



Australian Securities Exchange Announcement

25 January 2016

Heads of Agreement signed for acquisition of Blom Diamonds

HIGHLIGHTS

- **Binding HOA signed for acquisition of 74% interest in Blom Diamonds**
- **Creation of a unique vertically integrated investment vehicle to combine full value chain of diamond exploration/production, trading, beneficiation, cutting and polishing**
- **Transaction structure to significantly align both parties' interests**

Tychean Resources Limited (ASX:TYK) (Tychean or the Company) announces today that it has signed a binding Heads of Agreement (HOA) to acquire a 74% interest in Blom Diamond Cutting Works Pty Ltd and Ernest Blom Diamonds CC (Blom Diamonds), an established South Africa-based diamond company. The acquisition is the culmination of significant efforts in securing a cornerstone project and will transform Tychean into a vertically integrated diamond-focused company.

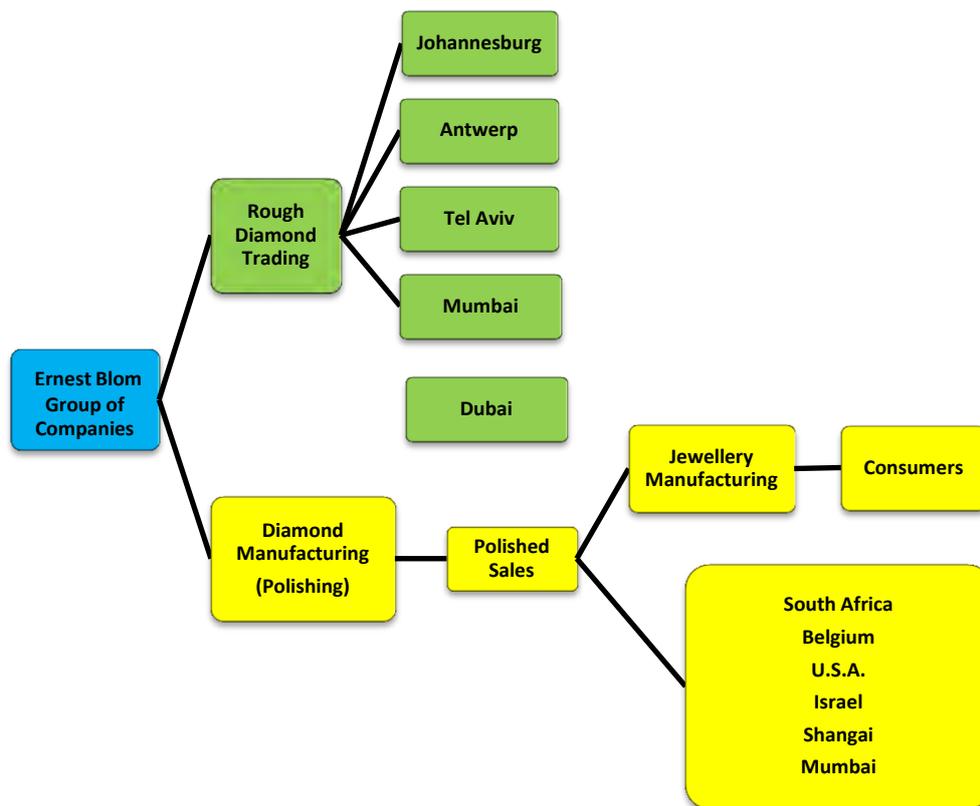
About Blom Diamonds

Blom Diamonds, comprising Blom Diamond Cutting Works Pty Ltd and Ernest Blom Diamonds CC is a well-established business with a proven track record accumulated over 38 years and a profitable operation that will provide a cash underpin to Tychean and distinguish it from the host of competitor exploration companies. Based in South Africa, Blom Diamonds currently engages in the trading, beneficiation, cutting and polishing of diamonds.

Ernest Blom Diamonds CC commenced business in 1978 and trades in rough diamonds on the South African markets as well as in other African countries. The company is a large-scale buyer of rough diamonds at both tenders and at the mines and utilises an extensive sales network from South Africa to the major diamond centres around the world. Blom Diamond Cutting Works Pty Ltd started business in 1986 whereby a state of the art factory facility in Johannesburg utilises the latest equipment for the polishing of diamonds as well as digital analysing software to maximise weight recovery, purity and clarity of cut stones. Polished diamonds are sold using sales outlets in all the major diamond centres.

Ernest Blom is the sole director of Blom Diamond Cutting Works Pty Ltd and Ernest Blom Diamonds CC. Mr Blom is a third generation member of a South African diamond family who travelled from Holland to South Africa where they co-founded the diamond cutting industry. Since its creation, the group has grown significantly and is well positioned to take full advantage of future growth opportunities. Mr Blom is currently President of the World Federation of Diamond Bourses and Economic Diplomatic Advisor to Belgium in South Africa. Following transaction completion, it is proposed that Mr Blom will become Managing Director of Tychean.

Overview of Blom Diamonds



Growth Opportunities – Vertical Integration

Mr Blom has an international profile of high standing which provides access to a global network of diamond projects whilst Dr Kevin Wills, an existing Director of Tychean, has extensive experience in diamond exploration and development including being a member of the team responsible for the discovery of the famous Argyle diamond mine in Western Australia. Consequently, Tychean will have the necessary experience to combine the full value chain of diamond exploration, production, trading, beneficiation, cutting and polishing, in turn creating a vertically integrated investment vehicle. Tychean notes that the value add by cutting and polishing company-produced diamonds would be in the vicinity of 20% to 30%.

The Case for Diamonds

The longer term outlook for the diamond market is positive given rising consumer demand against constrained supply. The majority of the world's major diamond mines are at a mature phase and past peak production levels whilst new projects coming online are not significant in size as there has been no major discoveries in recent years. Key demand drivers remain the continued economic recovery in the US market, urbanisation in China and India and increased demand from brides in these countries for jewellery purposes.

Agreement Terms

Under the terms of the HOA, Tychean will acquire a 74% equity interest in Blom Diamonds on the following basis:

- a) 68,450,000 Tychean shares to be issued to Blom Diamonds following transaction completion
- b) Performance shares in the capital of Tychean convert upon the satisfaction of the following milestones
 - a. **Milestone 1** - 433,516,667 Tychean shares upon Blom Diamonds achieving EBITDA of ZAR 19,615,312 (A\$ 1,926,871*) for the financial year ending 30 June 2018
 - b. **Milestone 2** - 433,516,667 Tychean shares upon Blom Diamonds achieving EBITDA of ZAR 22,152,739 (A\$ 2,176,130*) for the financial year ending 30 June 2019
 - c. **Milestone 3** - 433,516,667 Tychean shares upon Blom Diamond achieving EBITDA of ZAR 25,539,051 (A\$ 2,508,778*) for the financial year ending 30 June 2020
- c) Conversion of performance shares will be subject to a minimum threshold conversion of 50% meaning that performance shares will be issued on a pro-rata basis according to actual EBITDA as a % of each EBITDA milestone should actual EBITDA be at least 50% of the milestone. For example, if actual EBITDA for the financial year ending 30 June 2018 is 80% of the milestone, 80% of the performance shares will be converted into ordinary shares
- d) Any shortfall in the conversion of performance shares can be carried forward to the next financial year and converted into ordinary shares on a pro-rata basis should the actual EBITDA for that financial year exceed the milestone EBITDA

*Based on current exchange rates

The transaction is subject to conditions such as both parties having the right to complete due diligence within 60 days, Tychean shareholder approval and satisfaction of all legal and regulatory requirements.

For more information, please contact:

Mr Duncan Gordon
 Adelaide Equity Partners Limited
 +61 404 006 444
dgordon@adelaideequity.com.au