



19 February 2019

Dear Shareholder

We write to you in relation to the Meeting of shareholders to be held at the Celtic Club, 48 Ord Street, West Perth, WA on Tuesday, 5 March 2019 commencing at 2:00 pm Western Standard Time. **This is your Company - we strongly encourage you to make your voice heard by voting.** If you do not vote, control of your Board may pass without you having any say on the matter.

As you are aware, the Meeting has been called by two of Capricorn's approximately 1,500 shareholders – Neon Capital Limited ("Neon") and Nero Resource Fund Pty Ltd ("Nero") – who together hold approximately 5.5% of the Company's capital.

Neon and Nero are seeking to replace three of the Company's Directors – Non-Executive Chair, Ms Debra Bakker, and Non-Executive Directors Messrs Geoffrey Rogers and Peter Benjamin – with three of their own nominees – Messrs Timothy Kestell, Peter Pynes, both Directors of Neon, and Mr Douglas Jendry.

We write this letter to update you on certain matters and to seek your support so we may continue with the important task of running your Company in the best interests of **all** shareholders. You can achieve this outcome by voting **AGAINST** each of the six resolutions proposed by Neon and Nero at the Meeting.

We note that Capricorn's only other current Director, Mr Stuart Pether, who is not the subject of a removal resolution and, hence, will remain on the Board irrespective of the outcome of the Meeting¹, is also of the view that the best interests of **all** shareholders would be achieved by there being no change to the Board. Accordingly, Mr Pether also recommends that shareholders vote **AGAINST** each of the six resolutions.

IMPORTANT UPDATES

Discussions

Since the Notice of Meeting and Statement of Directors was sent to shareholders on 30 January 2019, your Board has had discussions with representatives of Neon and Nero as well as other significant shareholders. During those discussions it has been suggested that approximately 40% of shareholders currently intend to support the resolutions proposed by Neon and Nero. That figure may or may not be correct. **If that figure is correct and you support the current Board then clearly you need to vote.**

As part of those discussions, your Board attempted to gain more insight and detail regarding the plans Neon, Nero and their supporters have for the Company with a restructured Board. It appears that Neon, Nero and some of the supporting shareholders believe that the proposed new Board members, together with their supporters will be able to put in place a better "team" to promptly maximise "value" for shareholders than the current Board.

Whilst we respect that view, the current Board does not agree with it. We find the lack of specifics frustrating as well as the fact that the current Board has only been in place since the Board "refresh" in November 2018 which was supported by a very large percentage of shareholders. In short, the current Board has effectively

¹ Following his appointment effective from 19 February 2019, Warren Hallam will also be a director who is not the subject of the removal requisition and will remain on the Board regardless of the outcome of the shareholders meeting.

been operating from a standing start in mid-November. Additionally, given the intervention of the Christmas and New Year break and the difficulties in progressing a value adding transaction with any third party whilst the Board is relatively new and the section 249D process is on foot, we would have thought it reasonable to give the current Board a sufficient period of time to identify and consider all transactions that would add value for all shareholders.

Also, in those discussions was the suggestion by some that there needed to be significant changes made in respect of the senior management of the Company and there appeared to be an implication that this was something a new Board would be implementing promptly. Further, and more concerning is the suggestion that perhaps the new Non-Executive directors would “manage” the Company during any intervening period. In our view appointment and removal of senior executives/management is a matter for a Managing Director (see below) and it is concerning that shareholders appear to be involving themselves in this matter.

Appointment of new Managing Director and CEO

Consistent with earlier announcements made by the Company, the Board announced the appointment of experienced mining executive Mr Warren Hallam as Managing Director and Chief Executive Officer, commencing 19 February 2019 (see ASX Announcement 18 February 2019).

The Board believes the appointment is in the best interests of ALL shareholders for the following reasons:

- Whilst the Board is actively seeking a corporate transaction that will be value adding for all shareholders, there can be no guarantee that this will happen in the short term, or at all. As Neon and Nero have themselves accepted in their “plan”, it is still a possibility that Karlawinda may be developed. In those circumstances, and given the comments above, it is necessary that the Company have a suitably qualified Managing Director and CEO;
- Even if a value adding corporate transaction can be entered into it will take time to negotiate, document and settle any such transaction and so, in the interim period, the Company’s business needs to be appropriately managed;
- The Board has negotiated a 3-month probationary period with Mr Hallam such that if the current Board is removed and the new Board wishes to proceed without Mr Hallam, the cost to the Company is minimal.

Conclusion

In the opinion of your Directors, **the appointment of the Neon and Nero Board nominees carries significant uncertainty for shareholders.**

Nominee Directors Kestell and Pynes have been involved in proxy fights for Board control on multiple previous occasions – including at Indago Resources Limited and Neon Energy Limited. Further details of these companies, and what happened to them, are set out in the Directors’ Statement that accompanied the recent Notice of Meeting. Your Board remains concerned about the possible outcome for minority shareholders (if all resolutions are approved) given previous transactions in which two of the proposed nominee directors have been involved.

Neon and Nero have stated that they intend to initiate a corporate transaction which is one of the options that the current Board is currently pursuing. We note that none of the nominee Directors appears to have any particular knowledge of Capricorn or the Karlawinda Gold Project and, hence, we consider that the current Board is much better placed to undertake this task.

Nero and Neon go on to say that, if a corporate transaction does not come to fruition, they will then look to build a team that has experience in developing projects. None of the nominee Directors appears to have any

experience in bringing a gold project into production or operating a gold mining company so, again, we consider that the current board is much better placed to undertake this task.

To restate, in our view replacing the current Board with the Neon and Nero Board nominees – whether to undertake a corporate transaction or bring Karlawinda into production – carries significant uncertainty for shareholders.

For all these reasons, **shareholders are urged to vote AGAINST each of the six resolutions** at the Company's forthcoming Meeting.

You can vote **AGAINST** the resolutions by simply completing the **green proxy form** which has been pre-filled for convenience and is enclosed with this letter and returning by email to hello@automic.com.au or by post (which may take upwards of 3-4 business days for delivery). The cost of this proxy form has been personally paid for by Directors Bakker, Rogers and Benjamin. If you do not support the current directors, you should not use the green proxy form and should instead use the white proxy form included in the Notice of Meeting booklet.

Remember, every single vote is important, no matter how big or how small your shareholding – this is your Company and you should make sure you vote to ensure your voice is heard.

We thank you for your ongoing support.

Yours sincerely



Debra Bakker
Non-Executive Chair



Geoffrey Rogers
Non-Executive Director



Peter Benjamin
Non-Executive Director



Stuart Pether
Non-Executive Director