

10 June 2014

Dear Optionholder,

PARTICIPATION IN PRO-RATA RENOUNCEABLE ENTITLEMENT ISSUE

As announced to ASX on 10 June 2014, Black Star Petroleum Limited (**Black Star**) is undertaking a pro-rata renounceable entitlement issue of approximately 228,202,000 Shares to its shareholders who are registered as shareholders at 5pm (WST) on 17 June 2014 (**Record Date**) to raise approximately \$3,423,030 (**Entitlement Issue**).

The Shares will be offered on the basis of two (2) new Shares for every one (1) Share held as at the Record Date together with one (1) free attaching listed Option for every one (1) Share subscribed for and allotted under the Entitlement Issue (**Offer**). The Shares offered under the Entitlement Issue will rank equally with the Shares on issue at the date of the prospectus. The Options will be exercisable at \$0.015, on or before 31 December 2016. The Company intends to seek approval for the Options to be quoted as a new class.

The Entitlement Issue is fully underwritten by Patersons Securities Limited (**Underwriter** or **Patersons**), who will also be lead manager to the Offer and has been appointed as the Company's nominee for foreign Shareholders for the purposes of ASX Listing Rule 7.7, for those foreign Shareholders who have been deemed ineligible to participate under the Offer. The Company has agreed to pay the Underwriter an underwriting fee of 6% (plus GST) and a management fee of \$60,000 (plus GST).

The Offer is being made to all shareholders of the Company (**Shareholders**) named on its register of members at 5pm (WST) on 17 June 2014, whose registered address is in Australia or New Zealand.

The rights attaching to the Shares together with all other relevant information relating to the Entitlement Issue is set out in a prospectus which was lodged with the Australian Securities and Investments Commission and ASX on 10 June 2014 (**Prospectus**). New Shares will rank equally with all fully paid ordinary shares in the capital of the Company already on issue. A copy of the Prospectus, together with the Entitlement and Acceptance Form, will be sent to shareholders on or about 20 June 2014.

Following completion of the Offer, the Company will have issued approximately 228,202,000 New Shares resulting in total Shares on issue of approximately **357,516,467**.

The funds raised from the Offer are planned to be used in accordance with the table set out below:

| Item | Proceeds of the Offer | Full Subscription (\$) | % |
|------|--|------------------------|-------|
| 1. | Drill and coring of third well at the Nebraska Oil Project | 650,000 | 18.99 |
| 2. | Fracture stimulation of three wells | 300,000 | 8.76 |
| 3. | Repayment of loan with Avonglade Enterprises Pty Ltd and other related party payments ¹ | 1,250,000 | 36.52 |
| 4. | Repayment to other creditors | 350,000 | 10.22 |
| 5. | Expenses of the Offer ² | 313,225 | 9.15 |

| | | | |
|----|-----------------|------------------|-------------|
| 6. | Working capital | 559,805 | 16.35 |
| | Total | 3,423,030 | 100% |

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

There is no inherent right in your Options to participate in the Entitlement Issue, unless you exercise your Options and are entered onto the register as a shareholder on or before the Record Date. The purpose of this letter is to give you notice prior to the Record Date in which you may exercise your Options should you wish to participate in the Entitlement Issue.

If you wish to participate in the Entitlement Issue you must exercise your Options in time for the new Shares to be allotted before the Record Date. To ensure that your new Shares are allotted before the Record Date your notice of exercise of Options together with your cheque for the necessary amount must be received by Automatic Registry Services **no later than 17 June 2014**. Any notice of exercise of Options received after this date cannot be assured of allotment before the Record Date.

If you do not wish to participate in the Entitlement Issue (in respect of your Options) you do not need to take any action.

Before deciding whether to exercise all or any of your Options, you should consider the terms of the Entitlement Issue carefully and if in any doubt, consult with your professional advisor.

Yours sincerely

Jonathan Hart
Company Secretary
BLACK STAR PETROLUEM LIMITED