be financially literate as required by the policies of the TSX.

(b) Independence

(i) A majority of the members of the Committee must not be current officers or employees of the Company or of any of its subsidiaries or affiliates nor have been such within the 36 months prior to his appointment. A majority of the members must not be

persons who are affiliated with the Company or of any of its subsidiaries or affiliates as determined by the Board.

(ii) Directors' fees (annual retainer and/or attendance fees) and incentive stock options are the only compensation a member of the Committee may be paid by the Company.

(c) Appointment of Committee Members

(i) Members are appointed or reappointed annually by the Board, such appointments to take effect immediately following the annual meeting of the shareholders of the Company. Members shall hold office until their successors are appointed or until they cease to be Directors of the Company.

(d) Vacancies

(i) Vacancies may be filled for the remainder of the current term of appointment of members of the Committee by the Board.

(e) Appointment and Qualifications of Committee Chair

(i) The Board shall appoint from the Committee membership a Chair for the Committee to preside at meetings. In the absence of the Chair, one of the other members of the Committee present shall be chosen by the Committee to preside at that meeting.

9. Meetings

(a) Calling of Meetings

(i) Meetings of the Committee may be called by:

- (1) the Chair,
- (2) any member of the Committee; or
- (3) the External Auditors.

(ii) The Committee may call a meeting of the Board to consider any matter of concern to the Committee.

(iii) The Committee shall not transact business at a meeting unless a majority of the members present are resident Canadians except where:

- (1) a resident Canadian member who is unable to be present approves in writing or by telephonic, electronic or other communications facilities the business transacted at the meeting; and
- (2) a resident Canadian majority of members would have been present if the absent member had been present.

(iv) Any resolution consented to at any time during the Company's existence by the signatures of all the members of the Audit Committee is as valid and effective as if

passed at a meeting of the members of the Audit Committee duly called, constituted and held for that purpose.

(b) Notice of Meetings

Notice of meeting of the Committee shall be sent by prepaid mail, by personal delivery or other means of transmitted or recorded communication or by telephone at least 12 hours before the meeting to each member of the Committee at the member's address or communication number last recorded with the Secretary. A Committee member may in any manner waive notice of a meeting of the Committee and attendance at a meeting is a waiver of notice of the meeting, except where a member attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called.

(c) Notice to the Internal Auditor and External Auditor(s)

The external auditor(s) are entitled to receive notice of every meeting of the Committee and to attend and be heard at each meeting and to have the opportunity to discuss matters with the independent directors, without the presence of management.

(d) Frequency

The Committee shall meet at least quarterly.

(e) Quorum

The quorum for a meeting of the Committee shall be a majority of the number of members, subject to a minimum of two members.

(f) Secretary and Minutes

The Chief Financial Officer or the Secretary of the Company shall act as Secretary of the Committee.

Minutes of meetings of the Committee shall be recorded and maintained by the Secretary of the Committee and subsequently presented to the Committee and to the Board, if required by the Board.