

6 August 2014

Dear Shareholder,

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**).

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 (**Eligible Shareholders**).

The entitlements under the Offer (**Entitlements**) are renounceable, which means that all or part of an eligible shareholder's rights to subscribe for securities under the Offer may be traded on ASX. If you wish to sell all of your entitlement on ASX, provide instructions to your stockbroker regarding the entitlement you wish to sell on ASX. Trading of entitlements on the ASX will be open for the period as specified in the timetable below.

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**). A copy of the Prospectus is available on ASX's and the Company's website. 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.

Key Dates

The proposed timetable for the Entitlement Issue is as follows:

Lodgement of Prospectus with ASIC	1 August 2014
Lodgement of Prospectus & Appendix 3B with ASX	1 August 2014
Notice sent to Optionholders	1 August 2014
Notice sent to Shareholders	6 August 2014
Ex date	7 August 2014
Rights start trading	7 August 2014
Record Date for determining Entitlements	11 August 2014
Prospectus sent out to Shareholders & Company announces this has been completed	14 August 2014
Rights stop trading	18 August 2014
Shares quoted on a deferred settlement basis	19 August 2014
Last day to extend the Offer Closing Date	20 August 2014
Closing Date*	25 August 2014
ASX notified of under subscriptions	28 August 2014
Issue date and deferred settlement trading ends	1 September 2014
Normal trading resumes*	2 September 2014

These dates are subject to change and are indicative only. Subject to the ASX Listing Rules the Corporations Act 2001(Cth) and the terms and conditions of the Underwriting Agreement the Directors reserve the right to vary the dates for the Entitlement Issue at their discretion.

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

It	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.

In calculating entitlements under the Entitlement Issue, fractions will be rounded up to the nearest whole number.

Applicants

The Entitlement Issue is made to shareholders with registered addresses in Australia and New Zealand only.

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying the Prospectus. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

Actions required of Eligible Shareholders

You may participate in the Offer by:

- taking up all of your Entitlement;
- selling all of your Entitlement on ASX;
- taking up a proportion of your Entitlement and selling the balance on ASX;
- taking up a proportion of your Entitlement and allowing the balance to lapse;
- selling all or a proportion of your Entitlement other than on ASX; or
- allowing all or part of your Entitlement to lapse.

If you wish to accept all or part of your Entitlement, you must:

- complete the Entitlement and Acceptance Form and attach your cheque, drawn on an Australian bank or bank draft made payable in Australian currency, for all or part of the amount indicated on the Entitlement and Acceptance Form; or
- pay the appropriate application monies for all or part of your Entitlement through the BPay® facility described in the Prospectus and the Entitlement and Acceptance Form. If you make your payment by BPay®, you do not need to return the Entitlement and Acceptance Form.

Ineligible Shareholders

A Shareholder who has a registered address outside Australia and New Zealand (**Ineligible Shareholder**) will not be eligible to participate in the Offer. Overseas shareholders should contact the Company Secretary with any queries.

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 (**Nominee**). The Company will pay the Nominee a fee of \$5,000.

Pursuant to the arrangement with the Nominee, the Company will transfer to the Nominee the rights that would otherwise be issued to the foreign holders who either accept the offer or are otherwise entitled to acquire such rights under the Offer and the Nominee will then sell those rights and provide the proceeds of those sales (net of expenses) to the Company (or its share register). The Company will then distribute to each of those foreign holders their proportion of the proceeds of the sale net of expenses.

There is no guarantee that the Nominee will be able to sell Entitlements of Ineligible Shareholders on ASX and Ineligible Shareholders may receive no value for the Entitlements. Both the Company and the Nominee take no responsibility for the outcome of the sale of such Entitlements or the failure to sell such Entitlements.

Full details of the Entitlement Issue will be contained in the Prospectus that will be mailed to all shareholders who are registered on the Record Date. Shareholders eligible to participate should read the Prospectus carefully.

Should you have any queries in relation to this matter, please do not hesitate to contact the Company on (+61 8) 9200 4493.

Yours sincerely

Jonathan Hart
Company Secretary
BLACK STAR PETROLUEM LIMITED