

SCIO DIAMOND TECHNOLOGY CORP

FORM 8-K (Current report filing)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **December 16, 2014**

SCIO DIAMOND TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation)

000-54529
(Commission
File Number)

45-3849662
(IRS Employer
Identification No.)

411 University Ridge Suite D
Greenville, SC
(Address of principal executive offices)

29601
(Zip Code)

Registrant's telephone number, including area code: **(864) 751-4880**

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

On December 16, 2014 Scio Diamond Technology Corporation (the "**Company**") entered into a Loan Agreement (the "**Loan Agreement**") and a Security Agreement (the "**Security Agreement**") with Heritage Gemstone Investors, LLC ("**HGI**") providing for a \$2,000,000 secured non-revolving line of credit (the "**Loan**") that the Company may use to repay existing indebtedness, fund working capital and for other corporate purposes. The Loan, which is represented by a Promissory Note dated as of December 15, 2014 (the "**Note**"), matures on December 15, 2017. On December 18, 2014, \$2,000,000 was drawn on the Loan. Borrowings accrue interest at the rate of 7.25% per annum.

The Company plans to utilize funds drawn on the Loan to repay its existing indebtedness to Platinum Capital Partners LLP and to fund its ongoing operations. The Loan Agreement contains a number of restrictions on the Company's business, including restrictions on its ability to merge, sell assets, create or incur liens on assets, make distributions to its stockholders and sell, purchase or lease real or personal property or other assets or equipment.

The Loan Agreement contains standard provisions relating to a default and acceleration of the Company's payment obligations thereunder upon the occurrence of an event of default, which includes, among other things, the failure to pay principal, interest, fees or other amounts payable under the agreement when due; failure to comply with specified agreements, covenants or obligations; cross-default with other indebtedness; the making of any material false representation or warranty; commencement of bankruptcy or other insolvency proceedings by or against the Company; and failure by the Company to maintain a book net worth of at least \$4.0 million at all times. The Company's obligations under the Loan Agreement are not guaranteed by any other party. The Company may prepay borrowings without premium or penalty upon notice to HGI as provided in the Loan Agreement. The Loan Agreement requires the Company to enter into the Security Agreement.

Under the Security Agreement, the Company grants HGI a first priority security interest in the Company's inventory, equipment, accounts and other rights to payments and intangibles as security for the Loan.

On the same date, the Company entered into an agreement for the Sale and Lease of Growers (the "**Grower Sale-Lease Agreement**") with HGI.

Pursuant to the Grower Sale-Lease Agreement, the Company agreed to a sale-leaseback arrangement for certain diamond growers produced by the Company during the term of the Grower Sale-Leaseback Agreement by which the Company will sell diamond growers to HGI and then lease the growers back from HGI. The direct profit margin generated from the growers will be split between the Company and HGI in accordance with the Grower Sale-Lease Agreement. The Grower Sale-Lease Agreement requires the Company to operate and service the growers, and requires HGI to up-fit certain existing growers and to make capital improvements to the new growers under certain circumstances. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events.

The Loan Agreement, Security Agreement and Grower Sale-Lease Agreement are attached hereto as Exhibits 10.1, 10.2 and 10.3, respectively, and are incorporated by reference herein. The foregoing descriptions of the Loan Agreement, Security Agreement and Grower Sale-Lease Agreement are qualified in their entirety by reference to such exhibits.

Item 1.02. Termination of a Material Definitive Agreement.

On December 18, 2014, using a portion of the proceeds of the Loan, the Company prepaid in full and terminated its existing credit facility with Platinum Capital Partners, LP (the "**Platinum Credit Facility**"). The outstanding principal balance of the Platinum Credit Facility that was prepaid plus accrued interest was \$1,579,175.17. The Company did not pay any prepayment penalties in connection with the termination of the Platinum Credit Facility. For a description of the Platinum Credit Facility, see Notes 3 and 8 to the Notes to Unaudited Condensed Financial Statements included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of Registrant.

The information included under Item 1.01 hereof is incorporated by reference into this Item 2.03.

Item 8.01 Other Events.

On December 22, 2014 the Company issued a press release announcing the Company's entry into the Loan Agreement and the Grower Sale-Lease Agreement.

A copy of the above-referenced press release is attached hereto as Exhibit 99.1 and incorporated by reference herein.

Cautionary Note Regarding Forward-Looking Statements

This above disclosure contains forward-looking statements that may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "may," "will," "should," "could," "would," "forecast," "potential," "continue," "contemplate," "expect," "anticipate," "estimate," "believe," "intend," "or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Item 9.01 Financial Statements and Exhibits.

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Exhibits .

<u>Exhibit No.</u>	<u>Description</u>
10.1	Loan Agreement, dated as of December 16, 2014, by and between the Company and Heritage Gemstone Investors, LLC
10.2	Security Agreement dated as of December 16, 2014, between the Company and Heritage Gemstone Investors, LLC
10.3	Agreement For the Sale and Lease of Growers, dated as of December 16, 2014, by and between the Company and Heritage Gemstone Investors, LLC. Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission. *
99.1	Press Release issued on December 22, 2014

*Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

SCIO DIAMOND TECHNOLOGY CORPORATION
(Registrant)

Date: December 22, 2014

By: /s/ Gerald McGuire
Gerald McGuire
President and Chief Executive Officer

EXHIBIT INDEX

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LOAN AGREEMENT

THIS LOAN AGREEMENT ("Agreement") is made as of the 15th day of December, 2014 by and between **Scio Diamond Technology Corporation**, a Nevada corporation ("Borrower"), and **Heritage Gemstone Investors, LLC**, a South Carolina limited liability company (the "Lender").

RECITALS

- A. Borrower has requested from Lender an extension of credit in the form of non-revolving cash advances ("Line" or "Loan"), the proceeds of which are to be used to refinance existing indebtedness with Platinum Capital Partners, L.P. and for general working capital purposes, all as more particularly provided herein.
- B. Lender is willing to agree to provide the Loan to Borrower on the terms and conditions hereinafter contained;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

1. Documents Delivered by Borrower. To induce Lender to commit to make the requested Loan, Borrower shall, on the date hereof, deliver to Lender the following, all of which shall be in form and substance acceptable to Lender:

1.1 Promissory Note. Borrower's Promissory Note of even date herewith, in the maximum principal amount of **Two Million and No/100 Dollars (\$2,000,000.00)**, payable to Lender (the "Promissory Note");

1.2 Security Agreement. A Security Agreement in favor of Lender (the "Security Agreement") covering and guarantying Lender a first priority security interest in the personal property described therein (the "Personal Property");

1.3 Financing Statement. UCC-1 Financing Statement executed by Borrower for filing in such offices as Lender may deem necessary or desirable relating to the Security Agreement Line.

1.4 Borrower's Certificate of Incumbency and Resolutions. A Certificate of Incumbency and Resolutions executed by Borrower and relating to Borrower's organizational documents and resolutions authorizing the Loan.

1.5 Insurance Certificate. Certificates of insurance evidencing a policy or policies of insurance covering Borrower's operations and the Personal Property as required by Section 4.2 of this Agreement, such policy to insure against all risks and name Lender as loss payee on all property policies and as an additional insured as to all liability policies.

1.6 Financial Statements. Current financial statements of Borrower in a form and prepared in a manner acceptable to Lender.

1.7 Searches. Complete UCC and state and federal tax lien searches from such offices as Lender may request which confirm that there are no liens or security interests in the Personal Property which would be prior to Lender's liens and security interests in the Personal Property.

1.8 Releases. A release/amendment document pursuant to which any security interest in the Personal Property other than the interest of Lender shall be released.

1.9 Lease and Upfit Financing. Borrower's entry into a lease agreement for the property located at 28 Global Drive, Greenville, South Carolina 29607.

2. Commitment of Lender

2.1 Non - Revolving Line of Credit Loan. So long as there exists no Event of Default hereunder and no event has occurred which would be an Event of Default with the giving of notice or lapse of time or both, and subject to all other terms and conditions hereof, Lender shall lend to Borrower and Borrower may borrow from Lender against the Line for the account of Borrower. The advances in aggregate shall not exceed the maximum principal amount of the Promissory Note. Borrower and Lender acknowledge and agree that the Promissory Note shall be a non-revolving line of credit loan, and that any payments by Borrower applied to the principal balance of the Promissory Note may not be re-drawn by Borrower. Advances on the Line may be requested by Borrower on three (3) business days' prior written notice to Lender at any time prior to the Maturity Date, as defined in the Promissory Note, for the purposes set forth below, not to exceed the amounts set forth below:

(i) on or about even date herewith, Lender shall pay on behalf of Borrower and advance against the Line an amount not to exceed **One Million Six Hundred Thousand and No/100 Dollars (\$1,600,000.00)** to refinance all existing indebtedness of Borrower with Platinum Capital Partners, L.P.; and

(ii) at any time on or before the Maturity Date, Borrower may request from Lender advances on the Line not to exceed **Four Hundred Thousand and No/100 Dollars (\$400,000.00)** (and in increments not less than \$25,000.00) for general working capital purposes as approved by Lender, in its reasonable discretion.

Prior to any advance hereunder, Borrower shall provide to Lender such information, certifications and documentation as Lender may reasonably require, including, without limitation, an executed pay-off letter and lien release from Platinum Capital Partners, L.P., materialmen's lien waivers, and invoices for goods and services received.

2.2 Interest and Payments. Interest shall accrue on outstanding principal, and principal and interest shall be due and payable, on the Promissory Note as provided in the Promissory Note. All unpaid principal of the Promissory Note, all interest accrued thereon, and all fees and costs, shall be due and payable on the Maturity Date, as defined in the Promissory Note.

3. Representations and Warranties. Borrower represents and warrants that the following are true and correct as of the date hereof and shall remain true and correct at all times hereafter so long as there remains any outstanding indebtedness or obligation of Borrower owing to Lender under the Loan Documents:

3.1 Organization, Qualification and Authorization. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada; has the power and authority to own its property and to carry on its business as now being conducted; and is duly qualified and licensed to do business, and is in good standing, in every jurisdiction in which the nature of the business in which it is engaged makes such qualification or licensing necessary.

3.2 Validity of Obligations. Borrower has full power, right and authority to execute and deliver this Agreement, the Security Agreement, the Promissory Note and all other documents, instruments and agreements required to be delivered by Borrower hereunder, as applicable (the "Loan Documents"), to obtain the credit herein provided for, and to perform and observe each and all of the matters and things provided for in the Loan Documents. The execution and delivery of the Loan Documents and the performance or observance of the terms thereof have been duly authorized by all necessary corporate and shareholder action and do not contravene or violate any provision of law or any provision of Borrower's organizational documents or any covenant, indenture or agreement of or binding upon Borrower, nor require the consent or approval of any governmental entity or agency.

3.3 Title to Assets. Borrower has good and marketable title to all of its property and assets reflected in its most recent balance sheet delivered to Lender, including, without limitation, the Personal Property.

3.4 Litigation. Except as set forth on Schedule 3.4, no actions, suits or proceedings are pending or, to Borrower's knowledge, threatened, against or affecting it before any court, governmental or administrative body or agency which might result in any material adverse change in the operations, business property, assets or condition (financial or otherwise) of Borrower, or which would question the validity of this Agreement or of any action taken or to be taken by Borrower pursuant to or in connection with this Agreement.

3.5 No Events of Default. No Event of Default as hereinafter defined has occurred and is continuing as of the date hereof and no event has occurred and is continuing which would be an Event of Default hereunder were it not for any grace period specified herein or which would become an Event of Default if notice thereof were given to Borrower.

3.6 Financial Condition. The financial statements of Borrower heretofore furnished to Lender, if any, are complete and correct in all material aspects and fairly present the respective financial condition of Borrower at the date of such statements, and have been prepared in accordance with generally accepted accounting principles, consistently applied. Since the most recent set of financial statements delivered by Borrower to Lender, if any, there have been no material adverse changes in the financial condition of Borrower.

3.7 Licenses. Borrower possesses adequate licenses, permits, franchises, patents, copyrights, trademarks and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted.

3.8 Taxes. Borrower has filed all tax returns required to be filed and either paid all taxes shown thereon to be due, including interest and penalties, which are not being contested in good faith and by appropriate proceedings, or provided adequate reserves for payment thereof, and Borrower has no information or knowledge of any objections to or claims for additional taxes in respect of federal income or excise profit tax returns for prior years.

3.9 Compliance with Laws. Except as provided on Schedule 3.9 hereof, Borrower is in compliance with all federal, state, and local laws, regulations and governmental requirements applicable to it or to any of its property, securities, business operations, employees, and transactions, including, but not limited to, all rules and regulations of the U.S. Securities and Exchange Commission.

3.10 Subsidiaries. Borrower has no subsidiaries that possess or control assets of or property owned by Borrower or that could otherwise be used to support the secured collateral of Lender.

4. Affirmative Covenants. Borrower covenants and agrees with Lender that so long as there remains any outstanding indebtedness or obligation of Borrower owing to Lender under the Loan Documents, Borrower will:

4.1 Maintain Assets. Maintain and keep its assets, properties and equipment in good repair, working order and condition and from time to time make or cause to be made all needed renewals, replacements and repairs so that at all times Borrower's business can be operated efficiently.

4.2 Insurance. Insure and keep insured all of its property of an insurable value under all risk policies in an amount reasonably acceptable to Lender and carry such other property insurance as is usually carried by persons engaged in the same or similar business (and as required by the Security Agreement) all such insurance to name Lender as loss payee and additional insured with a standard mortgagee clause, and from time to time furnish to Lender upon request appropriate evidence of the carrying of such insurance.

4.3 Financial Information. Furnish to Lender:

(a) Within twenty (20) days after the end of each month and within ninety (90) days after the end of each of Borrower's fiscal years a set of, respectively, interim and annual financial statements, including a balance sheet, statement of cash flow, profit and loss statement and related statements, prepared by Borrower and, compiled for annual statement only, by a public accounting firm reasonably acceptable to Lender, in accordance with generally accepted accounting principles;

(b) As soon as available and in any event within thirty (30) days after such returns are filed (and no later than December 15th of any year) a copy of the federal and state income tax return of Borrower (including all schedules and exhibits) or amendments thereto filed for the immediately preceding year;

(c) Within twenty (20) days after the end of each month, an accounts receivable aging report in form and substance reasonably acceptable to Lender;

(d) Within twenty (20) days after the end of each month, a listing of inventory in sufficient detail as to determine composition and value.

(e) Such other information as Lender may reasonably request from time to time.

4.4 Access to Records. Permit any person designated by Lender, at Lender's expense upon reasonable prior notice, to visit and inspect any of its properties, corporate books and financial records and to discuss its affairs, finances and accounts with the principal officers of Borrower, all at such reasonable times and as often as Lender may reasonably request, and unfettered electronic access to all deposit accounts maintained by Borrower with any bank and/or any other deposit institutions.

4.5 Taxes, Assessments and Charges. Promptly pay over to the appropriate authorities all sums for taxes deducted and withheld from wages as well as the employer's contributions and other governmental charges imposed upon or asserted against Borrower's income, profits, properties and rental charges or otherwise which are or might become a lien charged upon Borrower's properties, unless the same are being contested in good faith by appropriate proceedings and adequate reserves shall have been established on Borrower's books with respect thereto.

4.6 Notification of Changes. Promptly notify Lender of:

(a) Any litigation actually known to Borrower which might materially and adversely affect Borrower or any of its respective properties;

(b) any event of which Borrower has knowledge and which, with the passage of time or giving of notice or both, would constitute an Event of Default under this Agreement.

(c) Any material adverse change in the operations, business, properties, assets or conditions, financial or otherwise, of Borrower.

4.7 Corporate Existence. Maintain its corporate existence in compliance with all applicable statutes, laws, rules and regulations.

4.8 Books and Records. Keep true and accurate books, records and accounts in accordance with sound accounting and bookkeeping practices.

4.9 Reimbursement of Expenses. Promptly reimburse Lender for any and all reasonable out-of-pocket expenses, and all fees and disbursements, including attorneys' fees incurred in connection with the preparation and performance of this Agreement and the instruments and documents related thereto, and all expenses relating to the administration and collection of the Loan to be made hereunder, including reasonable attorneys' fees.

4.10 Net Worth Stop. Borrower shall maintain a Book Net Worth of at least \$4,000,000.00 at all times.

5. **Negative Covenants**. Borrower hereby covenants and agrees with Lender that so long as there remains any outstanding indebtedness or obligation of Borrower owing to Lender under the Loan Documents, Borrower, without the prior approval of Lender, will not:

5.1 **Merge, Consolidate or Sell**. Merge or consolidate with or into another entity, or lease or sell all or substantially all of its property and business to any other entity or entities without the express consent of Lender, which consent may be withheld or granted in Lender's sole and absolute discretion.

5.2 **Default on Other Obligations**. Default upon or fail to pay, beyond any applicable periods of grace, any of its other debts or obligations as the same mature, unless the same are being contested in good faith by appropriate proceedings and adequate reserves shall have been established on Borrower's books with respect thereto.

5.3 **Limitation on Liens and Encumbrances**. Except for the interests of Lender, Borrower will not at any time create, assume, incur or permit to exist, any mortgage, lien, pledge, charge, security interest or other encumbrance of any kind in respect of the Personal Property or any other assets, income or revenues of any character, whether heretofore or hereafter acquired by it.

5.4 **Limitation on Distributions**. Borrower may not make any distributions of cash or property of any kind whatsoever to its shareholders without the prior written consent of Lender which shall also include salaries, bonuses or other compensation payable to any manager or key employee of Borrower in amounts in excess of those set forth in periodic budgets provided to Lender.

5.5 **Negative Pledge**. Borrower shall not, without Lender's prior written consent, which consent may be withheld or granted in Lender's sole and absolute discretion, sell (except inventory in the ordinary course of business), purchase and/or lease any real or personal property, or other assets or equipment.

6. **Defaults**.

6.1 **Event of Default**. Any one or more of the following events shall constitute an Event of Default:

(a) **Payment**. Borrower shall fail to pay when due, any payments due under the Promissory Note; or

(b) **Other Covenants or Agreements Herein**. Borrower shall default in the due performance or observance of any term, covenant or agreement contained in this Agreement or any of the other Loan Documents (other than payments under the Promissory Note) and such default shall continue for a period of thirty (30) days after written notice thereof shall have been given by Lender to Borrower, or, if such default does not consist of the non-payment of money and cannot reasonably be cured within thirty (30) days, for such longer period of time not exceeding ninety (90) days as may be necessary to cure such default with the exercise of due diligence so long as Borrower is diligently proceeding to cure such default; or beyond the applicable cure period (if any)

(c) Cross Default. There occurs any breach, default or event of default under any other document, instrument or agreement between Borrower and Lender or any member thereof, or any affiliate thereof, including, without limitation: (i) that certain Agreement for the Sale and Lease of Growers by and between Borrower and Lender and dated on or about even date herewith, together with any amendments, restatements and replacements thereof; and (ii) that certain Lease Agreement between Borrower and Fairforest of Greenville, LLC dated on or about even date herewith; or

(d) Insolvency. Borrower shall (i) become insolvent, (ii) suspend business, (iii) make a general assignment for the benefit of its creditors, (iv) admit in writing its or his inability to pay its or his debts generally as they mature, (v) file a petition in bankruptcy or a petition or answer seeking a reorganization, arrangement with creditors or other similar relief under the Federal bankruptcy laws or under any other applicable law of the United States of America or any State thereof, (vi) consent to the appointment of a trustee or receiver for Borrower or for a substantial part of its property, (vii) be adjudicated a bankrupt or fail to cause an involuntary petition in bankruptcy to be dismissed within sixty (60) days after the filing thereof, (viii) take any action for the purpose of effecting or consenting to any of the foregoing, or (ix) have an order, judgment or decree entered appointing a trustee, conservator or receiver for Borrower or for a substantial part of its property, or approving a petition filed against Borrower seeking a reorganization, arrangement with creditors or other similar relief under the Federal bankruptcy laws or under any other applicable law of the United States of America or any State hereof, which order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry; or

(e) Representations and Warranties. If any material representation or warranty contained in this Agreement or any of the other Loan Documents or any letter or certificate furnished or to be furnished to Lender by Borrower pursuant to this Agreement proves to be false in any material respect as of the date executed or delivered to Lender; or

(f) Judgments. Judgments against Borrower for the payment of money totaling in excess of \$5,000.00 shall be outstanding for a period of thirty (30) days without a stay of execution; or

(g) Management Change. Any change in the senior management of Borrower for reasons other than death or incapacity not approved in writing by Lender, in its reasonable discretion; or

(h) Material Adverse Change. Any material adverse change shall occur in the condition (financial or otherwise) of Borrower which, in the reasonable opinion of Lender, materially increases its risk with respect to the Promissory Note; or

6.2 Lender's Right on Default. Upon the occurrence of an Event of Default, Lender may, at its option and without notice: (a) accelerate amounts outstanding on the Promissory Note and demand immediate payment in full without presentment or other demand, protest, notice of dishonor or any other notice of any kind, all of which are expressly waived; (b) foreclose its lien on the Personal Property pursuant to the Security Agreement, as applicable, or take such other actions available under the terms of this Agreement and the other Loan Documents; and (c) take such other actions as may otherwise be available in equity or at law. All remedies of Lender shall be cumulative, non-exclusive and exercisable by Lender in its sole and absolute discretion.

7. **Miscellaneous.**

7.1 **Binding Effect.** The parties hereto agree that this Agreement shall be binding upon and inure to the benefit of their respective successors in interest and assigns including any holder of the Promissory Note, PROVIDED, HOWEVER, that Borrower may not assign or transfer its interest hereunder without the prior written consent of Lender.

7.2 **Governing Law.** This Agreement and the rights and obligations of the parties hereunder and under the Promissory Note and any other Loan Documents, shall be construed in accordance with and governed by the laws of the State of South Carolina. Borrower hereby consents to the jurisdiction of the state and federal courts of Greenville County, South Carolina for any actions brought hereon, on the Promissory Note or any other Loan Document.

7.3 **Notices.** Any notices required or contemplated hereunder shall be effective upon the placing thereof in the United States mails, certified mail and with return receipt requested, postage prepaid, and addressed as follows:

If to Borrower: Scio Diamond Technology Corporation
411 University Ridge, Suite D Greenville, SC 29601
Attn: Gerald McGuire

If to Lender: Heritage Gemstone Investors, LLC
136 Rubiwood Circle
Greer, SC 29651
Attn: Billy J. Coleman

7.4 **No Waivers.** No failure or delay on the part of Lender in exercising any right, power or privilege hereunder and no course of dealing between Borrower and Lender shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

7.5 **Headings.** The headings of various sections of this Agreement have been inserted for reference only and shall not be deemed to be a part of this Agreement.

7.6 **Amendment and Waiver.** Neither this Agreement nor any provision hereof may be modified, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

7.7 General Indemnity. Unless resulting from acts or conduct of Lender constituting willful misconduct or gross negligence and in addition to any other indemnity obligations of Borrower under this Agreement or any other Loan Document, Borrower releases and shall indemnify, defend and hold harmless Lender and its respective officers, employees and agents, of and from any claims, demands, liabilities, obligations, judgments, injuries, losses, damages and costs and expenses (including, without limitation, reasonable legal fees) resulting from: (a) acts or conduct of Borrower under, pursuant or related to this Agreement and the other Loan Documents; (b) Borrower's breach or violation of any representation, warranty, covenant or undertaking contained in this Agreement or the other Loan Documents; (c) Borrower's failure to comply with any applicable laws; and (d) any claim by Borrower, or any principal, officer, agent, employee, or creditor thereof, against Lender arising out of any transaction whether hereunder or in any way related to the Loan Documents and all costs, expenses, fines, penalties or other damages resulting therefrom.

7.8 Waiver. No failure or delay on the part of Lender in exercising any power or right hereunder, and no failure of Lender to give Borrower any notice of an Event of Default, shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power hereunder. No modification or waiver of any provision of any Loan Document or consent to any departure by Borrower from any Loan Document shall in any event be effective unless the same shall be in writing and signed by Lender, and such waiver or consent shall be effective only in the specific instance and for the particular purpose for which it was given.

7.9 No Participation. Nothing in the Loan Documents, and no action or inaction whatsoever on the part of Lender undertaken in connection with the Loan, shall be deemed to make Lender a partner or joint venturer with Borrower.

7.10 Notice of Conduct. Borrower agrees to use commercially reasonable efforts to give Lender written notice of any action or inaction, to the extent that Borrower has actual knowledge thereof, by Lender or any agent or attorney of Lender in connection with the Loan Documents or the obligations of any party under the Loan Documents that Borrower reasonably believes may be actionable against Lender or any agent or attorney of Lender or a defense to payment of any indebtedness or other obligations owing to Lender, including commission of a tort or violation of any contractual duty implied by law, and a reasonable opportunity to cure or correct such action or inaction. Upon request of Lender from time to time, Borrower shall also confirm in writing the status of the Loan and provide other information reasonably requested by Lender.

7.11 Costs, Expenses and Attorneys' Fees. In addition to any payment or reimbursement obligations of Borrower hereunder and under the other Loan Documents, Borrower shall pay to Lender immediately on demand, the full amount of all reasonable out-of-pocket costs and expenses, including reasonable attorneys' fees, costs of experts and all other expenses incurred by Lender: (a) the perfection, preservation, protection and continuation of the liens and security interest granted Lender in the Personal Property and the custody, preservation, protection, repair and operation of any of the Personal Property; (b) the pursuit by Lender of its rights and remedies under the Loan Documents and applicable law; and (c) defending any counterclaim, cross-claim or other action, or participating in any bankruptcy proceeding, mediation, arbitration, litigation or dispute resolution of any other nature involving Lender, Borrower or any Personal Property, except to the extent Lender has been adjudicated to have engaged in culpable conduct.

7.12 F u r t h e r A s s u r a n c e s. At any time after the date hereof, Borrower, at the request of Lender, shall execute and deliver such further documents and agreements and take such further actions as Lender reasonably deems necessary or appropriate to permit each transaction contemplated by the Loan Documents to be consummated in accordance with the provisions thereof and to perfect, preserve, protect, continue and enforce Lender's rights and remedies regarding all liens, security interests and rights of Lender under the Loan Documents, security agreements, financing statements, continuation statements, new or replacement promissory notes, and/or agreements supplementing, extending or otherwise modifying the Promissory Note, this Agreement, and/or any security agreement, and certificates as to the amount of the indebtedness evidenced by the Promissory Note.

[SIGNATURE PAGE ATTACHED]

EXECUTED by the undersigned this Loan Agreement to be effective as of the date above first written:

BORROWER:

SCIO DIAMOND TECHNOLOGY CORPORATION

A Nevada corporation

By: /s/ Gerald McGuire

Gerald McGuire

Its: Chief Executive Officer

LENDER:

HERITAGE GEMSTONE INVESTORS, LLC

By: /s/ Billy J. Coleman

Billy J. Coleman

Its: President and Chief Executive Officer

SCHEDULE 3.4

LITIGATION

Mark P. Sennott, et al. v. Edward S. Adams, et al., and Nominal Defendant Apollo Diamond, Inc., Cause No. 6:13-cv-012813-BHH (U.S. District Court for the District of South Carolina)

SCHEDULE 3.4

COMPLIANCE WITH LAWS

The U.S. Securities and Exchange Commission ("SEC") has initiated an investigation *In the Matter of Scio Diamond Technology Corporation* (C-08091), and as part of that investigation has issued a subpoena to the Borrower, former officers or directors of the Borrower and other parties. At this time, it is unknown whether the SEC may pursue a claim or action against the Borrower in connection with the investigation, and if so, the purported basis for any such claim or action. The Borrower is cooperating in the investigation.

SECURITY AGREEMENT

Dated effective as of December 15, 2014

DEBTOR: **SECURED PARTY:**

Scio Diamond Technology Corporation
 411 University Ridge, Suite D Greenville, South Carolina 29601
 State of Formation: Nevada
 Federal ID No. 45 - 3849 6 62
 Heritage Gemstone Investors, LLC
 136 Rubiwood Circle
 Greer, SC 29651

1. Security Interest and Collateral. To secure the payment and performance of each and every debt, liability and obligation of every type and description that Debtor may now or at any time hereafter owe to Secured Party (including, but not limited to, whether such debt, liability or obligation now exists or is hereafter created or incurred, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations collectively referred to as the "Obligations"), including, without limitation, the debt liability and obligation of Debtor to Secured Party evidenced by that certain Promissory Note of even date herewith in the original principal amount not to exceed \$2,000,000.00 (the "Note" or "Secured Note") and payment and other obligations of Debtor arising under that certain Agreement for the Sale and Lease of Growers by and between Debtor and Secured Party and dated on or about even date herewith, Debtor hereby grants Secured Party a security interest (the "Security Interest") in the following property (the "Collateral"):

(a) INVENTORY: All inventory of Debtor, whether now owned or hereafter acquired and wherever located;

(b) EQUIPMENT: All equipment of Debtor, whether now owned or hereafter acquired, including, but not limited to, all present and future growers, including, without limitation those growers identified on Schedule A.1 attached hereto, machinery, vehicles, furniture, fixtures, manufacturing equipment, shop equipment, office and recordkeeping equipment, parts and tools, and the goods described in any equipment schedule or list herewith or hereafter furnished to Secured Party by Debtor (but no such schedule or list need be furnished in order for the security interest granted herein to be valid as to all of Debtor's equipment);

(c) ACCOUNTS AND OTHER RIGHTS TO PAYMENT: Each and every right of Debtor to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by Debtor, out of a rendering of services by Debtor, out of a loan by Debtor, out of the overpayment of taxes or other liabilities of Debtor, or otherwise arises under any contract or agreement, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all liens and security interests) that Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor; all including, but not limited to, all

payment intangibles, debt instruments, chattel paper, accounts, deposit accounts, loans and obligations receivable and tax refunds;

(d) **INTANGIBLES:** All intangibles of Debtor, whether now owned or hereafter acquired, including, but not limited to, general intangibles, investment property (including, but not limited to, limited liability company membership interests, partnership interests and corporate stock interests), software, applications for patents, patents, copyrights, trademarks, trade secrets, goodwill, trade names, customers lists, permits and franchises, internet domain names, uniform resource locators (URLs), website contracts and registration rights and the right to use Debtor's name; together with all substitutions and replacements for and products of any of the foregoing property and together with proceeds of any and all of the foregoing property and, in the case of all tangible Collateral, together with all accessions and together with: (i) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any such goods, and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods.

All of the foregoing whether now owned or hereafter acquired and wherever located together with any products and proceeds thereof, and any appurtenances, accessions and other rights, claims or benefits arising from or pertaining thereto, including, but not limited to, any claims to any of the foregoing property, and any claims of Debtor against any third parties, for the damage to or destruction of any or all portions of such property and or for proceeds payable under, or unearned premiums with respect to, policies of insurance.

2. Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor is a Nevada Corporation.

(b) The Collateral will be used primarily for business purposes and shall only be located at: (i) the address of Debtor set forth in the caption of this Agreement or (ii) 28 Global Drive, Greenville, South Carolina 29607.

(c) Debtor's chief executive office is located at the address of Debtor shown at the beginning of this Agreement.

3. Additional Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances, except the Security Interest or other security interests in favor of Secured Party, and will defend the Collateral against all claims or demands of all persons other than Secured Party. Any such security interests, liens or encumbrances not permitted under this Agreement shall be void. Debtor will not sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of Secured Party. This Agreement has been duly and validly authorized by all necessary corporate action.

(b) Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, setoff or counterclaim (other than those arising in the ordinary course of business) of the account debtor or other obligor named therein or in Debtor's records pertaining thereto as being obligated to pay such obligation. Debtor will neither agree to any material modification or amendment nor agree to any cancellation of any such obligation without Secured Party's prior written consent, and will not subordinate any such right to claims of other creditors of such account debtor or other obligor.

(c) Debtor will:

(i) keep all tangible Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof;

(ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest except as Debtor shall contest in good faith and by appropriate proceedings providing such reserves as are required by generally accepted accounting principles;

(iii) keep all Collateral free and clear of all security interests, liens and encumbrances except for the Security Interest;

(iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition and to send and discuss with account debtors and other obligors requests for verifications of amounts owed to Debtor;

(v) keep accurate and complete records pertaining to the Collateral and pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning the Collateral and Debtor's business and financial condition as Secured Party may from time to time reasonably request;

(vi) promptly notify Secured Party of any loss of or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due on or under any instrument, chattel paper, or account constituting Collateral;

(vii) if Secured Party at any time so requests (whether the request is made before or after the occurrence of an Event of Default), promptly deliver to Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Debtor;

(viii) at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts as Secured Party may reasonably request with any loss payable to Secured Party to the extent of its interest;

(ix) from time to time authorize such financing statements as Secured Party may reasonably require in order to perfect the Security Interest and, if any Collateral consists of an asset subject to a certificate of title, execute such documents as may be required to have the Security Interest properly noted on a certificate of title;

(x) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings;

(xi) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings that Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement;

(xii) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance;

(xiii) not permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest, or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein; and

(xiv) inform Secured Party of any change to Debtor's name, address or state of formation prior to the effective date of such change and authorize and deliver to Secured Party any financing statement that is necessary as a result of that change to maintain the perfected status of the Security Interest.

If Debtor at any time fails to perform or observe any agreement contained in this Section 3 (c), and if such failure shall continue for a period of ten (10) calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained in clauses (viii) and (ix) of this Section 3 (c), immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions that Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of insurance, the filing of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such

agreements or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, termination statements for filings not permitted under this Agreement held by other secured parties, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3.

4. Account Verification and Collection Rights of Secured Party. Secured Party shall have the right to verify any accounts in the name of Debtor or in its own name; and Debtor, whenever requested, shall furnish Secured Party with duplicate statements of the accounts, which statements may be mailed or delivered by Secured Party for that purpose. Secured Party may at any time (both before and after the occurrence of an Event of Default) notify any account debtor, or any other person obligated to pay any amount due, that such chattel paper, account, or other right to payment has been assigned or transferred to Secured Party for security and shall be paid directly to Secured Party. If Secured Party so requests at any time, Debtor will so notify such account debtors and other obligors in writing and will indicate on all invoices to such account debtors or other obligors that the amount due is payable directly to Secured Party. At any time after Secured Party or Debtor gives such notice to an account debtor or other obligor, Secured Party may (but need not), in its own name or in Debtor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such chattel paper, account, or other right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor.

5. Assignment of Insurance. Debtor hereby assigns to Secured Party, as additional security for the payment of the Obligations, any and all moneys (including, but not limited to, proceeds of insurance and refunds of unearned premiums) due or to become due under and all other rights of Debtor under or with respect to, any and all policies of insurance covering the Collateral, and Debtor hereby directs the issuer of any such policy to pay any such moneys directly to Secured Party. Both before and after the occurrence of an Event of Default, Secured Party may (but need not), in its own name or in Debtor's name, execute and deliver proofs of claim, receive all such moneys, endorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of such policy.

6. Events of Default. "Events of Default" in this Agreement means any of the following events:

(a) There occurs any Event of Default under that certain Loan Agreement by and between Debtor and Secured Party dated of even date herewith (the "Loan Agreement");

(b) Debtor fails to pay when due any principal, interest, fees or other payments due under the Secured Note or any other indebtedness of Debtor to Secured Party,

whether any such indebtedness is now existing or hereafter arises and whether direct or indirect, due or to become due, absolute or contingent, primary or secondary or joint or joint and several;

(c) Debtor shall fail to perform or comply with any of the covenants, conditions or agreements to be observed or performed by it under this Security Agreement, and/or the Secured Note, and/or the Loan Agreement, or any credit or similar agreement between Debtor and Secured Party for a period of twenty (20) days after written notice of such default given by Secured Party and/or Guarantor;

(d) This Security Agreement and/or the Secured Note, and/or the Loan Agreement, cease(s) to be in full force and effect or is declared null and void or the validity or enforceability hereof and/or thereof is contested or challenged by Debtor or any of its members;

(e) If a garnishment summons or a writ of attachment is issued against or served upon Secured Party for the attachment of any property of Debtor in Secured Party's possession or any indebtedness owing to Debtor;

(f) If a petition is filed by or against Debtor under the United States Bankruptcy Code, or if a trustee, receiver or similar officer is appointed for Debtor or for the property of Debtor, and in the case of any such action or proceeding commenced against any such party, such action or proceeding is not dismissed within sixty (60) days; or

(g) If the Secured Party shall at any time have reasonable grounds to believe that the prospect of due and punctual payment of any of the obligations of the Debtor now or hereafter existing under, or pursuant to, this Security Agreement, and/or the Secured Note is impaired.

7. Remedies upon Event of Default. Upon the occurrence of an Event of Default under Section 6 and at any time thereafter, Secured Party may exercise any one or more of the following rights and remedies: (i) declare all unmatured obligations pursuant to the Note and/or this Agreement to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment of other notice or demand; (ii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including, but not limited to, the right to take possession of any Collateral, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, Secured Party may require Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party that is reasonably convenient to both parties, and if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 10) at least ten (10) calendar days prior to the date of intended disposition or other action; (iii) exercise or enforce any or all other rights or remedies available to Secured Party at law, equity, or agreement against the Collateral, against Debtor or against any other person or property. Secured Party is hereby granted a nonexclusive, worldwide and royalty-free license to use or otherwise exploit all trademarks, trade secrets, franchises, copyrights and patents of Debtor that Secured Party deems necessary or appropriate to the disposition of any Collateral.

8. Oth e r P e r s o n a l P r o p e r t y. Unless at the time Secured Party takes possession of any tangible Collateral, or within seven days thereafter, Debtor gives written notice to Secured Party of the existence of any goods, papers or other property of Debtor, not affixed to or constituting a part of such Collateral, but that are located or found upon or within such Collateral, describing such property, Secured Party shall not be responsible or liable to Debtor for any action taken or omitted by or on behalf of Secured Party with respect to such property without actual knowledge of the existence of any such property or without actual knowledge that it was located or to be found upon or within such Collateral.

9. Termination. This Agreement and Secured Party's security interests created hereunder shall continue until repayment in full of the Obligations; PROVIDED, HOWEVER, that Secured Party's security interests hereunder shall terminate on the repayment in full of the Note, together with all outstanding interest, default interest, fees, costs and reimbursement and indemnity obligations thereon and under the other Loan Documents have been satisfied in full.

10. Mis ce ll a n e o u s. This Agreement does not contemplate a sale of accounts, payment intangibles or chattel paper. This Agreement can be waived, modified, amended, terminated or discharged and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in a specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to not bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to preserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application and Secured Party may disclaim any and all implied warranties (as imposed by law) in connection with the disposition of Collateral. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waives notice of Secured Party's acceptance hereof. Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. This Agreement shall be governed by the internal laws of the State of South Carolina. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications that can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the

Obligations. Debtor hereby irrevocably submits to the jurisdiction of state and federal courts of Greenville County, South Carolina, over any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of such action or proceeding may be heard and determined in any such court.

[SIGNATURE PAGE ATTACHED]

EXECUTED, by the undersigned this Security Agreement to be effective as of the date above first written:

BORROWER:

SCIO DIAMOND TECHNOLOGY CORPORATION

A Nevada corporation

By: /s/ Gerald McGuire

Gerald McGuire

Its: Chief Executive Officer

LENDER:

HERITAGE GEMSTONE INVESTORS, LLC

By: /s/ Billy J. Coleman

Billy J. Coleman

Its: President and Chief Executive Officer

AGREEMENT FOR THE SALE AND LEASE OF GROWERS

by and between

HERITAGE GEMSTONE INVESTORS, LLC

and

SCIO DIAMOND TECHNOLOGY CORPORATION

Dated Effective as of December 15, 2014

*Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

This Agreement for the Sale and Lease Growers (this "Agreement") is made effective as of December 15, 2014 (the "Effective Date"), by and between Heritage Gemstone Investors , LLC, a South Carolina limited liability company ("HGI"), and SCIO Diamond Technology Corporation, a Nevada corporation ("SCIO"). HGI and SCIO are referred to collectively as the "Parties" and individually as a "Party." The term "Agreement" shall include the Exhibits and Appendices attached hereto. Capitalized terms used in any Appendix but not defined therein shall have the definition given in this Agreement or other Appendix.

Background:

- A. SCIO is a technology leader in lab grown diamonds. SCIO owns technology and intellectual property and possesses expertise to produce high quality gemstone diamonds in rough form and poly-crystal diamond material suitable for industrial applications.
- B. SCIO owns intellectual property used in the manufacture of diamond production machines ("Growers").
- C. SCIO has an outstanding loan agreement with Platinum Capital, LLC. (the "Platinum Loan") with an approximate outstanding balance of \$1,600,000.00.
- D. HGI desires to purchase Growers from SCIO, lease such Growers to SCIO, to fund the up-fitting of Growers currently owned and operated by SCIO and contract with SCIO to operate such Growers (the "HGI Growers") under the terms of this Agreement.
- E. HGI also desires to lend funds to SCIO for the purpose of paying off the Platinum Loan (the "Platinum Replacement Financing") and for operating capital ("Non-Revolver Credit Line"). The Platinum Replacement Financing and Non-Revolver Credit Line are addressed in the SCIO Loan Agreement appended hereto as Appendix A.
- F. A member of HGI has also arranged for a related entity, Fairforest of Greenville, LLC, ("Fairforest"), to lease space to SCIO for the Additional HGI Growers (defined below) and future operations of SCIO (the "Fairforest Lease").

The Parties therefore agree as follows :

1 SALE OF GROWERS; PROVISION OF SERVICES

1.1 Purchase of HGI Growers. HGI has the first right to purchase the next XXXXXX* additional 4" Growers to be leased and operated by SCIO (the "HGI Grower Option") as set forth in this subsection.

(a) *Purchase of Initial HGI Growers.* Simultaneous with the execution of this Agreement, HGI agrees to purchase from SCIO XXXXXX* new 4" Growers (the "Initial HGI Growers") for a price of XXXXXX* per Grower. Such Initial HGI Growers will be leased to SCIO pursuant to Section 1.7.

(b) *Additional HGI Growers .* Following purchase of the Initial HGI Growers and subject to the availability of up-fitted space at Fairforest, HGI shall have the option to purchase additional 4" Growers (the "Additional HGI Growers") and lease the Additional HGI Growers to SCIO as follows:

*Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

(i) The Additional HGI Growers shall be purchased in batches ("Additional HGI Grower Tranche") and HGI shall have an option to purchase with respect to each Additional HGI Grower Tranche.

(ii) SCIO shall have discretion to determine the size of any Additional HGI Grower Tranche based upon its evaluation and assessment of the market demand for additional Growers and the resulting supply of Products.

(iii) If HGI exercises its option with respect to any Additional HGI Grower Tranche, in the absence of mutual agreement of the Parties then (A), the number of Growers in any Additional HGI Grower Tranche shall not exceed XXXXXX*, (B) HGI shall not be required to purchase any more than XXXXXX* Additional HGI Grower Tranche in any XXXXXX* month period and (C) all Growers purchased by HGI will be leased to and operated by SCIO pursuant to the terms herein.

(iv) SCIO shall make a presentation to HGI regarding market demand for each proposed Additional HGI Grower Tranche.

(v) Following SCIO's presentation of market demand and unless the Parties agree otherwise, HGI shall have thirty (30) days to exercise its option to purchase Growers in any proposed Additional HGI Grower Tranche.

(vi) The Initial HGI Growers and Additional HGI Growers are collectively referred to herein as the "HGI Growers" or "HGI's Assets."

(c) *Purchase Terms* . In addition to the terms as set forth in this Agreement, the Additional HGI Growers shall be purchased at a price of XXXXXX* per Grower.

(d) *Non-Exercise of HGI Grower Option* . Notwithstanding the above, in the event HGI declines to purchase additional Growers pursuant to any HGI Grower Option, nothing herein shall be construed to limit or preclude SCIO from producing, manufacturing or otherwise obtaining and operating additional Growers (the "SCIO Substitute Growers"). The number of Growers that HGI may purchase under the HGI Grower Option shall be reduced by the number of SCIO Substitute Growers. "Remaining HGI Grower Option" shall be equal to the HGI Grower Option less (i) the Initial GHI Growers, (ii) any Additional HGI Growers, and (iii) any SCIO Substitute Growers.

(e) When the number of Growers available for purchase by HGI under the Remaining HGI Grower Option equals zero (0), SCIO shall have the option to extend the terms of this transaction for additional Growers with HGI's agreement.

1.2 Up-fitted Growers . Upon execution of this Agreement, HGI agrees to pay to SCIO XXXXXX* for the cost of up-fitting XXXXXX* existing 3" Growers to 4" Growers (the "Up-fitted Growers) pursuant to the Up-fitted Grower Financing. The Up-fitted Growers shall remain the property of SCIO. SCIO shall be responsible for all costs associated with such up-fitting.

1.3 Lease .

(a) HGI hereby leases to SCIO, and SCIO hereby leases from HGI the Growers purchased by HGI, according to the terms and conditions set forth in this Agreement.

(b) *Inventory Management* . SCIO shall implement an inventory management process that allocates production revenue and expenses for each HGI Grower that permits the Parties to apportion Gross Profit in accordance with Section 1.7.

1.4 Technology Changes . If, during the term of this Agreement, SCIO changes its technology requiring alterations to existing Growers, HGI has the right to upgrade or replace the then-existing HGI Growers to comply with the new technology, but such upgrade or replacement shall not extend the term of this Agreement. If HGI upgrades or replaces the then-existing HGI Growers to comply with the new technology, the costs associated therewith shall be deemed part of the sales price for the Grower and any increased production capacity or enhanced revenue generated by the new technology shall be apportioned with Section 1.7. If HGI declines to upgrade or replace the then-existing HGI Growers to comply with the new technology, SCIO may upgrade the then-existing HGI Growers at SCIO's expense and any increased production capacity or enhanced revenue generated by the new technology shall be retained by SCIO and shall not be subject of the apportionment of Gross Profit under Section 1.7.

1.5 Ownership of HGI Growers. HGI will own and lease the HGI Growers to SCIO for the term of this Agreement. At the end of the Term, ownership of the HGI Growers shall transfer to SCIO for no additional consideration. The HGI agrees to execute any documents and take any action necessary to effect such transfer of ownership. During the term of this Agreement, SCIO will ensure that every Grower is designated as SCIO or HGI-owned in some consistent manner.

1.6 Commencement of Services . SCIO's provision of Services hereunder commences immediately upon the earlier of successful installation of an Initial HGI Grower or revision to the Up-fitted Growers.

1.7 Lease Payments .

(a) *HGI Growers.* In consideration of the lease of the HGI Growers to SCIO, SCIO shall pay to HGI an amount equal to Monthly Grower Average multiplied by the number of HGI Growers multiplied by XXXXXX* until HGI is repaid the sales price paid for each HGI Grower pursuant to each Purchase Agreement ("HGI Grower Recapture"). Such payments shall be paid by the fifteenth (15th) day of the calendar month following the month of sale of the Product. Upon payment of HGI Grower Recapture, SCIO shall pay to HGI an amount equal to Monthly Grower Average multiplied by the number of HGI Growers multiplied by XXXXXX* ("HGI Grower Return"). HGI Grower Recapture and HGI Grower Return shall collectively be "HGI Grower Payments." None of the HGI Grower Payments shall be considered as repayment of SCIO's obligations under the SCIO Loan Agreement.

(b) *Up-fitted Growers.* In the event the HGI repays the amount owed under the SCIO Loan Agreement on or before the start of the nineteenth (19th) month following the Term Commencement Date, SCIO shall pay to HGI on a monthly basis an amount equal to Monthly Grower Average multiplied by the number of Up-fitted Growers multiplied by XXXXXX* for XXXXXX* years after each up-fitted Grower is placed into service. If SCIO fails to repay the SCIO Loan Agreement within the period set forth in the preceding sentence, SCIO shall continue to pay to HGI the monthly payment equal to Monthly Grower Average multiplied by the number of Up-fitted Growers multiplied by XXXXXX* for an additional XXXXXX* months.

(c) For purposes of this subsection, the following definitions shall apply:

(i) "Gross Profit" shall mean the total sales revenue from Products less Operation Costs associated with producing the Products and operating Growers. For purposes of calculating Gross Profit, the Parties will not consider any Growers operated by the Grace Rich Joint Venture.

(ii) "Products" means rough gem stones and poly-crystal diamonds produced by and attributed to each Grower.

(iii) "Operation Costs" means SCIO's actual costs directly related to the creation of diamond material from and operating the Growers, but in the absence of mutual agreement by the Parties, Operation Costs shall be no less than XXX%* and no greater than XXX%* of total sales revenue from Products generated by the Growers. The Parties acknowledge that Operation Costs may include, without limitation, material and supplies including diamond seed material and gasses, Grower repairs and maintenance, laser and fabrication costs, electrical and utility costs and leases, labor, benefits and employee expenses directly involved in production of the material, facility rent or lease and up-fit costs, depreciation expense of facility assets, business insurance, permits, taxes and fees directly related to the production facility and Scio owned assets in facility, property taxes on facility up-fit costs borne by Scio, shipping, customs, import duties and research and development costs as applied to grower operations and improvements.

(iv) "Monthly Grower Average" means the total Gross Profit for Growers operated by SCIO divided by the total number of Growers operated by SCIO calculated on a monthly basis.

(d) Growers deployed during the last fifteen (15) days of a month shall be disregarded during the month of deployment in the calculation of the lease payments, including the calculation of the components that support the lease payments, under Section 1.7.

(e) *No Claim to Other Revenue .* The Parties acknowledge that SCIO may generate revenue from sources other than sales of Products attributable to the HGI Growers and Up-fitted Growers, including without limitation, revenues from joint ventures that may engage in secondary sales of Products made by HGI Growers and Up-fitted Growers ("Other Revenues"). HGI's right to Gross Profit shall be limited to the initial sale of any Product made by HGI Growers and Up-fitted Growers and HGI shall have no claim or right to any share of Other Revenues generated by SCIO. HGI shall have no right to receive Gross Profit from HGI Growers or Up-fitted Growers upon termination of this Agreement.

1.8 Standard of Performance. SCIO will perform all its obligations hereunder (the "Services") in accordance with the terms of this Agreement, in accordance with the best practices, methods and standards of safety and performance as are commonly employed by operators of businesses similar to HGI's Assets, and in accordance with applicable statutes, rules, codes and regulations and standard practices of the relevant industries, as may be amended from time to time (collectively, the "Applicable Laws"), and with such consents, permits, licenses, rights of way, filings, all governmental consents and approvals, environmental permits, orders or other approvals, affecting or necessary for the performance of the Services and operation of HGI's Assets (collectively, the "Approvals").

1.9 HGI Rights of Inspection . HGI and its authorized representatives ("HGI Representatives") shall have access at all times to HGI's Assets and, upon reasonable notice, and as set forth in Sections 1.10 and 1.11 below, to documents, materials, records and accounts relating to operations, all for the purposes of inspection and review. During any inspection or review, HGI and HGI Representatives shall conduct any inspection or review in a manner designed to result in not unreasonable interference with SCIO's activities. SCIO shall cooperate with HGI in allowing HGI Representatives access to HGI's Assets.

1.10 Operating Records and Reports . From and after the commencement of Services under this Agreement, and for at least twelve months following the applicable calendar year SCIO shall establish and maintain, in detail sufficient to allow full analysis of HGI's Assets and Services, such books, operating logs, records, accounts and reports documenting the administration, operation and maintenance of HGI's Assets (collectively, the "SCIO Records"). Complete production records will be kept in such a way that Products from the HGI's Assets can be traced from Grower Batch to its sale by a unique identifier. Product Prices shall be kept and recorded for each individual Grower. HGI shall be provided with comprehensive records of materials from each HGI Grower and the manner in which its share of the revenue from that Grower has been calculated. The SCIO Records shall be maintained in accordance with its past practices applied consistently from year to year in accordance with good industry practices.

1.11 Ownership of Growers . The HGI Growers, together with any other devices, instruments or equipment provided to SCIO in connection therewith shall at all times be the sole and exclusive property of HGI and SCIO shall not have any right, title or interest therein or thereto except SCIO's limited right of use subject to the terms and conditions of this Agreement. PROVIDED, FURTHER, that: (i) except pursuant to the SCIO Loan Agreement, SCIO shall keep the HGI Growers at all times free and clear from all claims, levies, liens, encumbrances and process and shall give HGI immediate notice of any such attachment or other judicial process affecting the Growers; (ii) SCIO shall keep such HGI Growers only at such location as designated in this Agreement; (iii) HGI shall be entitled to file such financing statements and other documents it deems necessary to evidence its interest in the HGI Growers; and (iv) if at any time during the Term HGI supplies SCIO with labels, plates or other markings, stating that the HGI Growers are owned by HGI, SCIO shall affix and keep the same upon a permanent place on the Growers.

1.12 Use of HGI Growers; Inspection and Compliance . SCIO shall: (i) use the HGI Growers in a careful and proper manner and shall make no alterations, additions or improvements thereto without prior written consent of HGI; and (ii) comply with and conform to all federal, state and laws, regulations, rules and ordinances in any way relating to the possession, use or maintenance of the HGI Growers, including, without limitation, maintaining any licenses required by any such authority.

1.13 Maintenance . HGI shall have no responsibility for repairs to or replacement of all or any portion of the Growers for damage caused by vandalism or the intentional or negligent acts or omissions of SCIO or its representatives, employees, agents, licensees or invitees, such repairs or replacements and the costs thereof being the sole responsibility of SCIO.

1.14 Insurance . SCIO, at SCIO's own cost and expense, shall maintain, at all times during the Term with respect to such Grower, insurance against all risks of loss or damage by fire and such other risks as are covered by endorsement commonly known as supplemental or extended coverage for not less than the replacement value of such Grower. HGI shall be listed as an additional insured and/or loss payee on all such insurance policies; (ii) all such policies shall be written by companies reasonably satisfactory to HGI, and certificates showing such coverage to be in effect shall be furnished to HGI upon request; and (iii) the proceeds of such insurance, at the option of the HGI, shall be applied (a) toward the replacement, restoration or repair of the Grower or (b) toward payment of the obligations of SCIO hereunder.

1.15 DISCLAIMER OF WARRANTIES . HGI MAKES NO WARRANTIES, EITHER EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE CONDITION OF THE HGI GROWERS THEIR MERCHANTABILITY OR THEIR FITNESS FOR ANY PARTICULAR PURPOSE.

2 SERVICES; OTHER OBLIGATIONS

2.1 Scope of Services . SCIO agrees to lease the HGI Growers and perform the Services in accordance with the terms and conditions of this Agreement.

2.2 SCIO Access Rights . From and after the commencement of operations under this Agreement, subject to the terms of this Agreement and for the duration of the Term, HGI hereby gives SCIO the non-exclusive right to access and enter HGI's Assets relating to the business described herein and for the purposes set forth in this Agreement. During the term of this Agreement, SCIO shall have primary care, custody and control over, HGI's Assets and the performance of the Services.

2.3 Continuous Obligation . SCIO hereby acknowledges and agrees that its primary duty and obligation hereunder is to provide Services to HGI in a continuous and uninterrupted fashion, by such means, methods or instrumentalities that will best meet the objectives of HGI, this Agreement, and this Section 2.

2.4 Subcontracts . SCIO may subcontract with qualified subcontractors, including affiliates of SCIO, for such routine or non-routine work as is necessary to perform the Services and certain administrative office functions for HGI's Assets. Subcontracting shall not relieve SCIO of any of its duties hereunder.

*Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.

2.5 Licenses and Permits .

(a) SCIO shall review and shall keep current with the requirements of all federal, state and local laws, codes, regulations, ordinances and all other governmental requirements applicable to the operation and maintenance of HGI's Assets, including without limitation, all necessary permits, licenses, bonds and Approvals (and renewals of the same) (collectively, the "Licenses and Permits").

(b) SCIO shall be responsible for securing and complying with all Licenses and Permits, in all respects.

(c) SCIO shall initiate and maintain precautions and procedures necessary to comply with, and shall itself comply with, the provisions of all federal, state and local laws, codes, regulations, ordinances or other governmental requirements applicable to HGI's Assets and the Services, including those related to prevention of injury to persons or damage to property.

3 HGI RESPONSIBILITIES

3.1 Capital and Operational Requirements. HGI is solely responsible for all capital requirements necessary to exercise any HGI Grower Option and to purchase the HGI's Assets.

3.2 Reasonable Reliance . Subject to its compliance with the SCIO Standard of Performance, SCIO shall be entitled reasonably to rely upon the information provided by HGI in its performance of the SCIO Services.

3.3 HGI Breach . In the event of a material breach by HGI of any of its obligations under this Section 3, SCIO shall be entitled to suspend Services for HGI's Assets to the extent prevented or restricted in performing the Services for HGI's Assets by such breach.

4 RESERVED

5 SCIO REVERSION AND PURCHASE RIGHTS

5.1 SCIO Reversion Rights. Upon expiration of the Term of this Agreement and subject to HGI's rights under the SCIO Loan Agreement, the HGI Growers shall automatically become the property of SCIO. SCIO shall be required to pay the Buy-Out Price prior to reversion of the Growers to SCIO if the Agreement is terminated for any of the following: (a) a breach by SCIO pursuant to Section 7.2(b) or (b) bankruptcy filing by SCIO pursuant to Section 7.2(a)(i).

5.1 SCIO Purchase Rights.

(a) Upon payment to HGI of an amount equal to the Buy-Out Price in connection with the HGI Growers at any time during this Agreement, SCIO shall be deemed to have repurchased the HGI Growers and title to the HGI Growers shall automatically become the property of SCIO. "Buy-Out Price" means an amount equal to the sum of:

(1) HGI Grower Recapture;

(2) For any Grower for which HGI has already exercised an HGI Grower Option, the net present value of the expected Gross Profit stream to HGI at the time of the buyout and for the remainder of the ten-year term of this Agreement; and

(3) For any Remaining HGI Grower Option, the net present value of the expected Gross Profit stream to HGI at the time of the buyout these Additional HGI Growers would have produced from the date of the buyout through the remainder of the ten-year term of this Agreement, *provided, however* that the Additional HGI Growers subject to the Remaining HGI Grower Option shall be excluded from the calculation of the Buy-Out Price (i) if Fairforest lacks available space, (ii) if the Fairforest Lease is terminated, or (iii) if HGI declines to exercise its HGI Grower Option in connection with the two Additional HGI Grower Tranches immediately preceding SCIO's exercise of a purchase right under Section 5.2 and

(4) Any balance due to HGI on the SCI Loan Agreement.

(b) *Net Present Value Calculation .* For purposes of calculating net present value in this subsection, the Gross Profit stream shall be calculated using an interest rate equal to LIBOR at the time of the buyout, and the average Gross Profit of HGI Growers since the date of this Agreement.

5.3 First Right. HGI may sell the HGI Growers to a third party upon receiving approval from SCIO for sale to the specified third party, *provided, however* that HGI must first offer SCIO the opportunity to purchase the HGI Growers at a price equal to the lesser of (i) the third party offer or (ii) the amount due under the terms provided at Section 5.2 above. Any subsequent purchaser of the HGI Growers must agree to be bound to the terms of this Agreement.

6 LIMITATIONS ON AUTHORITY

6.1 No Authority to Bind . Notwithstanding any provision in this Agreement to the contrary, unless previously expressly approved in writing by HGI, neither SCIO nor any agent of SCIO, representative of SCIO, nor any SCIO personnel shall have any right or authority to assume, create or incur any liability or obligation, express or implied, against, in the name of, or on behalf of HGI.

6.2 Independence of Parties . SCIO shall act as an independent contractor of HGI with respect to the performance of its obligations hereunder. Neither SCIO nor its affiliates, employees, subcontractors, vendors or suppliers, or the employees of any such parties employed in connection with the provision of Services hereunder shall be deemed to be agents, representatives, employees, or servants of HGI. This Agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association of profit between HGI and SCIO.

7 TERM AND REMEDIES

7.1 Term of Agreement . This Agreement shall become effective upon the commencement of Services and, if not earlier terminated pursuant to this Section 7, the term of this Agreement shall be the earlier of ten (10) years following the date on which HGI receives its initial payment from SCIO in connection with any HGI Grower or Up-fitted Grower (the "Term Commencement Date") or the payment of XXXXXXX* to HGI under this Agreement (the "Term").

7.2 Termination.

(a) Either Party may terminate this Agreement immediately in the event

(i) of the bankruptcy of the other Party; or

(ii) of the occurrence of a Force Majeure Event that is not remedied within sixty days of its initial occurrence or with diligence cannot be remedied within six months of its initial occurrence.

(b) In the event of a material breach by either Party in the performance of their respective duties and obligations in this Agreement, which default remains uncured 60 days after written notice thereof from the non-defaulting Party, the non-defaulting Party may terminate this Agreement upon ten (10) days' written notice.

7.3 Default and Remedies. On the occurrence of: (i) SCIO's failure to pay any amount herein provided within sixty (60) days after the same is due and payable and written notice thereof from HGI; (ii) SCIO's failure to observe, keep or perform any of the provisions of this Agreement required to be observed, kept or performed by SCIO where such non-performance remains uncured for a period of sixty (60) days from the initial occurrence thereof and written notice thereof from HGI; or (iii) the commencement of any proceeding under United States Bankruptcy Code, as amended, by or against SCIO that is not dismissed within sixty (60) days after the commencement thereof, or if SCIO is adjudged insolvent, or if the SCIO makes any assignment for the benefit of its creditors, or if a writ of attachment or execution is levied on the HGI Grower and is not released or satisfied within ten (10) days thereafter, or if a receiver is appointed in any proceeding or action to which SCIO is a party with authority to take possession or control of any item or items of the HGI Grower; HGI shall have the following rights and remedies upon ten (10) days' written notice, such rights and remedies being cumulative and non-exclusive and in addition to those available under any other Agreement between the parties or otherwise available at law or in equity:

(a) To terminate this Agreement terminate any or all leases of any Growers hereunder, and/or declare the entire amount of any amounts under any or all of the foregoing to be immediately due and payable without notice or demand to SCIO; and

(b) To the fullest extent permitted by law, to take possession of any or all of the HGI Growers, without demand or notice, wherever same may be located, without any court order or other process of law; PROVIDED, FURTHER, that SCIO hereby waives any and all damages occasioned by such taking of possession unless caused by HGI's gross negligence or willful misconduct.

8 INSURANCE

8.1 HGI's Insurance . Beginning on the commencement of Services and continuing for the Term of this Agreement, HGI shall procure and maintain in full force and effect, at HGI's cost, all risk property and business interruption insurance in an amount equal to the replacement cost of HGI's Assets.

8.2 SCIO's Procurement of Insurance . Beginning on the commencement of Services and continuing for the Term of this Agreement, SCIO shall procure and maintain in full force and effect, insurance coverage for SCIO's Services under this Agreement.

8.3 Evidence of Insurance. SCIO shall provide to HGI certificates of insurance evidencing the required insurance as HGI may reasonably specify.

8.4 Endorsements . Each of the required policies shall be endorsed to provide that the other party requiring the insurance hereunder be given thirty days advance notice of cancellation or material change .

9 RESERVED

10 INDEMNIFICATION

10.1 By SCIO . SCIO shall indemnify, defend and hold harmless HGI, its partners, members, lender, and their respective officers, directors, employees, agents, affiliates and representatives (the "HGI Indemnified Parties"), from and against any and all suits, sanctions, liabilities, legal proceedings, claims, demands, losses, costs and expenses of whatsoever kind or character, including, but not limited to, attorneys' fees and expenses, for injury to or death of persons, or loss of or damage to property, or infringement or unauthorized disclosure or use of any trade secret, patent, copyright or trademark, of persons other than HGI, to the extent arising out of or in any way connected with, the acts of SCIO or anyone acting on SCIO's behalf and not covered by insurance required by this Agreement.

10.2 By HGI . HGI shall indemnify, defend and hold harmless SCIO, its officers, directors, employees, agents, affiliates and representatives (the "SCIO Indemnified Parties"), from and against any and all suits, actions, liabilities, legal proceedings, claims, demands, losses, costs and expenses of whatsoever kind or character, including, but not limited to, attorneys' fees and expenses, for injury to or death of persons, or loss of or damage to property, of persons other than SCIO, to the extent determined in a judgment of a court of competent jurisdiction to have arisen as a result of any negligence of the HGI.

11 LIMITATION OF LIABILITY

11.1 Survival . The provisions of this Article 11 shall survive termination, cancellation or expiration of this Agreement. The Parties further agree that the waivers and disclaimers of liability, indemnities, releases from liability, and limitations on liability expressed in this Agreement shall survive termination or expiration of this Agreement.

12 CONFIDENTIALITY

12.1 Proprietary Information . HGI and SCIO agree to each hold confidential and proprietary, for a period of six years from the date of disclosure, but in any event for the duration of the Term, except as may be reasonably necessary from time to time to perform the Services hereunder, any proprietary or trade secret information supplied to the other, or designated as confidential. The provisions of this Section 12.1 shall not apply to information within any one of the following categories or any combination thereof: (a) information which was in the public domain prior to the receipt thereof or which subsequently becomes part of the public domain by publication or otherwise except by the recipient's wrongful act; (b) information which the recipient demonstrates was lawfully in his possession prior to receipt thereof through no breach of any confidentiality obligation; (c) information received from a third party having no obligation of confidentiality with respect thereto; or (d) information required to be divulged pursuant to law or court order.

12.2 Nondisclosure Agreements . All nondisclosure or confidentiality agreements between the Parties are incorporated into this Agreement and shall remain in effect through the term of this Agreement. The Parties further agree to require its contractors, subcontractors, employees, agents to enter into such appropriate nondisclosure agreements relative to such confidential information, prior to their receipt thereof.

13 RESERVED

14 ARBITRATION

Any dispute between HGI and SCIO arising under this Agreement which cannot be resolved by agreement of the Parties shall be submitted to final and binding arbitration pursuant to the United States Arbitration Act, 9 U.S.C. Sec. 1 et seq. Either Party may commence the arbitration process called for in this Agreement by filing a written demand for arbitration with a copy to the other Party. The Parties will cooperate with one another in selecting an arbitrator and in scheduling the arbitration proceedings. The Parties covenant that they shall participate in the arbitration in

good faith, and that they shall share equally in its costs; *provided, however*, that the prevailing party in any action brought pursuant to this Section 14 shall be entitled to an award of all costs, fees and expenses, including attorneys' fees, to be paid by the losing party. The provisions of this paragraph may be enforced by any court of competent jurisdiction, and the party seeking enforcement shall be entitled to an award of all costs, fees and expenses, including attorneys' fees, to be paid by the party against whom enforcement is ordered. Nothing contained in this Section shall limit a party's right to seek an injunctive order to enforce, or prevent any violations of, the provisions of this Agreement.

15 FORCE MAJEURE

- 15.1 Force Majeure Event.** "Force Majeure Event" means any act or event beyond the reasonable control of the Party affected that delays or prevents HGI or SCIO from timely performing obligations under this Agreement (other than the payment of monies due) or complying with conditions required under this Agreement if such act or event is beyond the reasonable control of the Party relying thereon as justification for such delay, non-performance or non-compliance, including, but not limited to, Act of God or the elements, drought, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, sabotage, strike or labor difficulty, curtailment of supply, change of law, inability to obtain and maintain rights-of-way, permits, licenses, and other required authorizations from any local, state, or federal agency or person to provide Services hereunder and restraint by court, or restraint or restriction imposed by law or by rule, regulation, or other acts of governmental authorities, whether federal, state or local.
- 15.2 Excused Performance .** Except for the obligations of either HGI or SCIO to make payments under this Agreement for amounts due prior to the occurrence of a Force Majeure Event, either Party shall be excused from performance and shall not be considered to be in default in respect to any obligation hereunder, if and to the extent failure of performance shall be due to a Force Majeure Event. Neither Party shall be required to prevent or settle a strike against its will. The burden of proof shall be on the Party asserting excuse from performance due to a Force Majeure Event.
- 15.3 Notice .** If SCIO's or HGI's ability to perform its obligations under this Agreement is affected by a Force Majeure Event, such Party shall promptly, upon learning of such Force Majeure Event and ascertaining that it will affect its performance hereunder, give notice to the other Party stating the nature of the Force Majeure Event, its anticipated duration and any action being taken to avoid or minimize its effect.
- 15.4 Scope .** The suspension of performance shall be of no greater scope and no longer duration than that which is necessary. The excused Party shall use all reasonable efforts to remedy its inability to perform.

16 REPRESENTATIONS AND WARRANTIES

Each Party represents and warrants to each other Party that (i) such Party has the full power and authority to execute, deliver and perform this Agreement and to carry out the transactions contemplated hereby; (ii) the execution and delivery of this Agreement by such Party and the consummation by such Party of the transactions contemplated hereby have been duly authorized by all requisite action, and this Agreement has been duly executed and delivered by such Party, enforceable against it in accordance with the terms hereof, subject, as to enforceability of remedies, to limitations imposed by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditor's rights generally and to general principles of equity; (iii) no authorization, consent, approval or order of, notice to, or registration, qualification, declaration or filing with, any governmental authority, is required for the execution, delivery and performance by such Party of this Agreement or the consummation by such Party of the material transactions contemplated hereby; and (iv) none of the execution, delivery and performance by such Party of this Agreement, the compliance with the terms and provisions hereof, and the consummation of the transactions contemplated hereby, conflicts or will conflict with or result in a breach or violation of any of the terms, conditions, or provisions of any law, governmental rule or regulation or the charter or certificate of formation, as amended, or bylaws, as amended, of such Party or any applicable order, writ, injunction, judgment, or degree of any court or governmental authority against such Party, or any material loan agreement, indenture, mortgage, bond, note, contract or other agreement or instrument to which such Party is a Party or by which it is bound, other than as would not reasonably be expected to have a material adverse effect on such Party's ability to perform, or its performance of, its obligations hereunder.

17 MISCELLANEOUS PROVISIONS

- 17.1 Assignment .** This Agreement shall not be assignable by either Party without the prior written consent of the other Party hereto, except that this Agreement may be assigned without such consent (i) by SCIO to a successor of SCIO, or to a person acquiring all or a controlling interest in the business assets of SCIO or to a wholly-owned subsidiary of SCIO and (ii) by SCIO in connection with any financing.
- 17.2 Governing Law .** This Agreement shall be governed by the law of the State of South Carolina.
- 17.3 Entire Agreement; Amendments .** This Agreement constitutes the entire agreement between SCIO and HGI with respect to the subject matter covered hereby and supersedes any and all prior negotiations, representations, agreements or understandings relating hereto. This Agreement may be amended only by a writing signed by a duly authorized representative of each Party affected by the amendment.
- 17.4 Waivers .** Any Party may specifically waive any breach of this Agreement by the other Party, but no such waiver shall be deemed to have been given unless such waiver is in writing, signed by the waiving party and specifically designates the breach waived, nor shall any such waiver constitute a continuing waiver of similar or other breaches.
- 17.5 Notices .** All notices, requests, offers, reports and other communications required or permitted to be made under this Agreement shall be in writing, and shall be given by first class, registered or certified mail, postage prepaid, or by hand-delivered telegram telex, or facsimile copier. All notices shall be addressed to the headquarters of the Parties, and in the absence of intervening

notice, as follows:

If to Scio:

Chief Executive Officer
Scio Diamond Technology Corporation
411 University Ridge, Suite D
Greenville, SC 29601

If to HGI:

Heritage Gemstone Investors, LLC
136 Rubiwood Circle
Greer, SC 29651
Attn: Vivian A. Wong

- 17.6** **No Third Party Benefits** . Except with respect to the rights of a lender or trustee (or their agent) pursuant to an assignment for financing purposes as provided in Section 20.1 and for the rights of indemnified parties under Section 13, this Agreement and each and every provision thereof is for the exclusive benefit of the Parties and is not for the benefit of any third party.
- 17.7** **Partial Invalidity**. If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the rest of this Agreement shall remain in full force and effect and in no way be affected, impaired, or invalidated.
- 17.8** **Headings** . The headings herein in this Agreement are for reference only and shall not affect the construction of this Agreement.
- 17.9** **Counterparts** . This Agreement may be executed in counterparts, and any number of counterparts signed in the aggregate by the parties hereto shall constitute a single original document.
- 17.10** **Conflict with Appendices** . In the event of a conflict, variation or inconsistency between the appendices hereto and the terms and conditions hereof, the latter shall control and be given priority. This Agreement contains the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior negotiations, undertakings and agreements. Neither Party will be bound by or deemed to have made in connection herewith any representations, warranties, commitments or undertakings, except those contained herein.

IN WITNESS WHEREOF, the Parties have executed this Agreement through their duly authorized representatives effective as of the date set forth below.

SCIO DIAMOND TECHNOLOGY
CORPORATION

HERITAGE GEMSTONE INVESTORS, LLC

Gerald McGuire, President/CEO

Billy J. Coleman, President/CEO

Bern McPheely, Board Chairman

Vivian A. Wong, Board Chairman

Date: _____

Date: _____



Scio Diamond Successfully Completes Funding Round
Leader in lab-grown diamonds plans production expansion

GREENVILLE, SC, December 22, 2014 – Scio Diamond Technology Corporation (OTCBB: SCIO) today announced it has closed \$2.5 million in growth funding from Heritage Gemstone Investors (HGI) to double production of its lab-grown diamonds and refinance debt.

In addition, the two companies agreed on terms for a second phase of funding from HGI that will take place in 2015 to further increase the company's production capacity by up to 10 times.

Also, two Scio Diamond board members, Bruce Likely and Lewis Smoak, have increased their equity investment in the company, following investments the two individuals made in the company in October. Another board member, Karl Leaverton, also invested in the company in December.

The funding from HGI will be used to refinance a \$1.5 million loan from Platinum Capital Partners at more favorable terms, reducing Scio Diamond's borrowing costs by more than 10 percent. The doubling of capacity will come from the purchase of additional production platforms in a larger size.

"Scio Diamond has been a pioneer in developing the technology behind the success in lab-grown diamonds," noted Vivian Wong from HGI. "We believe the company is well-positioned to be a major factor in expanding the market for lab-grown diamonds."

"Our growth strategy is designed to take advantage of both near-term and future market opportunities that we believe will make Scio Diamond the leader in lab-grown diamonds," said Gerald McGuire, President and CEO, Scio Diamond. "Our investors and board members believe strongly that lab-grown diamonds are a promising growth market. These investments illustrate the high level of confidence that they have in Scio's management team and business plan."

The worldwide diamond jewelry market has been estimated by the World Diamond Council at more than \$72 billion. Lab-grown diamonds, with identical properties as mined diamonds, are a growing portion of the market and expected to increase by 50% per year CAGR through 2018, according to Frost & Sullivan's 2014 market assessment of grown diamonds.

In the report, Frost & Sullivan pointed out that "change in consumer preferences tending towards environmentally and socially responsible products is a key driver for the acceptance of grown diamonds." Bain & Company's 2014 report on the global diamond industry noted that "diamond demand is expected to outpace future supply". These developments could accelerate demand for grown diamonds.

In 2014, SCIO named a new board of directors, hired a new executive team and developed a new business plan. The company added "fancy" colored diamonds to its product lineup, along with colorless stones for jewelers and cutting devices and electronics for manufacturers.

In its fiscal year ending March 31, 2014, the company increased net revenue by more than \$500,000 over 2013. The company reduced operating expenses from \$8.1 million to \$5.6 million from 2013 to 2014.

About Scio Diamond

Scio Diamond employs a patent-protected chemical vapor deposition process to produce high-quality, single-crystal colorless, near colorless and fancy colored diamonds for the jewelry market in a controlled laboratory setting. Lab-grown diamonds are chemically, physically and optically identical to "earth-mined" diamonds. Scio's technology offers the flexibility to produce lab-grown diamonds in size, color and quality combinations that are rare in earth-mined diamonds. Scio also delivers diamond materials for advanced industrial, medical and semiconductor applications.
www.sciodiamond.com

About Heritage Gemstone Investors

HGI is a collaborative group of investors based in Greenville, SC. The group includes Vivian Wong, William Coleman, and Sudhirkumar C. Patel, MD.

Cautionary Note Regarding Forward-Looking Statements

This press release contains forward-looking statements that may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Scio to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "may," "will," "should," "could," "would," "forecast," "potential," "continue," "contemplate," "expect," "anticipate," "estimate," "believe," "intend," "or" "project" or the negative of these words or other variations on

these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

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