

Opinion of an statutory auditor

for the General Meeting of Shareholders and Supervisory Board of KOPEX SA

Opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the KOPEX SA Capital Group (hereinafter „the Group”) for which the parent company is KOPEX SA with its registered office in Katowice, 1 Grabowa Street, which comprise consolidated statement of financial position as at 31 December 2016 r, consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January to 31 December 2016, as well as additional information on adopted accounting policies and other explanatory notes.

Responsibility of the Management Board and Supervisory Board members

The Management Board of the parent company on the basis of properly maintained consolidation documentation is responsible for the preparation and fair presentation the financial statements in accordance with international financial reporting standards approved by the European Union and for drawing up the report and for the correctness of the accounts in accordance with applicable regulations. The Management Board of the parent company is also responsible for internal control, which it considers necessary for the preparation of the financial statements contain a material distortion caused by fraud or error.

The Management Board and the Supervisory Board members of the parent company are obliged to ensure that the consolidated financial statements comply with the requirements provided for in the Act of 29 September 1994 on accounting („ Act on accounting " - Journal of Laws of 2013, pos. 330 as amended).

The liability of the statutory auditor

We are responsible for expressing an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the provisions of Chapter 7 of the Accounting Act and in accordance with International Standards on Auditing adopted by the National Auditing Standards by the resolution of the National Council of Statutory Auditors of February 2015. These standards require respecting ethical requirements and planning and carrying out the audit in such a way that, to obtain reasonable assurance that the consolidated financial statements is free from material misstatement.

The audit consisted of carrying out procedures to obtain evidence of the audit of amounts and disclosures in the consolidated financial statements. The selection of procedures depends on the auditor's judgment, including the risk assessment of material misstatement of the consolidated financial statements, whether due to fraud or error. When assessing that risk, the auditor takes into consideration the internal control function, in terms of the Group's preparation and fair presentation of the consolidated financial statements, in order to design audit procedures that are appropriate in the circumstances and not an expression of the internal control effectiveness of the entity. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide an audit opinion

Opinion

In our opinion, the attached financial statements:

- a. provides a fair and clear view of the Group's financial position as at 31 December 2016 and its financial result and cash flows for the period from 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the European Union and adopted accounting policies;
- b. is consistent in form and content with the Company's legal regulations, including the requirements of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognizing as equivalent information required by the laws of a non-Member State ("Regulation" - Journal of Laws of 2014, item 133, as amended) and the Company Statute;
- c. have been prepared from consolidation documentation that have been properly maintained

Report on other legal requirements and regulations

Opinion on the activity report

Our opinion on the audit of the consolidated financial statements does not include the report on the Group's activities.

The Management Board of the parent company is responsible for drawing up the activity report in accordance with the Accounting Act and the Regulation. In addition, the Management Board and members of the Supervisory Board are required to ensure that the activity report meets the requirements of the Accounting Act.

Our responsibility was to review the report, due to auditing the consolidated financial statements, and to consider whether the information contained therein is consistent with the provisions of art. 49 of the Accounting Act and the Regulations and whether they are consistent with the information in the attached financial statements. Our obligation was also to consider, basing on our knowledge about the entity and its environment acquired during the audit of the consolidated financial statements, whether the report does not contain material misstatement.

In our opinion, the information included in the report on the Group's activity for the financial year from 1 January to 31 December 2016 takes into account the provisions of Art. 49 of the Accounting Act and the Regulations and are consistent with the information contained in the audited consolidated financial statements.

Moreover, in the light of our knowledge about the Group and its surroundings obtained during our audit, we did not find significant distortions in the Group's activity report.

In connection with the audit of the consolidated financial statements, it was also our duty to review the Group's statement of corporate governance, which constitutes a separate section of activity report. In our opinion, in this statement the Group has entered information required in accordance with the scope set out in the Regulation and the information specified in the Regulation comply with the applicable regulations and information contained in the financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers sp. z o.o., Registered Audit Company No. 144:

Tomasz Reinfuss

Key Certified Auditor

Registration number 90038

Katowice, 28 April 2017

KOPEX SA Capital Group

**Report on the audit of the consolidated financial statements for the
financial year from 1 January to 31 December 2016**

Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016

for the General Meeting of Shareholders and Supervisory Board of KOPEX SA

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KOPEX SA Capital Group

Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016

I. General characteristics of the Group

- a. The parent company of the KOPEX SA Capital Group ("the Group") is KOPEX SA („the parent company”) with its registered seat in Katowice, 1 Grabowa Street.
- b. Articles of Association of the parent company were drafted in the form of notarial deed in the notarial office of Teresa Janeczko in Warsaw on 19 November 1993 and it was registered in repertorium under the number 3997 / 93. On 12 July 2001 VIII Regional Court in Katowice the Commercial Division of the National Court Register carried the entry of the Company in the register of entrepreneurs under the number KRS0000026782.
- c. For the purposes of settlements on account of taxes a number was assigned to the parent company 634-01-26-849 NIP, and for statistical purposes the parent company received REGON number 271981166.
- d. The share capital of the parent company as at 31 December 2016 amounted to PLN 74,333 thousand. PLN and consisted of 74,332,538 shares of nominal value and PLN 00 each. Equity at that date amounted to PLN 42,656 thousand.
- e. As at 31 December 2016, the parent company's shareholders were:

Name of shareholder	Number of shares held	Nominal share value (PLN)	Type of shares held	% of votes
Tomasz Domagała (indirectly through subsidiaries)	48,655,515	48,655,515	ordinary	65.83
Other shareholders	25,400,918	25,400,918	ordinary	34.17
	74,332,538	74,332,538		100.00

As at 31 December 2015, the Company's shareholder were:

Name of shareholder	Number of shares held	Nominal share value (PLN)	Type of shares held	% of votes
Krzysztof Jędrzejewski	43,586,675	43,586,675	ordinary	58.64
TDJ SA (indirectly through subsidiaries)	7,433,000	7,433,000	ordinary	9.99
ING OFE	4,029,002	4,029,002	ordinary	5.42
Other shareholders	19,283,861	19,283,861	ordinary	25.95
	74,332,538	74,332,538		100.00

- f. During the period considered, the Group's business was:
 - manufacture of machinery and equipment used in the mining industry,
 - general contracting of complete investment projects in mining,
 - provision of specialized mining services.

I. General characteristics of the Group (continued)

g. As at the date of signing this report, the members of the Management Board of the Company are:

- Beata Zawiszowska President of the Management Board from 16 December 2016
- Bartosz Bielak VicePresident of the Management Board from 16 December 2016

h. During the financial year, the Company's Management Board members were:

- Piotr Broncel Member of the Management Board from 14 September 2016
- Dariusz Pietyszuk President of the Management Board from 11 August to 15 December 2016
- Henryk Jurczyk Member of the Management Board from 1 June to 15 December 2016
- Dariusz Pietyszuk Member of the Supervisory Board delegated to perform as the President of the Management Board from 10 May to 15 December 2016
- Magdalena Nawłoka Member of the Management Board from 10 May to 15 December 2016
- Joanna Węgrzyn Member of the Management Board to 1 February 2016
- Krzysztof Zawadzki Member of the Management Board from 1 February to 10 May 2016
- Bogusław Bobrowski President of the Management Board from 12 January to 10 May 2016
- Marek Uszko Member of the Management Board from 12 January to 10 May 2016
- Józef Wolski President of the Management Board to 12 January 2016
- Andrzej Meder Member of the Management Board to 12 January 2016
- Michał Rogatko Member of the Management Board to 11 January 2016

i The parent company is the issuer of securities admitted to trading on the Stock Exchange Securities in Warsaw. With the choice of accounting policies laid down by the provisions of the accounting Act, as from 1 January 2005, the company prepares financial statements in accordance with international financial reporting standards (IFRS) approved by the European Union.

KOPEX SA Capital Group

Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016

I. General characteristics of the Group (continued)

j. Composition of the KOPEX SA Capital Group as at 31 December 2016:

Name of the entity	Characteristic of the capital link (% of the ownership)	Method of consolidation	Auditor of financial statements	Nature of opinion	Balance sheet date as at which the financial statements were prepared
KOPEX SA	parent	fully	PricewaterhouseCoopers sp. z o.o.	unqualified	31 December 2016
KOPEX Construction sp. z o.o.	subsidiary (100%)	fully	PricewaterhouseCoopers sp. z o.o.	in progress	31 December 2016
KOPEX Foundry sp. z o.o.	subsidiary (100%)	fully	PricewaterhouseCoopers sp. z o.o.	unqualified	31 October 2016
KOPEX-Przedsiębiorstwo Budowy Szybów SA	indirect subsidiary (95.00%)	fully	PricewaterhouseCoopers sp. z o.o.	in progress	31 December 2016
PBSz Inwestycje sp. z o.o.	subsidiary (100%)	fully	PricewaterhouseCoopers sp. z o.o.	in progress	31 December 2016
HANSEN Sicherheitstechnik AG (Germany)	subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016
ELGOR+HANSEN SA	indirect subsidiary (80.48%)	fully	PricewaterhouseCoopers sp. z o.o.	in progress	31 December 2016
KOPEX Africa (Pty) Ltd (RSA)	indirect subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016
HANSEN and GENWEST (Pty) Ltd (RSA)	indirect subsidiary (74.90%)	fully	PricewaterhouseCoopers Inc.	in progress	31 December 2016
HANSEN China Ltd (China)	indirect subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016
KOPEX Min (Serbia)	subsidiary (100%)	fully	other auditor	-	31 December 2016
KOPEX Min-Liv (Serbia)	subsidiary (100%)	fully	other auditor	-	31 December 2016
PT KOPEX Mining Contractors (Indonesia)	subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016
KOPEX Sibir sp. z o.o. (Russia)	subsidiary (100%)	fully	other auditor	-	31 December 2016
Śląskie Towarzystwo Wiertnicze DALBIS sp. z o.o.	subsidiary (100%)	fully	PricewaterhouseCoopers sp. z o.o.	in progress	31 December 2016
KOPEX-Ex-Coal sp. z o.o.	subsidiary (100%)	fully	PricewaterhouseCoopers sp. z o.o.	in progress	31 December 2016
Taian KOPEX Coal Mining Equipment Service Co. Ltd (China)	subsidiary (100%)	fully	other auditor	-	31 December 2016
Air Reliant (Pty) Ltd (RSA)	indirect subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016
KOPEX Finance & Restructuring sp. z o.o.	subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016
PBSz1 sp. z o.o.	subsidiary (100%)	fully	have not been audited	not applicable	31 December 2016

II. Information on the audit carried out

- a. The audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers sp. z o.o. based in Warsaw, Al. Armii Ludowej 14, Registered Audit Company No. 144. On behalf of the authorized entity, the audit was conducted under the supervision of the key certified auditor Tomasz Reinfuss (registered number 90038).
- b. PricewaterhouseCoopers sp. z o.o. was selected as the auditor of the parent company by the Resolution No 79/VII/2015 of the Supervisory Board dated 7 December 2015 according to Par 33 Cl 1 of the Company's Articles of Association.
- c. PricewaterhouseCoopers sp. z o.o and the key certified auditor conducting the audit are independent of the audited entity within the meaning of Art. 56 Cl. 2-4 of the Act of 7 May 2009 on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016, item 1000, as amended).
- d. The audit was conducted on the basis of the agreement dated 29 February 2012:
 - preliminary audit from 1 to 30 November 2016
 - final audit from 1 March to 28 April 2017

The Audit was conducted in accordance with International Standards on Auditing adopted as National Standards on Auditing by the Resolution of National Council of Statutory Auditors dated 10 February 2015. The scope of the audit was influenced by the assumed materiality level. In accordance with the above standards, the materiality concept is used by the certified auditor both in planning and conducting the audit, as well as in assessing the impact identified during the distortion test and corrected distortions, if any, on the consolidated financial statements, and in the formulation of the opinion in the auditor's report.

The study has been designed to provide reasonable assurance if the consolidated financial statements as a whole is free from material misstatement. Distortions may result from errors or fraud. Distortions are considered material when it can reasonably be expected that individually or collectively they could influence the user's economic decisions taken on the basis of the consolidated financial statements.

On the basis of professional judgment, materiality thresholds have been established and documented, including the Group's overall relevance in relation to the consolidated financial statements as a whole. These thresholds, together with qualitative factors, influenced the definition of the scope of the study, the nature, timing and extent of the examination procedures, and the impact assessment of the distortion, both individually and collectively on the consolidated financial statements as a whole. Accordingly, all statements contained in the auditor's report, including other legal and regulatory requirements, are expressed taking into account the materiality determined in accordance with the standards of the auditor and the auditor's judgment.

KOPEX SA Capital Group

Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016

III. Characteristics of the results, the Group's financial position and material items of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2016 (selected items)

	31 Dec 2016		31 Dec 2015		Changes		Structure	
	PLN thou	PLN thou	PLN thou	PLN thou	(%)	(%)	(%)	
ASSETS								
Fixed assets	470,979	1,107,855	(636,876)	(57.5)	37.2	52.0		
Current assets	734,503	1,020,936	(286,433)	(28.1)	58.1	48.0		
Fixed assets held for sale	59,047	1	59,046	-	4.7	-		
Total assets	1,264,529	2,128,792	(864,263)	(40.6)	100.00	100.00		
LIABILITIES AND EQUITY								
Equity	202,428	1,102,359	(899,931)	(81.6)	16.0	51.8		
Long-term liabilities	615,522	69,862	545,660	781.1	48.6	3.3		
Short-term liabilities	412,917	956,571	(543,654)	(56.8)	32.7	44.9		
Liabilities related to fixed assets held for sale	33,662	-	33,662	-	2.7	-		
Total equity and liabilities	1,264,529	2,128,792	(864,263)	(40.6)	100.00	100.00		

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the fiscal year from 1 January to 31 December 2016 (selected items)

	2016		2015		Changes		Structure	
	PLN thou	PLN thou	PLN thou	PLN thou	(%)	(%)	(%)	
Net revenue from sales of products, trade goods and materials	777,174	980,660	(203,486)	(20.7)	100.00	100.00		
Cost of products, trade goods and materials sold	(785,548)	(912,965)	127,417	(14.0)	(101.1)	(93.1)		
Gross profit / (loss) on sales	(8,374)	(67,695)	(76,069)	(112.4)	(1.1)	(6.9)		
Consolidated net loss	(902,708)	(1,471,379)	(568,671)	(38.6)	(116.2)	(150.0)		

KOPEX SA Capital Group

Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016

III. Characteristics of the results, the Group's financial position and material items of the consolidated financial statements (continued)

STATEMENT OF COMPREHENSIVE INCOME for the fiscal year from 1 January to 31 December 2016 (selected items)

	Changes				Structure	
	2016 PLN thou	2015 PLN thou	PLN thou	(%)	2016 (%)	2015 (%)
Consolidated net loss	(902,708)	(1,471,379)	(568,671)	38.6	(116.2)	(150.0)
Other comprehensive income	8,169	(11,714)	19,883	(169.7)	1.1	(1.2)
Total comprehensive income	(894,539)	(1,483,093)	588,554	(39.7)	(115.1)	(151.2)

Selected indicators characterizing the Company's financial position and financial results

The Group's economic activity, its financial result for the fiscal year and the financial position as at the balance sheet date as compared to the preceding periods are characterized by the following ratios:

	2016	2015	2014
Activity ratios			
- receivables turnover	149 days	132 days	89 days
- stock turnover	85 days	98 days	83 days
Profitability ratios			
- net sales profitability	(116)%	(150)%	7%
- gross sales profitability	(62)%	(136)%	9%
- overall profitability of capital	(138)%	(79)%	4%
Debt ratios			
- debt rate	81%	48%	26%
- liabilities turnover	47 days	55 days	49 days
	31 Dec 2016	31 Dec 2015	31 Dec 2014
Liquidity ratios			
- liquidity ratio I	1.8	1.1	1.4
- liquidity ratio II	1.5	0.8	1.1

The above ratios were calculated on the basis of the consolidated financial statements. The purpose of the study was not to present the Group in terms of business activity and results. Detailed interpretation of indicators requires an in-depth analysis of the Group's activities and its determinants.

III. Characteristics of the results, the Group's financial position and material items of the consolidated financial statements (continued)

The consolidated financial statements do not take into account the impact of inflation. The general rate of change in the price of consumer goods and services (December to December) during the period considered was 8% (2015: deflation -0.5%).

The following comments are based on the knowledge gained during the audit of the consolidated financial statements.

- Total sales revenues decreased by 20.7% in comparison to the previous year. This decrease was mainly due to the lower volume of contracts executed in the mining sector.
- The largest item of operating costs was the salary costs amounting to PLN 241,489 thousand during the audited period, which accounts for 27.5% of operating costs. The salary costs in comparison with the previous year decreased by 8.2%, which was mainly due to the reduction of the workforce.
- The decrease in revenues of the Group resulting from the difficult situation of the hard coal mining industry in Poland and in the world, directly resulting from the reduction of current production and the reduction or limitation of investment expenditures by the Company's contractors, necessitated revaluation write-downs on fixed and current assets. The decrease in Group's revenues, as a result of, among other things, the reduction of capital expenditures of the Group's main contractors and restructuring actions, described in the financial statements and the activity report, resulted in write-downs of fixed assets and current assets.
- During the year, the balance sheet total decreased by 40.6%. The decrease in the balance sheet total results mainly from the net loss of PLN 902,708 thousand.
- The ratios and structure of the Group's debt have changed. The debt ratio increased from 48% at the end of the last year to 81% at the end of the current year. Turnover liabilities decreased from 55 days to 47 days.
- In December 2016, the Group signed an agreement with the financing banks extending the repayment terms of loans and borrowings and found a strategic investor - the TDJ SA Group. The consolidated financial statements have been prepared in accordance with the going-concern principle.

IV. Statements of the independent auditor

- a) The parent company's Management Board presented the required information, explanations and statements in the course of the audit and submitted a statement on the complete disclosure of accounting records and disclosures of any contingent liabilities, and also reported material events that occurred after the balance sheet date to the date of the statement.
- b) The scope of the study was not limited.
- c) In all material respects, the consolidation of capital and determination of non-controlling shares were properly carried out.
- d) The exclusions of mutual settlements (receivables and liabilities) and internal turnover (revenues and expenses) of the entities subject to consolidation have been made in all material respects in accordance with IFRSs adopted by the European Union.
- e) The exclusions of unrealized gains by the consolidated entities included in the value of assets and dividends were made in all material respects in accordance with IFRSs adopted by the European Union.
- f) The effects of the sale of all or part of shares in subsidiaries are recognized in all material respects in accordance with IFRS adopted by the European Union.
- g) The consolidation documentation was complete and correct, and the way it is stored ensures proper protection.
- h) The Group's consolidated financial statements for the fiscal year from 1 January 2016 to 31 December 2016 have been approved by the Resolution No 3 of the General Meeting of Shareholders of the parent company dated 8 June 2016 and submitted to the National Court Register in Katowice on 20 June 2016.
- i) The additional information provides all relevant information required by the International Financial Reporting Standards adopted by the European Union.
- j) The information contained in the report on the Group's operations for the fiscal year from 1 January to 31 December 2016 takes into account the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information provided by issuers of securities and the conditions for recognizing as equivalent information required by law the laws of a non-member state (Journal of Laws of 2014, item 133, as amended) and are consistent with the information contained in the audited consolidated financial statements.

KOPEX SA Capital Group

Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016

V. Information and final comments

This report was prepared in connection with the audit of consolidated financial statements of the KOPEX SA Capital Group for which the parent company is KOPEX SA with its registered office based in Katowice, Grabowa 1 Street. The consolidated financial statements was signed by the Management Board of the parent company on 28 April 2017.

The report should be read together with the Report of the Independent Auditor dated 28 April 2017 for the General Meeting of Shareholders and the Supervisory Board of KOPEX SA, which contains an opinion on the above described consolidated financial statements. The opinion on the consolidated financial statements expresses the general conclusion resulting from the audit. This conclusion does not constitute the sum of the results of the examination of the individual items of the report or of the issues, but prescribes the appropriate weightings (materiality), taking into account the influence of the facts found on the accuracy and correctness of the consolidated financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers sp. z o.o., a company entered on the list of entities authorized to audit financial statements under number 144:

Tomasz Reinfuss

Key Certified Auditor

Registration number 90038

Katowice, 28 April 2017