



Orco Property Group S.A.
Société Anonyme
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R.C.S. LUXEMBOURG B 44.996

(the "**Company**" or "**OPG**")

**REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY ESTABLISHED ACCORDING TO
ARTICLE 32-3(5) OF THE LAW DATED 10 AUGUST 1915 ON COMMERCIAL COMPANIES AS
AMENDED**

The Board of Directors of the Company (the "**Board**") presents, according to Article 32-3(5) of the law dated 10 August 1915 on commercial companies as amended (the "**LCA**"), this report concerning the proposal to authorise the Board to limit or suppress the shareholders preferential subscription rights during capital increases decided within the framework of the additional amounts of authorised share capital which are proposed to be introduced, as mentioned hereafter and as scheduled under points 3, 4, 5 and 6 of the agenda for the Company's Extraordinary General Meeting of shareholders convened to be held on 27 June 2013 (or in the case of re-convening of the Extraordinary General Meeting in the absence of a quorum, the date of the reconvened Extraordinary General Meeting) (the "**Meeting**").

The Board specifically mentions that it is firstly proposed to the shareholders of the Company during the Meeting to adjust the current amount of the authorised share capital, in order to reflect transactions already completed by the Board and the Company under the current authorised share capital clause and therefore to set the amount of the authorised share capital at EUR 215,681,924.-, and recommends the Meeting to do so in order to avoid any further confusion as to the amount of the authorised share capital still outstanding.

The Board further recommends the Meeting to grant the authorisation to the Board to limit or suppress the preferential subscription rights of the shareholders in the context of the additional authorised share capitals which are proposed to be introduced, as mentioned hereafter and as scheduled under points 3, 4, 5 and 6 of the agenda of the Meeting.

1- Proposed resolutions concerning the authorised capital submitted to shareholders' votes at the Meeting

Regarding point 3 of the agenda of the Meeting, the Board recommends the Meeting to amend the existing authorised share capital clause by increasing it by an amount of EUR 10,000,000.- (with the possibility for the Board to limit or cancel the preferential subscription rights, where applicable), which equates to 5,000,000 new ordinary shares and to grant to the Board all powers for the remaining period of the authorised capital as currently set out in the articles of association of the Company in order to carry

out capital increases within the framework of such authorised capital as increased by the amount of EUR 10,000,000.-, it being understood that such additional amount of authorised share capital shall only be used by the Board for the purposes of issuing 5,000,000 new shares of the Company resulting from the exercise of new incentive warrants or stock options (with an exercise price of EUR 2.50 giving right to one share per warrant or stock option, with final terms to be determined by the Board within the limits of this authorisation) to be issued by the Board under such authorised share capital as increased by the amount of EUR 10,000,000.-, to the management of the Company.

Regarding point 4 of the agenda of the Meeting, the Board recommends the Meeting to amend the existing authorised share capital clause by increasing it by an amount of EUR 13,333,334.- (with the possibility for the Board to limit or cancel the preferential subscription rights, where applicable), which equates to 6,666,667 new ordinary shares and to grant to the Board all powers for the remaining period of the authorised capital as currently set out in the articles of association of the Company in order to carry out capital increases within the framework of such authorised capital as increased by the amount of EUR 13,333,334.-, it being understood that such additional amount of authorised share capital shall only be used by the Board for the purposes of issuing 6,666,667 new shares [to Gamala Limited, Kingstown Capital, LP, Alchemy Special Opportunities Fund II L.P., Crestline Ventures Corp. and Stationway Properties Limited at a price of EUR 2.25 per share] (with final details to be determined by the Board within the limits of this authorisation).

Regarding point 5 of the agenda of the Meeting, the Board recommends the Meeting to amend the existing authorised share capital clause by increasing it by an amount of EUR 9,977,326.- (with the possibility for the Board to limit or cancel the preferential subscription rights, where applicable), which equates to 4,988,663 new ordinary shares and to grant to the Board all powers for the remaining period of the authorised capital as currently set out in the articles of association of the Company in order to carry out capital increases within the framework of such authorised capital as increased by the amount of EUR 9,977,326.-, it being understood that such additional amount of authorised share capital shall only be used by the Board for the purposes of issuing 4,988,663 new shares to the holders of the currently outstanding warrants of the Company upon the exercise of such warrants.

Regarding point 6 of the agenda of the Meeting, the Board recommends the Meeting to amend the existing authorised share capital clause by increasing it by an amount of EUR 30,000,000.- (with the possibility for the Board to limit or cancel the preferential subscription rights, where applicable), which equates to 15,000,000 new ordinary shares and to grant to the Board all powers for the remaining period of the authorised capital as currently set out in the articles of association of the Company in order to carry out capital increases within the framework of such authorised capital as increased by the amount of EUR 30,000,000.-, it being understood that such additional amount of authorised share capital shall only be used by the Board for the purposes of issuing 15,000,000 new shares of the Company resulting from the exercise of up to 15,000,000 warrants (with an exercise price at a discount of up to 10% of the market share price but no lower than the accounting par value of EUR 2, giving right to one share per warrant) to be issued by the Board under such authorised share capital to a financial intermediary under an equity line / PACEO (*Programme d'Augmentation de Capital par Exercice d'Options*) having a term of 2 years (with final details of the equity line to be determined by the Board within the limits of this authorisation).

2- Purposes and reasons for the envisaged limitation or suppression of the shareholders preferential subscription rights during capital increases within the authorised capital framework

It is recalled that the goal of the legislator in establishing a preferential right of subscription is to prevent a shareholder from seeing its share and control in a company being diminished or diluted because of an increase in capital to which he could not subscribe.

As a measure to protect the financial interests of shareholders, the limitation or suppression of the preferential right can only be envisaged in a framework justified by special circumstances and should only be in the interest of the Company.

The present report has been issued by the Board in order to present the particular circumstances justifying the limitation or suppression of this preferential right within the framework of the additional amounts of authorised share capital which are proposed to be introduced, as mentioned above and as scheduled under points 3, 4, 5 and 6 of the agenda of the Meeting.

The Board, acknowledging the absolute necessity of being immediately able to adapt the strategy and organization of the Company, in relation to changing economic markets, real estate and stock markets in which it is involved, proposes to the Meeting to authorize the Board to limit or suppress the preferential subscription rights of the shareholders in the event of future capital increases within the limits of the additional amounts of authorised share capital which are proposed to be introduced, as mentioned above and as scheduled under points 3, 4, 5 and 6 of the agenda of the Meeting.

The Board would also like to stress various reasons justifying the implementation of such measure and circumstances in which such measure may be used by the Board, including notably, but not limited to, the following:

- a) The technique of authorised capital with limitation or suppression of the preferential subscription rights of existing shareholders offers the Board the flexibility and speed required to gather funds and to save the Company from serious and imminent damage from a third person and/or harm, and/or litigation, and/or particularly negative economic and financial circumstances, peculiar to the Company, causing or likely to cause consequential risks, losses or damages. This subscription with limitation or suppression of the preferential subscription rights will allow, if appropriate, the Company to strengthen its liquidity or supply funding in accordance with the prudential rules in force.
- b) The technique of authorised capital with limitation or suppression of the preferential subscription rights for existing shareholders may be used both in the issue of warrants or stock options and the exercise of warrants or stock options into shares issued by the Company and to allow share issues for the benefit of employees, management and directors of the Company. The Board considers it essential for and in the interest of the Company to have the flexibility to issue such shares, warrants or stock options in order to properly incentivize employees, management and directors to perform at their highest potential for the Company.

The Board therefore recommends the Meeting to authorize it to limit or suppress the shareholders' preferential subscription right while it is achieving future capital increases within the framework of the the additional amounts of authorised share capital which are proposed to be introduced, as mentioned above and as scheduled under points 3, 4, 5 and 6 of the agenda of the Meeting.

The share price at which new shares will be issued will be determined based on the accounting value set in the Company's articles of association at time of issue, but in any case shall not be under the par value of the shares set out in the Company's articles of association.

Besides the accounting value, new shareholders may have to pay an issue premium, as applicable and decided by the Board, which will be calculated in terms of the accounting value of existing shares.

The Board finally acknowledges and reminds that as a matter of law, provisions of Article 57 of the LCA shall also apply during meetings of the Board resolving on capital increases of the Company within the framework of the authorised capital. Thus, any director who has a conflict between his interests and those of the Company in any business or matter to be resolved upon by the Board (including capital increases to be realised under the authorised capital) (i) must promptly inform the Board of such potential conflict; (ii) must request that this is stated in the minutes of the Board meeting; and (iii) cannot take part in these deliberations and cannot vote in relation to the matter in which such director is conflicted.

The Board

27 May 2013