

1 August 2014

Dear Optionholder,

PARTICIPATION IN PRO-RATA RENOUNCEABLE ENTITLEMENT ISSUE

Black Star Petroleum Limited (**Black Star**) is undertaking a pro-rata renounceable entitlement issue of approximately 684,606,000 Shares to its shareholders who are registered as shareholders at 5pm (WST) on 11 August (**Record Date**) to raise approximately \$3,423,030 (**Entitlement Issue**).

The Shares will be offered on the basis of six (6) new Shares for every one (1) Share held as at the Record Date at an issue price of \$0.005 per Share (**Offer**). The Shares offered under the Entitlement Issue will rank equally with the Shares on issue at the date of the prospectus.

The Entitlement Issue is partially underwritten by Garrison Equities Pty Ltd (**Underwriter**). CPS Capital Group Pty Ltd (**CPS Capital**) 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 CPS Capital a nominee fee of \$5,000.

The Offer is being made to all shareholders of the Company (**Shareholders**) named on its register of members at 5pm (WST) on 11 August, 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 1 August 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 14 August 2014.

Following completion of the Offer, the Company will have issued approximately 684,606,000 New Shares resulting in total Shares on issue of approximately 798,707,000.

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

	Proceeds of the Offer	Full Subscription (\$)	%
1.	Repayment of loan with Avonglade Enterprises Pty Ltd and other related party payments ¹	1,250,000	36.52
2.	Drill and coring of third well at the Nebraska Oil Project	650,000	18.99
3.	Core analysis of third well	100,000	2.92
4.	Fracture stimulation of three wells	300,000	8.76
5.	Three well site completions	50,000	1.46
6.	Assessment and potential acquisition of oil and gas opportunities in North America.	250,000	7.30
7.	Payment to existing creditors	350,000	10.22
8.	Expenses of the Offer ²	38,280	1.12
9.	Working capital	434,750	14.67
	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.



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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 11 August 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 PETROLUUM LIMITED