THE BLACK SEA PROPERTY FUND LIMITED

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Dear Shareholders:

I would like to update you on the Black Sea Property Fund following today's distribution announcement, including reporting on our assets and the restructuring of our board and local advisor.

Our recent distribution is a return of capital raised in the offering, but in light of our portfolio, our cash position, the global macroeconomic situation, and the Bulgarian property market, we expect that any future distributions will follow asset sales. In Bulgaria, as elsewhere, property sector demand is for income producing assets. The demand for risky assets such as undeveloped land, especially undeveloped land for the holiday sector, is virtually nonexistent.

Accordingly, we have begun actively marketing Evergreen, our one non-holiday asset, at a price we think realistic in the current environment. Evergreen has a prime location on the ring road that circles Sofia. It is a permitted and serviced plot of land adjacent to a recently completed development, where sales have been positive. Over the years we have had periodic indications of interest in Evergreen and are hopeful that this will translate into firm bids at reasonable prices.

We have also substantially marked down our completed inventory in Obzor and Nikkea Park. In consultation with our development partner marketing the Obzor units in Moscow and Knight Frank, we have marked down the remaining Obzor units by an average of twenty-nine per cent. In consultation with local brokers in Varna, we have marked down the remaining Nikkea Park units by any average of twenty per cent and increased broker commissions. We have had four reservations at Nikkea following the implementation of our new pricing structure and are hopeful that we will see similar sales activity once the Obzor repricing takes effect.

Regarding Magnolia, which we wrote off to nil some time ago, we are focusing on conserving capital by discontinuing the legal efforts that have been underway for several years. The Magnolia story is a sorry one. Black Sea invested approximately £5 million with a local developer and took a second mortgage over the Pamporova property, a planned ski development near Greece. A Greek bank loaned the developer about €2.5 million and took a first mortgage over the property. The developer defaulted on his obligations and notwithstanding a number of legal victories we have been unable to enforce our legal rights to force the sale of the asset and repayment of our debt. This fact is a sad reflection on the enforceability of contracts in Bulgaria. Under Bulgarian law, further efforts to enforce our rights now require the payment into court of a large sum (as well as the continual payment of legal fees). Now also, given the collapse of Bulgarian property prices, it is the view of Colliers, our local strategic advisor, that the value of the Pamporova asset is a fraction of the value of the Bank's first mortgage (principal plus interest) and the Bank says that it is foreclosing on its first mortgage. Consequently the Board has decided that any further expenditures to enforce Black Sea's second mortgage would be inadvisable.

The market for undeveloped and unserviced land in Bulgaria is frozen with virtually no reported transactions. Consequently, there have been no further developments at either Borovets or Byala. Our Borovets land is adjacent to the planned expansion of the Borovets ski lift, and several years ago work had commenced with financing from a Middle Eastern sovereign wealth fund. But when I visited last month, there was no construction activity or even any remnants of past construction activity. "Super Borovets," the projected modernization of Borovets, appears dead. The existing ski facility dates from the communist era, and in recent years there has been a substantial increase in Borovets's lodging capacity. But the increase in lodging capacity appears excessive given the existing infrastructure. Byala too requires substantial infrastructure investment, which also does not appear practicable in the current environment. It is doubtful that there will be any progress with either Borovets or Byala for the foreseeable future.

Given the global economic facts and local reality, our focus has been and continues to be on reducing costs and maximizing efficiency. The board invited Stephen Coe to join in October and serve as the Company's financial director. Steve, a Chartered Accountant, is highly experienced in many facets of the offshore funds industry and will focus on reducing costs and improving financial reporting. Steve is considering various steps to reduce costs including reducing operating costs in Jersey and Sofia, consulting with shareholders regarding delisting Black Sea from the AIM and redomiciling the Company to a less costly jurisdiction.

Lastly, we have had departures of two people who made substantial contributions to Black Sea. This past August, Angelo Moskov stepped down as a director to set up his own investment company in London. We thank Angelo for his substantial contributions to Black Sea, including his spearheading the change of the Black Sea board in 2007, his prudent decision to halt the development of Evergreen in 2008, his successful efforts to terminate the third party manager and internalize fund management in 2008, and his successful efforts to restructure the Obzor loan in 2009. It is largely thanks to Angelo's foresight that Black Sea has remained free from debt, has no contingent obligations, pays no third party management fees, and has been able to return £8 million in excess cash (about 20 per cent of what was raised in the offering) to shareholders. Michael Polendakov, who managed our Sofia office for several years, also resigned to relocate to Russia to head the CIS operation of a large European cement company. Misho provided steady leadership and good judgment during a difficult period. We wish Angelo and Misho the best of luck.

Respectfully yours,

John D. Chapman
Chairman