UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2016

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 000-54529

SCIO DIAMOND TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**45-3849662**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

411 University Ridge Suite D
Greenville, SC 29601
(Address of principal executive offices, including zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☐	Smaller Reporting Company ☒
(Do not check if smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The number of shares of common stock, $0.001 par value, outstanding as of February 14, 2017 was 64,548,291.

SCIO DIAMOND TECHNOLOGY CORPORATION

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Special Note Regarding Forward-Looking Statements

Information included in this Quarterly Report on Form 10-Q contains forward-looking statements that reflect the views of the management of the Company with respect to certain future events. Forward-looking statements made by penny stock issuers such as the Company are excluded from the safe harbor in Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Words such as "expects," "should," "may," "will," "believes," "anticipates," "intends," "plans," "seeks," "estimates" and similar expressions or variations of such words, and negatives thereof, are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that matters anticipated in our forward-looking statements will come to pass.

Forward-looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Such risk and uncertainties include, without limitation, those described under Risk Factors set forth in Part I, Item 1A of our Form 10-K for the fiscal year ended March 31, 2016 filed on July 14, 2016.

You are cautioned not to place undue reliance on forward-looking statements. You are also urged to review and consider carefully the various disclosures made in the Company's other filings with the Securities and Exchange Commission ("SEC"), including amendments to those filings, if any Except as may be required by applicable laws, the Company undertakes 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.

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

SCIO DIAMOND TECHNOLOGY CORPORATION
CONDENSED BALANCE SHEETS
As of December 31, 2016 and March 31, 2016

	December 31, 2016 (Unaudited)	March 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 183,520	$ 192,880
Accounts receivable, net	3,092	175,448
Deferred contract costs, net	—	142,471
Inventory, net	133,634	189,527
Prepaid expenses	35,613	52,150
Prepaid rent	1,950	19,238
Total current assets	357,809	771,714
Property, plant and equipment		
Facility	886,630	886,630
Manufacturing equipment	3,308,299	3,294,425
Other equipment	73,543	73,543
Construction in progress	11,107	24,981
Total property, plant and equipment	4,279,579	4,279,579
Less accumulated depreciation	(2,559,794)	(2,085,508)
Net property, plant and equipment	1,719,785	2,194,071
Intangible assets, net	6,501,329	7,225,446
Investment in joint venture – RCDC	—	48,271
TOTAL ASSETS	$ 8,578,923	$ 10,239,502
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 504,839	$ 438,466
Customer deposits	23,347	46,096
Deferred revenue	—	174,280
Accrued expenses	331,846	353,921
Convertible notes	308,857	—
Current portion of notes payable	2,098,999	98,999
Current portion of capital lease obligation	122,495	122,495
Total current liabilities	3,390,383	1,234,257
Notes payable, non-current	201,001	2,201,001
Capital lease obligation, non-current	71,994	71,994
Other liabilities	66,427	88,569
TOTAL LIABILITIES	3,729,805	3,595,821
Common stock $0.001 par value, 75,000,000 shares authorized; 64,548,291 and 63,919,291 shares issued and outstanding at December 31, 2016 and March 31, 2016, respectively	64,548	63,919
Additional paid-in capital	29,611,466	28,942,060
Accumulated deficit	(24,826,896)	(22,362,298)
Total shareholders' equity	4,849,118	6,643,681
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 8,578,923	$ 10,239,502

The accompanying notes are an integral part of these unaudited condensed financial statements.

SCIO DIAMOND TECHNOLOGY CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
For the Three and Nine months ended December 31, 2016 and 2015
(Unaudited)

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Nine months Ended December 31, 2016	Nine months Ended December 31, 2015
Revenue				
Product revenue, net	$ 107,194	$ 125,677	$ 534,321	$ 534,144
Licensing revenue	600,000	—	600,000	—
Revenue, net	707,194	125,677	1,134,321	534,144
Cost of goods sold				
Cost of goods sold	544,871	689,572	1,649,046	1,566,218
Gross margin (deficit)	162,323	(563,895)	(514,725)	(1,032,074)
General and administrative expenses				
Salaries and benefits	258,362	263,176	838,715	720,867
Professional fees	76,001	99,201	296,567	195,266
Rent and facilities expense	38,254	39,145	114,171	119,119
Marketing costs	8,158	18,292	21,568	74,938
Corporate general and administrative	45,442	72,678	171,112	304,856
Depreciation and amortization	245,460	198,621	736,380	595,503
Reversal of severance liability	—	—	—	(137,561)
Loss from operations	(509,354)	(1,255,008)	(2,693,238)	(2,905,062)
Other income/(expense)				
Proceeds from insurance	229,330	—	464,725	—
Income (loss) from RCDC joint venture	(19,530)	24,667	(48,271)	59,368
Interest expense	(55,634)	(31,740)	(187,814)	(103,070)
Net loss	$ (355,188)	$ (1,262,081)	$ (2,464,598)	$ (2,948,764)
Loss per share				
Basic:				
Weighted average number of shares outstanding	63,213,291	61,759,291	62,959,553	58,901,542
Loss per share	$ (0.01)	$ (0.02)	$ (0.04)	$ (0.05)
Fully diluted:				
Weighted average number of shares outstanding	63,213,291	61,759,291	62,959,553	58,901,542
Loss per share	$ (0.01)	$ (0.02)	$ (0.04)	$ (0.05)

The accompanying notes are an integral part of these unaudited condensed financial statements.

SCIO DIAMOND TECHNLOGY CORPORATION
CONDENSED STATEMENTS OF CASH FLOW
For the Nine months Ended December 31, 2016 and 2015
(Unaudited)

	Nine months Ended December 31, 2016	Nine months Ended December 31, 2015
Cash flows from operating activities:		
Net loss	$ (2,464,598)	$ (2,948,764)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,204,253	1,046,032
Employee stock-based compensation	442,259	324,791
Loss/(income) from joint venture - RCDC	48,271	(59,368)
Payment of accounts payable with convertible notes	139,257	—
Changes in assets and liabilities:		
Increase in accounts receivable and deferred revenue	(1,924)	(1,064)
Decrease in prepaid rent and expenses	27,975	32,857
Decrease in inventory and deferred contract costs	198,364	133,116
Increase/(decrease) in accounts payable	66,373	(153,641)
Decrease in customer deposits	(22,749)	(28,739)
Decrease in accrued expenses	(22,075)	(265,941)
Decrease in other liabilities	(22,142)	(22,142)
Net cash used in operating activities	(406,736)	(1,942,863)
Cash flows from investing activities:		
Purchase of property, plant and equipment	—	(282,627)
Net cash used in investing activities	—	(282,627)
Cash flows from financing activities:		
Proceeds from the sale of common stock – net of fees	227,776	1,565,000
Proceeds from the exercise of stock options	—	11,238
Payments on capital lease obligations	—	(5,511)
Payments on notes payable	—	(8,267)
Proceeds from sale of convertible notes	169,600	—
Net cash provided by financing activities	397,376	1,562,460
Change in cash and cash equivalents	(9,360)	(663,030)
Cash and cash equivalents, beginning of period	192,880	767,214
Cash and cash equivalents, end of period	$ 183,520	$ 104,184

The accompanying notes are an integral part of these unaudited condensed financial statements.

(continued)

SCIO DIAMOND TECHNOLOGY CORPORATION
CONDENSED STATEMENTS OF CASH FLOW
For the Nine Months Ended December 31, 2016 and 2015 (Unaudited)
(Continued)

	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2015
Supplemental cash flow disclosures:		
Cash paid for:		
Interest	$ 226,867	$ 102,890
Income taxes	$ —	$ —
Non-cash investing and financing activities:		
Purchase of property, plant and equipment in accounts payable	$ —	$ 11,107
Re-classification of debt to capital lease due to completion of sale leaseback transaction	$ —	$ 200,000

The accompanying notes are an integral part of these unaudited condensed financial statements.

SCIO DIAMOND TECHNOLOGY CORPORATION
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
For the period April 1, 2016 through December 31, 2016
(Unaudited)

	Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, April 1, 2016	63,919,291	$ 63,919	$ 28,942,060	$ (22,362,298)	$ 6,643,681
Common stock issued for cash @ $0.22 per share, net of brokerage fees of $31,604	1,179,000	1,179	226,597	—	227,776
Cancellation of non-vested restricted stock	(550,000)	(550)	550	—	—
Stock-based incentive compensation	—	—	442,259	—	442,259
Net loss for the nine months ended December 31, 2016	—	—	—	(2,464,598)	(2,464,598)
Balance, December 31, 2016	64,548,291	$ 64,548	$ 29,611,466	$ (24,826,896)	$ 4,849,118

The accompanying notes are an integral part of these unaudited condensed financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Scio Diamond Technology Corporation (referred to herein as the "Company", "we", "us" or "our") was incorporated under the laws of the State of Nevada as Krossbow Holding Corp. on September 17, 2009. The Company's focus is on man-made diamond technology development and commercialization.

Going Concern

The Company has generated little revenue to date and consequently its operations are subject to all risks inherent in the establishment and commercial launch of a new business enterprise. The Company continues to develop its diamond technology while operating its factory to maximize revenue. The Company experienced a process water leak in our facility in mid-December 2015 causing damage to our diamond growers and a temporary interruption in production. The shutdown had a significant negative impact on revenue and delayed attainment of the Company's near-term business objectives. The Company's insurance carrier provided it with $350,000 during the fiscal year ended March 31, 2016, to cover the cost of the business interruption. Due to the on-going negative impact of the shutdown on our business, our insurance carrier has provided an additional $464,725 in extended business indemnity coverage through December 31, 2016. We anticipate no further coverage from our insurance carrier for this event.

These factors raise substantial doubt about the Company's ability to continue as a going concern. Management has responded to these circumstances by implementing the following strategies and actions:

- Continuing efforts to solicit investment in the Company in the form of private placements of common shares to accredited investors not to exceed the shares authorized;
- Continuing efforts to solicit investment in the Company in the form of secured and unsecured debt;
- Continuing to optimize production of recently expanded existing manufacturing capabilities to increase product revenues;
- Continuing to focus efforts on new business development opportunities to generate revenues and expand and diversify the customer base;
- Continuing development of white gemstone material to expand our product offerings and enhance our product marketability; and
- Continuing to explore strategic joint ventures and technology licensing agreements to expand Company revenue and cash flow.

Historically, these actions have been sufficient to provide the Company with the liquidity it needs to meet its obligations and continue as a going concern. There can be no assurance, however, that the Company will successfully implement these plans on a going forward basis. If necessary, the Company will pursue further issuances of equity securities, and future credit facilities or corporate borrowings. Additional issuances of equity or convertible debt securities will result in dilution to our current stockholders. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Accounting Basis

The accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company's financial position as of December 31, 2016 and March 31, 2016 and the results of operations and cash flows for the three and nine month interim periods ended December 31, 2016 and 2015. The interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for future periods or the year. The balance sheet at March 31, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Form 10-K Annual Report of the Company for the year ended March 31, 2016.

In accordance with Accounting Standards Codification ("ASC") 323, Investments—Equity Method and Joint Ventures, the Company uses the equity method of accounting for investments in corporate joint ventures for which the Company has the ability to exercise significant influence but does not control and is not the primary beneficiary. Significant influence typically exists if the Company has a 20% to 50% ownership interest in the venture unless predominant evidence to the contrary exists. Under this method of accounting, the Company records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Cash payments to equity method investees such as additional investments, loans and advances and expenses incurred on behalf of investees, as well as payments from equity method investees such as dividends, distributions and repayments of loans and advances are recorded as adjustments to investment balances. When the Company's carrying value in an equity method investee is reduced to zero, no further losses are recorded in the Company's financial statements unless the Company guaranteed obligations of the equity method investee or has committed additional funding. When the equity method investee subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

Basic and Diluted Net Loss per Share

Net loss per share is presented under two formats: basic net loss per common share, which is computed using the weighted average number of common shares outstanding excluding non-vested restricted stock, during the period, and diluted net loss per common share, which is computed using the weighted average number of common shares outstanding, and the weighted average dilutive potential common shares outstanding, computed using the treasury stock method. Currently, for all periods presented, diluted net loss per share is the same as basic net loss per share as the inclusion of weighted average shares of non-vested restricted stock and common stock issuable upon the exercise of options and warrants would be anti-dilutive.

The following table summarizes the number of securities outstanding at each of the periods presented, which were not included in the calculation of diluted net loss per share as their inclusion would be anti-dilutive:

	December 31, 2016	December 31, 2015
Common stock options	435,000	1,027,708
Warrants to purchase common stock	764,825	675,545
Non-vested restricted stock	1,335,000	1,885,000
Reserved for issuance upon conversion of convertible notes	2,239,658	—

Allowance for Doubtful Accounts

An allowance for uncollectible accounts receivable is maintained for estimated losses from customers' failure to make payment on accounts receivable due to the Company. Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: (1) historical experience, (2) aging of accounts receivable and (3) specific information obtained by the Company on the financial condition and the current credit worthiness of its customers. The Company has determined that a reserve for receivables related to the Renaissance Created Diamond Company ("RCDC") of $174,413 was appropriate at December 31, 2016 (See Note 10). An allowance was not necessary at March 31, 2016.

Inventories

Inventories are stated at the lower of average cost or market. The carrying value of inventory is reviewed and adjusted based upon net realizable value, slow moving, obsolete items and management's assessment of current market conditions. Inventory costs include material, labor, and manufacturing overhead including depreciation and are determined by the "first-in, first-out" (FIFO) method. The components of inventories are as follows:

	December 31, 2016	March 31, 2016
Raw materials and supplies	$ 20,565	$ 24,179
Work in process	1,723	19,514
Finished goods	133,418	174,809
Inventory reserve	(22,072)	(28,975)
	$ 133,634	$ 189,527

The Company maintains an inventory reserve for instances where finished good inventory may yield lower than expected results.

Property, Plant and Equipment

Depreciation of property, plant and equipment is on a straight line basis beginning at the time it is placed in service, based on the following estimated useful lives:

	Years
Machinery and equipment	3 to15
Furniture and fixtures	3 to10
Engineering equipment	5 to 12

Leasehold improvements which are included in facility fixed assets on the balance sheet are depreciated over the lesser of the remaining term of the lease or the life of the asset (generally three to seven years).

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The Company incurred total depreciation expense of $158,095 and $165,024 for the three months ended December 31, 2016 and 2015, respectively and $474,286 and $459,053 for the nine months ended December 31, 2016 and 2015, respectively.

Intangible Assets

The Company's intangible assets consist of its patent portfolio related to its diamond growing technology. These patents are considered definite-life intangible assets and management reviews them for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company allocated values to the individual patents and is amortizing this value over the remaining statutory lives of the individual patents ranging from 6.75 to 19.46 years.

Stock-based Compensation

Stock-based compensation expense for the value of stock options is estimated on the date of the grant using the Black-Scholes option-pricing model. The Black-Scholes model takes into account implied volatility in the price of the Company's stock, the risk-free interest rate, the estimated life of the equity-based award, the closing market price of the Company's stock on the grant date and the exercise price. The estimates utilized in the Black-Scholes calculation involve inherent uncertainties and the application of management judgment.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. For our Company, this generally means that we recognize revenue when we have shipped finished product to the customer. Our sales terms do not allow for a right of return except for matters related to any manufacturing defects on our part. The Company has an allowance for returns of $6,600 at December 31, 2016. This allowance has reduced reported revenues and is considered an accrued expense in the balance sheet. The allowance was $8,681 at March 31, 2016.

For product sales to joint venture partners for further processing and finishing, we currently defer all revenues when products are shipped and recognize revenue at the earlier of when the joint venture partner sells the finished goods manufactured from our materials or we are paid for our goods. Licensing and development revenues are recognized in the month received as detailed in the appropriate licensing and development contracts. In the event that licensing funds are received prior to the contractual commitments, the Company will recognize deferred revenue (liability) for the amount received.

Concentration of Credit Risk

During the three months ended December 31, 2016, the Company had one customer that accounted for more than 50% of our total service revenues. During the nine months ended December 31, 2016, the Company had four customers that each accounted for more than 10% of our total service revenues. The Company expects concentration of sales to key customers to continue in the future.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)," (ASU 2014-09) which affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition guidance in Topic 605, "Revenue Recognition", and most industry-specific guidance throughout the Industry Topics of the Codification. The guidance also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition- Contract-Type and Production-Type Contracts". On July 9, 2015, the FASB voted to defer the effective date of the pronouncement by one year. ASU 2014-09, as amended, is effective for annual periods, and interim periods within those years, beginning after December 31, 2017. An entity is required to apply the amendments using one of the following two methods: i) retrospectively to each prior period presented with three possible expedients: a) for completed contracts that begin and end in the same reporting period no restatement is required, b) for completed contract with variable consideration an entity may use the transaction price at completion rather than restating estimated variable consideration amounts in comparable reporting periods and c) for comparable reporting periods before date of initial application reduced disclosure requirements related to transaction price; ii) retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application with additional disclosures for the differences of the prior guidance to the reporting periods compared to the new guidance and an explanation of the reasons for significant changes. We are required to adopt ASU 2014-09, as amended, in the first quarter of fiscal 2019, and we are currently assessing the impact of this pronouncement on our financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", (ASU 2014-15) which requires management to assess, at each annual and interim reporting period, the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and provide related disclosures. The ASU is effective for the year ended March 31, 2017, with early adoption permitted. The Company has assessed the impact of this standard and does not believe that it will have a material impact on the Company's financial statements or disclosures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Simplifying the Measurement of Inventory", (ASU 2015-11). This new guidance requires an entity to measure inventory at the lower of cost and net realizable value. Currently, entities measure inventory at the lower of cost and market. ASU 2015-11 replaces market with net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured under last-in, first-out or the retail inventory method. ASU 2015-11 requires prospective adoption for inventory measurements for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early application is permitted. ASU 2015-11 is therefore effective in our fiscal year beginning April 1, 2017. We are evaluating the effect that ASU 2015-11 will have on our financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" (ASU 2016-02). The ASU requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early application is permitted. We are currently in the process of assessing the impact the adoption of this guidance will have on our financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). ASU 2016-09 is intended to simplify various aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in ASU 2016-09 is required for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our financial position and results of operations.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our statement of cash flows.

There are currently no other accounting standards that have been issued but not yet adopted by the Company that will have a significant impact on the Company's financial position, results of operations or cash flows upon adoption.

NOTE 2 — BUSINESS INTERRUPTION

The Company experienced a water leak in our production facility in mid-December 2015 that caused damage to our diamond growers and temporarily halted production. Product that was growing at the time of the shutdown terminated early and was not marketable. This business interruption affected the Company's operation through April 2016. The Company received $350,000 in payments from our insurance carrier for coverage of this business interruption and property losses during the fiscal year ended March 31, 2016. The Company's business interruption insurance includes extended period indemnity coverage that pays for lost business income during an extended recovery period through October 2016. The Company received $464,725 in payments under this extended coverage during the nine months ended December 31, 2016 and accounted for these payments as proceeds from insurance in other income. The Company does not expect any further payments for this business interruption.

NOTE 3 — INTANGIBLE ASSETS

The Company's intangible assets consist of its patent portfolio. The assigned values of all patens are being amortized on a straight-line basis over the remaining effective lives of the patents. The following set forth the intangible assets at December 31, 2016 and March 31, 2016:

	Life	December 31, 2016	March 31, 2016
Patents, gross	6.75 – 19.46	$ 9,967,433	$ 9,967,433
Accumulated amortization		(3,466,104)	(2,741,987)
Net intangible assets		$ 6,501,329	$ 7,225,446

Amortization expense for the quarter ending December 31, 2016 and 2015 was $241,372 and $193,710, respectively. Amortization expense for the nine months ending December 31, 2016 and 2015 was $724,117 and $581,130, respectively.

Total annual amortization expense of finite lived intangible assets is estimated to be as follows:

Fiscal Year Ending	
Three months ending March 31, 2017	$ 241,373
March 31, 2018	965,490
March 31, 2019	965,490
March 31, 2020	785,809
March 31, 2021	740,592
Thereafter	2,802,575
Total	$ 6,501,329

NOTE 4 — NOTES PAYABLE

On December 16, 2014 the Company entered into a Loan Agreement (the "HGI Loan Agreement") and a Security Agreement (the "HGI Security Agreement") with Heritage Gemstone Investors, LLC ("HGI") providing for a $2,000,000 secured non-revolving line of credit (the "HGI Loan"). The HGI Loan, which is represented by a Promissory Note dated as of December 15, 2014 (the "HGI Note"), matures on December 15, 2017. Borrowings accrue interest at the rate of 7.25% per annum. On December 18, 2014, $2,000,000 was drawn on the HGI Loan. The Company utilized funds drawn on the HGI Loan to repay its existing indebtedness and to continue to fund its ongoing operations. The HGI 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 HGI 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 $4,000,000 at all times. The Company's obligations under the HGI 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 HGI Loan Agreement. The HGI Loan Agreement requires the Company to enter into the HGI Security Agreement. Under the HGI 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 HGI Loan.

During the three and nine months ending December 31, 2016 the Company recognized $36,970 and $110,766, respectively in interest expense for the HGI Loan. During the three and nine months ended December 31, 2015, the Company recognized $25,516 and $96,846 in interest expense.

During the three and nine months ended December 31, 2016 and 2015, the Company did not repay any principal on the HGI Loan. The outstanding balance on the HGI Loan was $2,000,000 at March 31, 2016 and December 31, 2016, and is considered a non-current note payable at March 31, 2016 and a current note payable at December 31, 2016.

Also on December 16, 2014, the Company entered into an agreement for the sale and lease of diamond growing equipment (the "Grower Sale-Lease Agreement") with HGI to allow for the expansion of current growers and the purchase of new growers. 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 term of the Grower Sale-Leaseback Agreement is ten years. For the new and upgraded growers, the direct profit margin generated from the growers as defined in the Grower Sale-Lease Agreement 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. At the end of the Grower Sale-Leaseback Agreement, the Company takes ownership of the leased equipment. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events prior to the expiration of the Grower Sale-Leaseback Agreement.

During the fiscal year ended March 31, 2016, HGI advanced the Company $300,000 that funded improvements to our current growers that expanded manufacturing capacity in our production facility and the Company considers this advance as notes payable ("Expansion Note"). The Company completed the grower expansion and the assets were placed in service during the second quarter of fiscal 2016.

Payments to HGI for the Expansion Note are contingent on the direct profit margin generated by the upgraded equipment and are expected to continue through August 2018. The Company has estimated our expected payments to HGI for the direct profit sharing related to the Expansion Note and determined that the current portion of this note payable is $98,999 at March 31, 2016 and December 31, 2016, which is considered a current liability. The remaining $201,001 on the Expansion Note is considered a non-current note payable at March 31, 2016 and December 31, 2016. During the three and nine months ended December 31, 2016, the Company recognized $8,742 and $43,449, respectively in interest expense for the Expansion Note. The Company recognized $3,734 in interest expense on the Expansion Note for the three and nine months ended December 31, 2015.

In September 2016, the Company initiated an offering to accredited investors of up to $750,000 in convertible notes that will mature on September 15, 2017. The Company has issued $308,857 in notes through December 31, 2016. The notes carry an interest rate of 8% and interest accrues through maturity. The notes can be called by the Company at 101% plus accrued interest. The notes are convertible into common shares of the Company at $0.14 per share. The Company has accounted for these convertible notes as if they are conventional debt and includes them in its current liabilities on the balance sheet due to their maturities being less than one year. During the three and nine months ending December 31, 2016, the Company incurred $4,155 and $4,695 in interest expense on these convertible notes.

NOTE 5 – CAPITAL LEASES

As discussed in Note 4, the Company entered in the Grower Sale-Lease Agreement with HGI on December 16, 2014. HGI has advanced the Company $200,000 for the purchase of new grower equipment under the Sale-Leaseback Agreement. The sale and leaseback transaction occurred during the fiscal year ended March 31, 2016, and the Company put the assets into service during the second quarter of fiscal 2016. The Company considers this advance from HGI as a capital lease obligation.

Payments to HGI under the capital lease are contingent on the direct profit margin generated by the equipment as defined in the Grower Sale-Lease Agreement and will continue until the lease obligation is satisfied at which time the Company will expense the sharing obligation until the ten year term of the agreement expires. The Company has estimated our expected payments to HGI for the direct profit margin sharing related to the equipment under capital lease and determined that the current portion of this capital lease obligation is $122,495 at March 31, 2016 and December 31, 2016, which is considered a current liability. The remaining $71,994 of the capital lease obligation is considered a non-current obligation at March 31, 2016 and December 31, 2016. During the three months and nine months ended December 31, 2016, the Company incurred $5,767 and $28,904, respectively in interest expense for the capital lease. The Company recognized $2,490 of interest expense on the capital lease for the three and nine months ended December 31, 2015.

NOTE 6 — CAPITAL STOCK

The authorized capital of the Company is 75,000,000 common shares with a par value of $ 0.001 per share.

During the nine months ended December 31, 2016, the Company initiated an offering of up to 7,000,000 shares of common stock at a price of $0.22 per share to accredited investors. The Company has sold 1,179,000 shares and raised $227,776 net of cash commissions and fees of $31,604. In addition, as part of the broker fee for this offering, the Company issued 82,530 warrants at an exercise price of $0.22. The Company valued these warrants using the Black-Scholes option pricing model and management has estimated these warrants had a value of $0.13 per warrant on the date of the grant. The total value of the warrants issued was $10,729. The Black-Scholes model assumptions used were: Expected dividend yield, 0.00%; Risk-free interest rate, 1.08%; Expected life in years, 5.0; and Expected volatility, 129.0%.

The Company had 64,548,291 shares of common stock issued and outstanding as of December 31, 2016. This total includes 1,335,000 shares of non-vested restricted stock. During the three months ended December 31, 2016, 550,000 shares of non-vested restricted stock were cancelled and the Company did not recognize any expense related to these shares.

The following sets forth the warrants to purchase shares of the Company's stock issued and outstanding as of December 31, 2016:

	Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Warrants Outstanding April 1, 2016	957,295	$ 0.71	1.38
Issued	82,530	0.22	4.48
Exercised	—	—	—
Expired	(275,000)	0.15	—
Warrants Outstanding December 31, 2016	764,825	$ 0.86	1.27

During three months ending December 31, 2016, 275,000 warrants with an exercise price of $0.15 expired unexercised.

NOTE 7 — SHARE-BASED COMPENSATION

The Company currently has one equity-based compensation plan under which stock-based compensation awards can be granted to directors, officers, employees and consultants providing bona fide services to or for the Company. The Company's 2012 Share Incentive Plan was adopted on May 7, 2012 (the "2012 Share Incentive Plan" or "Plan") and allows the Company to issue up to 5,000,000 shares of its common stock pursuant to awards granted under the 2012 Share Incentive Plan. The Plan permits the granting of stock options, stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing. The only awards that have been issued under the Plan are stock options. Because the Plan has not been approved by our shareholders, all such stock option awards are non-qualified stock options.

The following sets forth the restricted stock outstanding as of December 31, 2016:

Restricted Stock	Shares
Restricted stock outstanding March 31, 2016	1,885,000
Granted	—
Vested	—
Expired/cancelled	(550,000)
Restricted stock outstanding December 31, 2016	1,335,000

The following sets forth the employee options to purchase shares of the Company's stock issued and outstanding as of December 31, 2016:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Employee options outstanding March 31, 2016	694,375	$ 0.87	7.13
Granted	—	—	—
Exercised	—	—	—
Expired/cancelled	(259,375)	0.60	—
Employee options outstanding December 31, 2016	435,000	$ 1.03	8.35
Exercisable at December 31, 2016	145,000	$ 1.03	8.35

A summary of the status of non-vested employee options as of December 31, 2016 and changes during the nine months ended December 31, 2016 is presented below.

Non-vested Shares	Shares	Weighted Average Grant-Date Fair Value
Non-vested at March 31, 2016	682,375	$ 0.81
Granted	—	—
Vested	(178,333)	0.98
Expired/cancelled: non-vested	(214,042)	0.45
Non-vested at December 31, 2016	290,000	$ 0.98

The following table summarizes information about employee stock options outstanding by price as of December 31, 2016:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 1.03	435,000	8.35	$ 1.03	145,000	$ 1.03
	435,000	8.35	$ 1.03	145,000	$ 1.03

At December 31, 2016, unrecognized compensation cost related to non-vested employee awards was $190,336.

During the fiscal year ended March 31, 2016, the Company granted Renaissance Diamond Inc. ("Renaissance"), our partner in the RCDC joint venture (See Note 10), non-qualified stock options for 333,333 shares of common stock. These options expired unvested during the nine months ended December 31, 2016 and the Company did not recognize any expense related to these options.

NOTE 8 — RELATED PARTIES

In September 2013, the Company entered into a series of agreements with SAAMABA, LLC that established a joint venture named Grace Rich, LTD in the People's Republic of China. Through these agreements, the Company licensed its diamond manufacturing technology to Grace Rich, LTD in exchange for licensing revenue and a 30% equity interest in the joint venture. This joint venture has significantly underperformed the Company's expectations. In November 2016, the Company entered into a Settlement Agreement and Mutual Release with Grace Rich, LTD and SAAMABA, LLC that terminated all existing agreements and mutually released any potential claims amongst the parties. The Company sold its shares of Grace Rich, LTD for a nominal amount and entered into an amended license with Grace Rich, LTD and SAAMABA, LLC that allows them to continue to operate utilizing our diamond manufacturing technology. The Company has been paid a one-time fee of $600,000 for the amended license. The Company recognized this license fee as revenue during the three and nine months ended December 31, 2016.

The Company did not have any product sales to RCDC during the three and nine months ended December 31, 2016. During the three and nine months ended December 31, 2015, the Company sold product to RCDC valued at $27,200 and $184,000, respectively. The Company deferred recognition of revenues and expenses on these sales to RCDC until finished goods are sold by RCDC or RCDC pays the Company for its purchases. The Company did not recognize any revenue related to product sales to RCDC for the three months and nine months ended December 31, 2016. For the three and nine months ended December 31, 2015, the Company recognized revenue for product sold to RCDC of $60,645 and $183,895, respectively.

The Company provided notice of termination to Renaissance and RCDC on October 31, 2016 and expects the business affairs of the joint venture to be wound up according to the joint venture agreement. Additional information on the RCDC joint venture is provided in Note 10.

Two members of our Board of Directors, Bern McPheely and Lewis Smoak, each purchased $20,000 of convertible notes during the nine months ending December 31, 2016.

NOTE 9 – LITIGATION

We are subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. As of December 31, 2016, there were no material outstanding claims by the Company or against the Company.

On May 16, 2014, the Company received a subpoena issued by the SEC ordering the provision of documents and related information concerning various corporate transactions between the Company and its predecessors and other persons and entities. The Company continues to cooperate with this inquiry.

NOTE 10 — INVESTMENT IN RCDC JOINT VENTURE

On December 18, 2014, the Company entered into an arrangement with Renaissance through the execution of a limited liability company agreement (the "LLC Agreement") to form RCDC, pursuant to which the Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds.

From the start of the joint venture through July 2015, the Company committed substantial production capacity to material sold to the joint venture. The sales and financial performance of RCDC has not met the Company's expectations since it was established. Accordingly, the Company has taken steps to terminate RCDC.

The LLC Agreement calls for the winding up of affairs of RCDC upon termination. While the Company believes it will receive a portion of the inventory of RCDC that will meet or exceed the historical book of our investment and net receivable from RCDC, Renaissance and RCDC have not complied with efforts to liquidate RCDC. As a result of this lack of compliance, the Company believes it is necessary to litigate to compel Renaissance and RCDC to comply with the LLC Agreement.

Due to the non-compliance of Renaissance and RCDC during the three months ended December 31, 2016, we have determined that it is appropriate at December 31, 2016 to fully reserve for the value of the accounts receivable, deferred contract costs, and deferred revenue until the liquidation of RCDC is complete. This reserve resulted in a reduction in our accounts receivable of $174,413; deferred contract costs of $142,471; and deferred revenue of $174,280. The net effect of these balance sheet reserves was the recognition of $142,604 in additional cost of goods sold during the three months ended December 31, 2016. In addition to the reserves, the Company wrote-off the remaining value of its investment in RCDC at December 31, 2016. This write-off resulted in an additional loss on joint venture of $19,530 during the three months ended December 31, 2016.

With the termination of the RCDC joint venture, 550,000 non-vested restricted shares held by Renaissance that would only vest based on the attainment of specific performance criteria were cancelled by the Company. The Company has not recognized any expense for these restricted shares.

Rollforward of the Company's ownership interest in the joint venture for the nine months ended December 31, 2016:

Balance of ownership interest in joint venture at March 31, 2016	$	48,271
Aggregate fiscal 2017 equity loss – share of joint venture income		(48,271)
Balance of ownership interest in joint venture at December 31, 2016	$	—

NOTE 11 — SUBSEQUENT EVENT

The Company filed a complaint in the Delaware Chancery Court on January 24, 2017 against RCDC and Renaissance to force the liquidation of RCDC and the distribution of assets as detailed in the LLC Agreement.

END NOTES TO FINANCIALS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Information included in this Quarterly Report Form 10-Q contains forward-looking statements that reflect the views of the management of the Company with respect to certain future events. Forward-looking statements made by penny stock issuers such as the Company are excluded from the safe harbor in Section 21E of the Securities Exchange Act of 1934. Words such as "expects," "should," "may," "will," "believes," "anticipates," "intends," "plans," "seeks," "estimates" and similar expressions or variations of such words, and negatives thereof, are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that matters anticipated in our forward-looking statements will come to pass.

Forward-looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Such risk and uncertainties include, without limitation, those described below under Item 1A - Risk Factors and the following: (1) the Company has limited cash resources and if it is not able to obtain further financing required for continuing operations, marketing, product development, and research its business operations will fail, (2) the Company has not generated substantial revenues, and as a result, faces a high risk of business failure, (3) the Company experienced a production shutdown in December 2015 that has limited recent production and revenue (4) the Company's lack of diversification and dependence on material customers increases the risks associated with the Company's business and an investment in the Company, and the Company's financial condition may deteriorate rapidly if it fails to succeed in developing the Company's business and expanding our customer base, (5) the Company may not effectively execute the Company's business plan or manage the Company's potential future business development, (6) the Company's business could be impaired if it fails to comply with applicable regulations, (7) the Company's limited cash resources may limit the Company's ability to attract and maintain key management personnel to manage the Company or laboratory scientists to carry out the Company's business operations, which could have a material adverse effect on the Company's business, (8) the market for lab-grown diamond may not develop as anticipated, (9) competition may adversely affect our business, (10) the Company is subject to an on-going SEC subpoena received in 2014, this investigation may impair the Company's ability to raise capital and to operate its business, (11) the Company needs to raise additional capital and may only issues common shares up to the shares authorized under its articles of incorporation without shareholder approval, and (12) such other risks and uncertainties as have been disclosed or are hereafter disclosed from time to time in the Company's filings with the SEC, including, without limitations described under Risk Factors set forth in Part I, Item 1A of the Company's Form 10-K for the fiscal year ended March 31, 2016.

You are cautioned not to place undue reliance on forward-looking statements. You are also urged to review and consider carefully the various disclosures made in the Company's other filings with the SEC, including any amendments to those filings. Except as may be required by applicable laws, the Company undertakes 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.

GENERAL

We were incorporated on September 17, 2009 in the State of Nevada under the name Krossbow Holdings Corporation ("Krossbow"). Krossbow did not implement its original business plan and decided to acquire existing technology to seek to efficiently and effectively produce man-made diamond. In connection with this change in business purpose, Krossbow changed its name to Scio Diamond Technology Corporation to reflect its new business direction.

In August 2011, the Company acquired certain assets of Apollo Diamond, Inc. ("ADI") consisting primarily of diamond growing machines and intellectual property related thereto, for which the Company paid ADI an aggregate of $2,000,000 and also agreed to provide certain current and former stockholders of ADI qualifying as accredited investors the opportunity to acquire up to approximately 16 million shares of common stock of the Company for $0.01 per share.

In June 2012, the Company acquired substantially all of the assets of Apollo Diamond Gemstone Corporation ("ADGC"), consisting primarily of lab-grown diamond gemstone-related know-how, inventory, and various intellectual property, in exchange for $100,000 in cash and the opportunity for certain current and former stockholders of ADGC qualifying as accredited investors to acquire up to approximately 1 million shares of common stock of the Company for $0.01 per share.

In December 2011, the Company began a build-out of its Greenville, South Carolina production facility. Construction was largely completed in March 2012 and equipment was moved from ADI's former facility in Massachusetts to South Carolina over the first calendar quarter of 2012. The Company began initial production with ten diamond growing machines in July 2012. Our initial production was focused on industrial cutting tool products supplied to a single customer. Since March 2013, the Company has expanded its product focus to include gemstone diamond material.

On December 16, 2014, the Company entered into 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.

On December 18, 2014, the Company entered into an arrangement with Renaissance creating RCDC. The Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. RCDC purchases rough diamond material from the Company and processes the material into finished gemstones for sale to various retailers and other gemstone market participants. Profits and losses generated by RCDC's operations are distributed between the Company and Renaissance according to the terms of the LLC Agreement. The sales and financial performance of RCDC have not met the Company's expectations since it was established. The Company has taken steps to terminate RCDC.

Business Overview

The Company's primary mission is the development of profitable and sustainable commercial production of its diamond materials, which are suitable for known, emerging and anticipated industrial, technology and consumer applications. The Company intends to pursue progressive development of its core diamond materials technologies and related intellectual property that the Company hopes will evolve into product opportunities across various applications. We believe these opportunities may be monetized though a combination of end product sales, joint ventures and licensing arrangements with third parties, and through continued development of intellectual property. Anticipated application opportunities for the Company's diamond materials include the following: precision cutting devices, diamond gemstone jewelry, power switches, semiconductor processors, optoelectronics, geosciences, water purification, and MRI and other medical science technology.

While the Company's product offering continue to include industrial products, as of December 31, 2016 substantially all of the Company's production capacity is being sold as gemstone materials. As of December 31, 2016, we had generated $4,777,361 in net revenue since inception from sales of our diamond materials and licensing of our technology.

RESULTS OF OPERATIONS

Three Month Period Ended December 31, 2016 Compared to the Three Month Period Ended December 31, 2015

During the three months ended December 31, 2016, we recorded total revenue of $707,194 compared to $125,677 during the three months ended December 31, 2015. This increase was due to $600,000 in one-time licensing fees from the Grace Rich joint venture received during the three months ended December 31, 2016. During the three months ended December 31, 2016 and 2015, we recorded product revenue of $107,194 and $125,677, respectively. During both of these periods, the Company's products predominantly consisted of white gemstone material and the reduction in revenue was primarily due to lower prices for gemstones sold during the months ended December 31, 2016.

Cost of goods sold was $544,871 for the three months ended December 31, 2016 versus $689,572 for the three months ended December 31, 2015. Cost of goods sold includes direct labor costs of $105,423 during the three months ended December 31, 2016 and $126,731 during the three months ended December 31, 2015. Depreciation expense of $155,957 and $162,062 was recorded in cost of goods sold during the three months ended December 31, 2016 and 2015, respectively. In addition, cost of goods sold for the three months ended December 31, 2016 included $142,604 of costs recognized due to the reserves established for RCDC. Adjusting for these expenses, cost of goods sold was $402,267 and $689,572 for the three months ended December 31, 2016 and 2015, respectively. This overall decrease in cost of goods sold is the result of the Company selling more cost efficient white gemstone material during the three months ended December 31, 2016 than the three months ended December 31, 2015.

Gross margin was $162,323 for the three months ended December 31, 2016 versus a gross deficit of $(563,895) for the three months ended December 31, 2015.

Salary and benefit expenses recognized as general and administrative expenses were $258,362 and $263,176 for the three months ended December 31, 2016 and 2015, respectively. Included in the salary and benefit expenses is $139,593 and $136,832 in non-cash stock based compensation for the three months ended December 31, 2016 and 2015, respectively. Adjusting for the non-cash stock based compensation results in recognized salary and benefit expenses of $118,769 and $126,344 for the three months ended December 2016 versus 2015.

Professional fees were $76,001 compared to $99,201 for the three months ended December 31, 2016 and 2015, respectively. This decrease is primarily due to reduced accounting and legal expenses.

Corporate general and administrative expenses were $45,442 compared to $72,678 for the three months ended December 31, 2016 and 2015, respectively. This decrease is due to reduced spending on non-operational activities during the three months ended December 31, 2016.

The other components of our general and administrative expenses were relatively consistent between the three months ended December 31, 2016 and 2015. Rent and facilities expenses were $38,254 and $39,145, respectively and marketing costs were $8,158 and $18,292, respectively.

Depreciation and amortization expenses were $245,460 compared to $198,621 for the three months ended December 31, 2016 and 2015, respectively. This increase is due to the higher amortization expense related to the Company's patent portfolio.

The Company recognized $229,330 in business interruption proceeds from our insurance carrier related to the December 2015 factory shutdown during the three months ending December 31, 2016. This has been recognized as other income.

We have continued to generate limited revenue to offset our expenses, and so we have incurred net losses. Our net loss for three month period ended December 31, 2016 was $355,188, compared to a net loss of $1,262,081 during the three months ended December 31, 2015. Our net loss per share for the three month period ended December 31, 2016 was $(0.01) per share, compared to a net loss per share of $(0.02) for the three months ended December 31, 2015. The weighted average number of shares outstanding was 63,213,291 and 61,759,291, respectively, for the three month periods ended December 31, 2016 and 2015.

Nine Month Period Ended December 31, 2016 Compared to the Nine Month Period Ended December 31, 2015

During the nine months ended December 31, 2016, we recorded total revenue of $1,134,321compared to $534,144 during the nine months ended December 31, 2015. This increase was primarily due to the recognition of $600,000 in one-time licensing fees from the Grace Rich joint venture during the nine months ended December 31, 2016. During the nine months ended December 31, 2016, we recorded production revenue of $534,321compared to $534,144 during the nine months ended December 31, 2015. While product revenue was relatively consistent between the periods, the Company experienced a reduction in units sold which was offset by increased prices as the Company's product mix has shifted to white gemstone material and the customer base expanded beyond RCDC during the nine months ended December 31, 2016.

Cost of goods sold was $1,649,046 for the nine months ended December 31, 2016 versus $1,566,218 for the nine months ended December 31, 2015. Cost of goods sold includes direct labor costs of $348,590 during the nine months ended December 31, 2016 and $342,806 during the nine months ended December 31, 2015. Depreciation expense of $467,873 and $450,529 was recorded in cost of goods sold during the nine months ended December 31, 2016 and 2015, respectively. In addition, cost of goods sold for the nine months ended December 31, 2016 included $142,604 of costs recognized due to the reserves established for RCDC. Adjusting for these expenses, cost of goods sold was $1,506,442 and $1,566,218 for the nine months ended December 31, 2016 and 2015, respectively. While the recognized cost of goods sold is relatively constant between the two periods, the Company experienced a reduction in units sold offset by relatively higher recognized manufacturing costs as the Company's product sales shifted to white gemstone material during the nine months ended December 31, 2016.

Gross deficit was $(514,725) for the nine months ended December 31, 2016 versus $(1,032,074) for the nine months ended December 31, 2015.

Salary and benefit expenses recognized as general and administrative expenses were $838,715 and $720,867 for the nine months ended December 31, 2016 and 2015, respectively. This increase of $117,848 is primarily the result of the Company recognizing $442,259 in non-cash stock based compensation during the nine months ended December 31, 2016, versus $324,791 during the nine months ended December 31, 2015. Adjusting for the non-cash stock based compensation results in recognized salary and benefit expenses of $396,456 and $396,076 for the nine months ended December 2016 versus 2015.

Professional fees were $296,567 compared to $195,266 for the nine months ended December 31, 2016 and 2015, respectively. The professional fees for the nine months ended December 31, 2015 included reductions of $66,000 for payments made by our insurance carrier and other reversals of past professional fees. Adjusting for these reductions, professional fees would be $296,567 and $261,266 for the nine months ended December 31, 2016 and 2015, respectively. This increase is primarily due to legal expenses.

Rent and facilities expenses were relatively consistent between the nine months ended December 31, 2016 and 2015 at $114,171 and $119,119, respectively. Marketing expenses were $21,568 and $74,938, for the nine months ended December 31, 2016 and 2015, respectively. This reduction is due to reduced public relations expenses during the nine months ended December 31, 2016.

Corporate general and administrative expenses were $171,112 compared to $304,856 for the nine months ended December 31, 2016 and 2015, respectively. This decrease is due to reduced spending on non-operational activities and to one-time executive relocation costs being incurred during the nine months ending December 31, 2015.

Depreciation and amortization expenses were $736,380 compared to $595,503 for the nine months ended December 31, 2016 and 2015, respectively. This increase is due to the higher amortization expense related to the Company's patent portfolio.

During the nine months ended December 31, 2015, the Company reached an amendment to the separation, waiver and release agreement executed on December 4, 2012 with our former Chief Executive Officer, Mr. Joseph Lancia. This amendment allowed for no further severance payments to Mr. Lancia and resulted in the Company reversing $137,561 in previously accrued severance liabilities.

The Company recognized $464,725 in business interruption proceeds from our insurance carrier related to the December 2015 factory shutdown during the nine months ending December 31, 2016. This has been recognized as other income.

We have continued to generate limited revenue to offset our expenses, and so we have incurred net losses. Our net loss for nine month period ended December 31, 2016 was $2,464,598 compared to a net loss of $2,948,764 during the nine months ended December 31, 2015. Our net loss per share for the nine month period ended December 31, 2016 was $(0.04) per share, compared to a net loss per share of $(0.05) for the nine months ended December 31, 2015. The weighted average number of shares outstanding was 62,959,553 and 58,901,542, respectively, for the nine month periods ended December 31, 2016 and 2015.

FINANCIAL CONDITION

At December 31, 2016, we had total assets of $8,578,923, compared to total assets of $10,239,502 at March 31, 2016. We had cash of $183,520 at December 31, 2016 compared to cash of $192,880 at March 31, 2016.

Total liabilities at December 31, 2016 were $3,729,805, compared to total liabilities of $3,595,821 at March 31, 2016. Total liabilities at December 31, 2016 were comprised primarily of accounts payable, accrued expenses, customer deposits, notes payable, convertible notes and capital lease obligations. At December 31, 2016, the Company reclassified $2,000,000 of notes from long-term to current liabilities due to scheduled maturities. The increase in total liabilities is primarily due to our issuance of convertible notes offset by reductions in deferred revenue.

The Company had negative working capital (defined as current assets less current liabilities) of $(3,032,574) at December 31, 2016 versus $(462,543) at March 31, 2016. This decrease in working capital resulted from the Company's reclassification of $2,000,000 of notes payable from long-term to current, based on the scheduled maturity, as well as the issuance of $308,857 of convertible notes and the establishment of $142,604 of reserves for RCDC during the nine months ended December 31, 2016.

Total shareholders' equity was $4,849,118 at December 31, 2016, compared to $6,643,681 at March 31, 2016. Shareholders' equity decreased $1,794,563 during the period due to our operating net loss and was partially offset by additional paid in capital from common stock sold to investors and from common stock issued as incentive compensation.

CASH FLOWS

Operating Activities

We have not generated positive cash flows from operating activities. For the nine months ended December 31, 2016, net cash flows used in operating activities were $(406,736) compared to $(1,942,863) for nine months ended December 31, 2015. The net cash flow used in operating activities for the nine months ended December 31, 2016 consists primarily of a net loss of $(2,464,598) offset by depreciation and amortization of $1,204,253, employee stock based compensation of $442,259, loss from joint venture of $48,271, increases in accounts payable of $66,373, decrease in accrued expenses of $(22,075), decrease in inventory and deferred contract costs of $198,364, decrease in customer deposits of $(22,749), and net decreases in other current assets and liabilities of $3,909.

Investing Activities

For the nine month periods ended December 31, 2016 and 2015, net cash flows used in investing activities were $0, and $(282,627), respectively. These amounts consist of the purchase of property, plant and equipment. The cash used during the nine months ended December 31, 2015 was due to the Company's capacity expansion program.

Financing Activities

We have financed our operations primarily through the issuance of equity and debt securities. For the nine month periods ended December 31, 2016 and 2015, we generated $397,376 and $1,562,460, respectively, from financing activities.

LIQUIDITY AND CAPITAL RESOURCES

We expect that working capital requirements will continue to be funded through a combination of our existing funds, further issuances of securities, and future credit facilities or corporate borrowings. Our working capital requirements are expected to increase in line with the growth of our business.

As of March 31, 2016, our cash balance was $192,880 and as of December 31, 2016 our cash balance was reduced to $183,520. This reduction was due to our operating cash needs. Our cash at December 31, 2016 is not expected to be adequate to fund our operations over the current fiscal year ending March 31, 2017. As of December 31, 2016, we had no additional lines of credit or other bank financing arrangements other than as described in Item 1, Note 4. Generally, we have financed operations through December 31, 2016 through the proceeds of sales of our common stock, convertible notes and borrowings under our existing credit facilities. The Company is pursuing additional issuances of equity capital or debt to meet operating cash requirements.

Additional issuances of equity or convertible debt securities will result in dilution to our current stockholders. Such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations and could result in the shutdown of operations.

MATERIAL COMMITMENTS AND ARRANGEMENTS

On December 16, 2014, the Company entered into an agreement for the sale and lease of growers 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 has the right to repurchase the leased growers upon the occurrence of certain events.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Quarterly Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States ("GAAP"). We describe our significant accounting policies in the notes to our audited financial statements filed with our Form 10-K for the fiscal year ended March 31, 2016.

Some of the accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of our assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors that we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates and could materially affect the carrying values of our assets and liabilities and our results of operations.

The following is a summary of the more judgmental estimates and complex accounting principles, which represent our critical accounting policies.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. For our Company, this generally means that we recognize revenue when we have shipped finished product to the customer. Our sales terms do not allow for a right of return except for matters related to any manufacturing defects on our part. The Company has an allowance for returns of $6,600 at December 31, 2016. This allowance has reduced reported revenues and is considered an accrued expense in the balance sheet. The allowance was $8,681 at March 31, 2016.

For product sales to our joint venture partners for further processing and finishing, we currently defer all revenues when products are shipped. We currently recognize revenue at the earlier of when the joint venture partner sells the finished goods manufactured from our materials or we are paid for our goods. Licensing and development revenues are recognized in the month as detailed in the appropriated licensing and development contracts. In the event that licensing funds are received prior to the contractual commitments, the Company will recognize deferred revenue (liability) for the amount received.

Inventories

Inventories are stated at the lower of average cost or market. The carrying value of inventory is reviewed and adjusted based upon net realizable value, slow moving and obsolete items. Inventory costs include material, labor, and manufacturing overhead and are determined by the "first-in, first-out" (FIFO) method. The components of inventories include raw materials and supplies, work in process and finished goods.

At December 31, 2016, the Company maintains an inventory reserve for instances where finished goods inventory may yield lower than expected results. The Company has periodically experienced selling prices that were lower than cost and as a result has recorded a lower of cost or market write down to the value of our inventory. The estimation of the total write-down to inventory involves management judgments and assumptions, including assumptions regarding future selling price forecasts, the estimated costs to complete and disposal costs.

Property, Plant and Equipment

Depreciation of property, plant and equipment is on a straight-line basis beginning at the time it is placed in service, based on the following estimated useful lives:

	Years
Machinery and equipment	3 to 15
Furniture and fixtures	3 to 10
Engineering equipment	5 to 12

Leasehold improvements are depreciated at the lesser of the remaining term of the lease or the life of the asset (generally three to seven years).

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Intangible Assets

The Company's intangible assets consist of its patent portfolio related to its diamond growing technology. These patents are considered definite-life intangible assets and management reviews them for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has allocated values to the individual patents and is amortizing this value over the remaining statutory lives of the individual patents ranging from 6.75 to 19.46 years.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15. We applied our judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding our control objectives. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2016.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. As of December 31, 2016, there were no material outstanding claims by the Company or against the Company.

In May 2014, the Company received a subpoena issued by the SEC ordering the provision of documents and related information concerning various corporate transactions between the Company and its predecessors and other persons and entities. The Company is fully cooperating with this ongoing inquiry.

ITEM 1A. RISK FACTORS

Not applicable (the Company is a smaller reporting company).

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Through December 6, 2016, we sold Convertible Notes in the total principal amount of $308,857 solely to investors “accredited investors” as defined under SEC Regulation D, Rule 501(a), in reliance upon the exemption from registration under the 1933 Act provided by such Regulation D, Rule 506. The sales were made in private transactions solely with such accredited investors, and we believe all actions necessary to comply with such Regulation D were taken. The Convertible Notes bear interest at 8% annually, payable at maturity, mature on September 15, 2017, and principal and accrued interest are convertible into common stock at the conversion price of $0.14 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Report:

10.30	Settlement Agreement and Mutual Release, by and between Scio Diamond Technology Corporation, Grace Rich Limited, and SAAMABA, LLC, dated November 17, 2016.*
10.31	Amended License Agreement, by and between Scio Diamond Technology Corporation, Grace Rich Limited, and SAAMABA, LLC, dated November 17, 2016.*
10.32	First Amended Settlement Agreement and Mutual Release, by and between Scio Diamond Technology Corporation, Grace Rich Limited, and SAAMABA, LLC, dated November 22, 2016.*
10.33	Share Purchase Agreement, between Scio Diamond Technology Corporation, and SAAMABA, LLC, dated November 22, 2016.*
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.*
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.*
32	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer.*
101	The following materials from the Quarterly Report on Form 10-Q for the quarter ended December 31, 2016, formatted in eXtensible Business Reporting Language (XBRL); (i) Balance Sheets; (ii) Statements of Operations; (iii) Statements of Shareholders' Equity; (iv) Statements of Cash Flow; and (v) Notes to the Unaudited Financial Statements*

* Filed herewith.

SIGNATURES

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

SCIO DIAMOND TECHNOLOGY CORPORATION.

Dated: February 14, 2017

/s/ Gerald McGuire
By: Gerald McGuire
Its: Chief Executive Officer

Dated: February 14, 2017

/s/ Jonathan Pfohl
By: Jonathan Pfohl
Its: Chief Financial Officer

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement and Mutual Release ("Agreement"), by and between Grace Rich Limited, a Hong Kong corporation having a principal place of business c/o 354 lndusco Ct., Troy, MI 48083 ("Grace Rich"), SAAMABA, LLC, a Michigan limited liability corporation having a principal place of business at 354 Indusco Ct., Troy, MJ 48083 ("SAAMABA"), and Scio Diamond Technology Corporation, a Nevada corporation having a principal place of business at 411 University Ridge, Suite D, Greenville SC 29601 ("Scio") (together, the "Parties"), is effective as of the date all Parties have executed this Agreement by signing below (the "Effective Date").

RECITALS

1. SAAMABA and Scio are parties to two certain agreements, each of which is dated September 16, 2013, namely: a Grace Rich Joint Venture Agreement ("JV Agreement," attached as **Exhibit A**) and a Grace Rich Shareholders Agreement ("Shareholders Agreement," attached as **Exhibit B**).

2. Grace Rich and Scio are parties to three certain other agreements, each of which is also dated September 16, 2013, namely: a Scio Diamond Technology Corporation License Agreement ("License Agreement," attached as **Exhibit C**); a Grace Rich Consulting Services Agreement ("Consulting Agreement," attached as **Exhibit D**); and a Scio Diamond Technology Corporation Development Agreement ("Development Agreement," attached as **Exhibit E**). Together, the Agreements attached as Exhibits A-E are referred to herein as the "2013 Agreements."

3. A dispute has arisen concerning Scio's performance under the 2013 Agreements, such that Grace Rich and SAAMABA believe they have multiple claims for substantial relief against Scio. Scio disputes the merits of these claims in their entirety.

4. The Parties wish to resolve their differences with respect to the 2013 Agreements amicably, without an admission of fault, liability, or wrongdoing by any Party, on the terms set forth in this Agreement.

Therefore, in consideration of the mutual releases, representations, and covenants contained herein, the Parties agree as follows:

TERMS

1. REDEMPTION . Contemporaneously with the execution of this Agreement, Grace Rich and Scio will execute the Redemption Agreement in the form attached as **Exhibit F** . Pursuant to that Redemption Agreement, Grace Rich will redeem, and Scio will sell, all of Scio's shares in Grace Rich for the amount of Ten Dollars ($10).

2. TERMINATIONS . As of the Effective Date, the JV Agreement, Shareholder Agreement, Consulting Agreement, and Development Agreement are terminated in their entirety and are of no further force or effect.

3. AMENDED LICENSE. Contemporaneously with the execution of this Agreement, Grace Rich and Scio will execute the Amended License Agreement in the form attached as **Exhibit** G, which amends the License Agreement.

4. RELEASES: Except for actions related to the breach or enforcement of this Agreement or any of the obligations set forth herein, the Parties release, forgive, acquit, and forever discharge each other, and each other's heirs, administrators, officers, directors, members, agents, attorneys, servants, employees, successor, assigns, customers, affiliates, subsidiaries, distributors, resellers, developers, contributors, and licensees of and from *all* claims, demands, and causes of action, whether asserted or unasserted, liquidated or unliquidated, known or unknown, whether arising in tort, contract, statute, or otherwise, whether for injunctive relief, equitable relief, damages, costs, expenses, attorneys' fees, penalties, and/or of any other charges or sums of money of any kind whatsoever, arising out of the text or the subject matter of the 2013 Agreements (but subject to the survival of the Amended License Agreement), and/or the Parties' performance or nonperfonnance thereunder, which exist as of the Effective Date.

5. MISCELLANEOUS. This Agreement binds and benefits the Parties, their heirs, executors, administrators, successors, assigns, parents, affiliates, members, subsidiaries, officers, agents, servants, employees, distributors, licensees, affiliates, subsidiaries, attorneys, and all other persons who are in active concert or participation with them and receive actual notice of these provisions. Disputes arising out of this Agreement or concerning the subject matter thereof may not be brought in any court, tribunal, or forum other than a state or federal court in the State of Michigan, and shall be governed by Michigan law except with respect to its choice of law principles. This Agreement is the entire agreement between the Parties; it supersedes any prior agreements or understandings between the Parties, as to the subject matter of this Agreement, whether written or verbal, and may only be modified by a writing signed by the Parties. This Agreement may be executed in counterparts. Digital copies of the Agreement shall be as binding as an original hard copy.

WHEREFORE, the Parties, by their authorized agents, have executed this Agreement.

Grace Rich Limited

By: /s/ Shrikant Mehta
Shrikant Mehta, Chairman

Date: November 21, 2016

Scio Diamond Technology Corporation

By: /s/ Gerald McGuire
Jerry McGuire, President/CEO

Date: November 17, 2016

SAAMABA, LLC

By /s/ Shrikant Mehta
Shrikant Mehta, Managing Member

Date: November 21, 2016

Scio Diamond Technology Corporation

Amended License Agreement

This Amended License Agreement (the "Agreement") is made as of November ___, 2016, (the "Effective Date") by and between SCIO Diamond Technology Corporation a Nevada corporation, having a principal place of business at 411 University Ridge, Suite D, Greenville, SC 29601 (the "LICENSOR") and Grace Rich Limited, a Hong Kong corporation ("Grace Rich") and SAAMABA, LLC, a Michigan limited liability company ("SAAMABA") each having a principal place of business at c/o 354 Indusco Court, Troy, Michigan 48083 (and together referred to herein as, "LICENSEE").

Agreement

1. BACKGROUND

1.1 LICENSEE includes Grace Rich, a wholly-owned affiliate of SAAMABA, and SAAMABA.

1.2 LICENSEE is formed to establish, own and operate a manufacturing facility in the PRC for the manufacture, sale and distribution worldwide of type lla single-crystal CVD diamond, and other Licensed Products as defined below.

1.3 LICENSOR creates, develops, and manufactures technology for the manufacture of single-crystal CVD diamond, and owns valuable confidential information, know-how, trade secrets, issued patents, and pending patent applications relating to that technology.

1.4 LICENSEE wishes to obtain a non-exclusive license under the foregoing confidential information, know-how, trade secrets, issued patents, and pending patent applications.

1.5 LICENSOR is willing to grant LICENSEE the foregoing non-exclusive license under the terms and conditions set forth herein.

2. DEFINITIONS

2.1 "Affiliate" means one or more WFOE's established by LICENSEE pursuant to the laws of the PRC for the manufacture of type lla single-crystal CVD diamond, which entity is wholly-owned by LICENSEE. For the purposes of this Agreement, WFOE(s) shall be the Affiliate only so long as such 100% ownership exists.

2.2 "Confidential Information" means that information: (1) disclosed by LICENSOR to the LICENSEE, or which LICENSEE visually obtains in connection with this Agreement; and (2) which relates to LICENSOR's past, present and future research, development and business activities; and (3) which has been identified to LICENSEE at the time of disclosure as, or which the LICENSEE knows or should reasonably know is, confidential to LICENSOR. Confidential Information shall also mean the results of any activity performed during the term of and in performance of services under this Agreement including manufacturing CVD diamond, or preparing reports, papers, drafts, notes and meeting minutes and associated prototype(s), parts, and materials.

2.3 "Licensed Technology" means all technology, know-how, and processes for the manufacture of single-crystal type IIa CVD diamond, which is necessary for LICENSEE and/or the Affiliate to manufacture Type I Licensed Products and Type II Licensed Products. The Licensed Technology includes LICENSOR Confidential Information and is considered trade secrets.

2.4 "Licensed Patents" means all patents throughout the world:

(a) issued or issuing on patent applications entitled to an effective filing date prior to the expiration or termination of this Agreement; and

(b) under which patents or the applications therefor LICENSOR has as of the Effective Date, or thereafter obtains, the right to grant licenses to LICENSEE of or within the scope granted herein without such grant or the exercise of rights thereunder resulting in the payment of royalties or other consideration by LICENSOR or its Affiliate to third parties.

(c) Licensed Patents includes, but is not limited to, the United States patents set forth in Exhibit A (Licensed United States Patents), and all United States patents owned by LICENSOR that cover improvements of the inventions covered by the patents sets forth in Exhibit A. Licensed Patents also includes and all patents in countries outside the United States that correspond to the U.S. patents recited in the previous sentence, and all patents issuing on patent applications that are continuations, continuations-in-part, divisionals, reexamination applications, or reissue applications of any of the patent applications from which the previously recited patents in this Section 2.4(c) issued.

2.5 "Licensed Products *,"* means Type 1 Licensed Products and/or Type 2 Licensed Products.

2.6 "Type 1 Licensed Products" means type lla single crystal CVD manufactured diamond being 4 millimeters in depth and finished at a weight of .5 carat or less after cutting and polishing.

2.7 Type 2 Licensed Products" means any manufactured diamond outside the scope of Type 1 Licensed Products.

2.8 "PRC" means People's Republic of China, including its SAR of Hong Kong and Macao.

2.9 "SCIO Grower" means a system to grow a Type IIa single crystal diamond. The system includes only the equipment on the diamond manufacturing facility side of utilities feeding the SCIO Grower, examples of such utilities being chilled water, gases, electricity and exhaust. To meet the definition of SCIO Grower, the system must include at least:

reactor/chamber – hoist – cart;

control wiring;

mass flow control valves and associated control wiring;

power pack and associated control wiring;

connections to electrical and mechanical utilities;

hydrogen generator;

associated filters and pumps;

computer and computer controls including appropriate formulas; and

exhaust connections.

Operations manuals and checklists for the SCIO Grower will be supplied by LICENSOR upon request.

2.10 "WFOE" means the WHOLLY FOREIGN-OWNED ENTERPRISE established pursuant to the laws of the People's Republic of China 100% and owned by LICENSEE.

2.11 "WHOLLY FOREIGN-OWNED ENTERPRISE" means a limited liability corporation for the purpose of China-based business.

3. LICENSES

3.1 Subject to the terms and conditions of this Agreement, LICENSOR hereby grants to LICENSEE, and LICENSEE hereby accepts, a non-exclusive, irrevocable, non-transferable, with the right to sublicense pursuant to Section 4.1, license under the Licensed Patents and the Licensed Technology to manufacture and use, throughout the world (other than India), including but not limited to in the PRC and (in conformance with the Shareholder's Agreement) all its Special Administrative Regions, Type I and Type 2 Licensed Products, and to import, export, offer to sell, and sell, worldwide, Type 1 and Type 2 Licensed Products (of any color or variety, without limitations) that were manufactured using the manufacturing license recited in this Section 3.1, and to practice, in the PRC, or elsewhere in the world (other than in India), any process involved in the manufacture and use of Type 1 or Type 2 Licensed Products. Licensee shall not be deemed to be in violation of this or any other provision of this Agreement due to the fact that one or more of its stockholders is incorporated, resides or maintains a principal place of business or offices outside the PRC.

3.2 Subject to the terms and conditions of this Agreement, LICENSOR hereby grants to LICENSEE, and LICENSEE hereby accepts, a non-exclusive, irrevocable, non-transferable, with the right to sublicense pursuant to Section 4.1, license under the Licensed Patents and the Licensed Technology to manufacture and use, throughout the world (other than in India), including but not limited to in the PRC and all its Special Administrative Regions, and to import, export, offer to sell, and sell, worldwide, Type 1 and Type 2 Licensed Products.

3.3 LICENSOR shall cooperate with LICENSEE after the Effective Date in all reasonable respects to assist in the orderly transfer and disclosure of the Licensed Technology, and will continue to so reasonably cooperate throughout the term of this Agreement.

3.4 Nothing herein shall be construed to limit LICENSOR's ability to use, practice, sublicense or assign the Licensed Patents or Licensed Technology in any manner.

3.5 In exchange for the license granted herein, and other commitments made by LICENSOR, LICENSEE shall pay to LICENSOR, within three (3) business days following full execution of this Agreement, and provided no event of default exists hereunder, the amount of $600,000 USD.

4. SUBLICENSES

4.1 **SUBLICENSE** All licenses granted by LICENSOR herein include the right of LICENSEE to grant sublicenses, of or within the scope of such licenses, solely to LICENSEE'S Affiliates. The Affiliate so sublicensed shall be bound by the terms and conditions of this Agreement as if it were named herein in the place of LICENSEE, provided, however, that LICENSEE shall be responsible for all obligations of the Affiliate to LICENSOR. Such sublicense agreement shall expressly include a provision making LICENSOR a third party beneficiary of such sublicense agreement with the full right to enforce such agreement for LICENSOR'S benefit. Any sublicense granted to the Affiliate shall terminate on the date such Affiliate ceases to be the Affiliate. Such third party beneficiary language is set forth in Exhibit B (Third Party Beneficiary Language).

4.2 [Intentionally blank].

5. MARKING

5.1 LICENSEE agrees to mark Licensed Products (or their containers or labels) made, sold, or otherwise disposed of by LICENSEE under the license granted in this Agreement with the numbers of the all United States Licensed Patents. In addition, all Licensed Products shipped to, manufactured in, or sold in countries other than the United States shall be marked in such manner as to conform with the patent laws and practice of such countries, provided LICENSOR gives LICENSEE timely notice pursuant to Article 16 (Notice) of the issuance and patent numbers of the patents which are to be the subject of such marking.

6. CONFIDENTIALITY

6.1 LICENSOR is the owner of all Confidential Information.

6.2 LICENSEE shall treat the Confidential Information of LICENSOR as set forth below. However, the term "Confidential Information" shall not mean any information disclosed by LICENSOR to LICENSEE, which LICENSEE can satisfactorily demonstrate is:

(a) already in the possession of the LICENSEE and not furnished by the LICENSOR;

(b) rightfully received by the LICENSEE from a third party without obligation of confidence;

(c) independently developed by the LICENSEE without referring to Confidential Information of the LICENSOR;

(d) now, or hereafter becomes, publicly available without breach of this Agreement; or

(e) approved for release by written agreement of the LICENSOR.

6.3 All intellectual property conceived, reduced to practice, made, prepared, or developed that relates to the Confidential Information, whether by LICENSEE or the Affiliate, shall be the exclusive property of LICENSEE (the "New Intellectual Property "). Subject to the exclusive license granted in Section 3.1, LICENSEE grants LICENSOR a fully paid, non-exclusive irrevocable, non-transferable, royalty free license under the New Intellectual Property to make, have made, use, have used, offer to sell, sell, export and import any product, and to practice and have practiced any process in the manufacture and use thereof. Subject to the exclusive license granted in Section 3.1, the foregoing license shall include the unrestricted right to grant sublicenses, including royalty-bearing sublicenses, of or within the scope of the recited license. All New Intellectual Property shall be disclosed to LICENSOR as it is conceived so that LICENSOR may exercise the license granted in this Section 6.3.

6.4 The LICENSOR agrees to clearly label as "CONFIDENTIAL" all Confidential Information reduced to writing by LICENSOR and provided to the LICENSEE as a result of oral and/or visual disclosures of Confidential Information. The LICENSEE agrees to clearly label as "CONFIDENTIAL" all New Intellectual Property that is reduced to writing by LICENSEE or the Affiliate.

6.5 LICENSEE and the Affiliate agree to hold all Confidential Information in trust and confidence for LICENSOR, and not to use such Confidential Information other than for the manufacture of License Products by exercising the license granted to LICENSEE in this Agreement. LICENSEE and the Affiliate agree not to disclose any such Confidential Information, including the New Intellectual Property, by publication or otherwise, to any person other than those employees whose services are required, who have a need to know for manufacture of License Products using the licenses granted by Agreement, and who agree in writing to be bound by and comply with the provisions of this Article 6. An employee confidential information and invention agreement (the "Employee Agreement") substantially in the form attached hereto, signed by an employee as a condition of employment with LICENSEE or the Affiliate, satisfies the requirement for the writing recited in the previous sentence. A copy of the Employee Agreement substantially in the form to be implemented is attached hereto as Exhibit C (Employee Confidential Information and Invention Agreement).

6.6 Disclosure of Confidential Information shall not be precluded if such disclosure is in response to a valid order of a court or other government body having jurisdiction over this Agreement; provided however, that LICENSEE or the Affiliate, as the case may be, shall first have given prompt written notice of such order to LICENSOR to enable LICENSOR to oppose such order or seek a protective order requiring that the information and/or documents so disclosed be used only for the purpose for which the order was issued.

6.7 LICENSEE shall maintain all writings, documents, articles, items of work-in-process, and work that embodies, or includes any, Confidential Information in restricted access areas to prevent access by unauthorized persons or parties.

7. USE OF NAMES AND TRADEMARKS

7.1 Nothing contained in this Agreement shall be construed as conferring any right to use in advertising, publicity or other promotional activities any name, trademark, trade name, or other designation of either party hereto (including any contraction, abbreviation, or simulation of any of the foregoing), unless expressly approved by both parties in writing prior to use thereof.

8. AUDIT RIGHTS

8.1 No more frequently than once per calendar year, the LICENSOR and its duly authorized representatives shall have the right, at normal business hours of the day at the LICENSOR's sole expense, and subject to reasonable confidentiality commitments, to audit the LICENSEE and its Affiliates' books of account and records and all other reasonably-related documents and material reasonably-related to Licensed Products and in possession of or under the control of the LICENSEE and/or the Affiliates, with respect to the handling of information and other intellectual property and the carrying out of other obligations, in accordance with this Agreement. Such representatives will have the right to make copies and extracts of the foregoing documents.

8.2 [Intentionally blank] **.**

9. EXPRESS WARRANTY; DISCLAIMER OF WARRANTIES; LIMITATION OF LIABILITY

9.1 LICENSOR warrants to LICENSEE that (a) it has the lawful right to grant the licenses granted in this Agreement, (b) the same are hereby granted free and clear of all liens, claims, and restrictions of any kind, (c) such Licensed Technology and Licensed Patents constitute, to LICENSOR's knowledge, all of the technological information necessary for LICENSEE to manufacture the Licensed Products, and (d) the Licensed Products as so manufacture will not, to LICENSOR's knowledge, infringe the intellectual property rights of any third party.

9.2 Other than the express warranty set forth in Section 9.1, THE LICENSES HEREIN ARE GRANTED WITHOUT ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. ALL INTELLECTUAL PROPERTY, AND ANY OTHER INFORMATION, IF ANY, PROVIDED BY THE LICENSOR, IS PROVIDED "AS IS", WITHOUT WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED LICENSOR DOES NOT REPRESENT OR WARRANT THE ACCURACY OR COMPLETENESS OF THE FOREGOING INTELLECTUAL PROPERTY OR INFORMATION. THE ENTIRE RISK ARISING OUT OF THE EXERCISE OF THE LICENSES GRANTED HEREUNDER REMAINS WITH THE LICENSEE.

9.3 IN NO EVENT WILL LICENSOR BE LIABLE FOR ANY INCIDENTAL, SPECIAL, OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOSS OF BUSINESS, LOST PROFITS, OR LOSS OF GOOD WILL) RESULTING FROM EXERCISE OF THE LICENSES GRANTED HEREUNDER, OR THE USE OF THE LICENSED TECHNOLOGY, OR THE MANUFACTURE, USE, OR SALE OF LICENSED PRODUCTS, WHETHER ARISING IN AN ACTION OR CLAIM BASED ON CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE, EVEN IF LICENSOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, UNLESS ARISING AS A RESULT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONUDCT OF LICENSOR.

9.4 Nothing in this Agreement is or shall be construed as an obligation to bring or prosecute actions or suits against third parties for patent infringement, except as provided in Article 11.

10. PATENT INFRINGEMENT

10.1 In the event that LICENSEE shall learn of the substantial infringement of any of the Licensed Patents, LICENSEE shall promptly provide LICENSOR with reasonable evidence of such infringement. Both parties to this Agreement agree that neither will notify a third party of the infringement without first obtaining consent of the other party, which consent shall not be unreasonably denied. Both parties shall cooperate with each other in an attempt to terminate such infringement without litigation.

10.2 LICENSEE may request that LICENSOR take legal action against the infringement. Such request shall be made in writing and shall include reasonable evidence of such infringement and damages to LICENSEE. If the infringing activity has not been abated within sixty (60) days following the effective date of such request, LICENSOR shall have the right to:

(a) commence suit on its own account or

(b) refuse to participate in such suit.

10.3 LICENSOR shall give notice of its election in writing to LICENSEE within sixty (60) days after receiving such request from LICENSEE and absent refusal to participate in such suit, shall commence suit promptly thereafter, but with control of such suit remaining in LICENSOR. LICENSEE shall have the right to join or intervene at its own expense in any such suit commenced by LICENSOR. LICENSEE may at its election bring suit for patent infringement if, and only if, LICENSOR elects not to commence suit and if the infringement occurred during the period and in a jurisdiction where LICENSEE had exclusive rights under the Agreement, or in the event fails to diligent prosecute such lawsuit. However, in the event LICENSEE elects to bring suit in accordance with this paragraph, LICENSOR may thereafter join such suit at its own expense and control of such suit shall remain with LICENSEE. Such legal action as is decided upon shall be at the expense of the party on whose account suit is brought and all recoveries recovered thereby shall belong to such party, provided, however, that for legal action brought jointly by LICENSOR and/ or LICENSEE (or by any one or more of such parties with later joinder or intervention by the other and fully participated in by the parties), such recoveries shall be shared jointly by them in proportion to the share of expense paid by each party, after deduction of loss suffered by LICENSEE .

11. INDEMNIFICATION

11.1 **Licensee Indemnity.** LICENSEE agrees, and agrees to require its sublicensee, to indemnify, hold harmless, and defend LICENSOR and its officers, employees, and contractors against any and all liability, claims, suits, losses, damages, costs, fees, and expenses for, death, illness, personal injury, property damage, and improper business practices arising out of the manufacture, use, sale, lease or other disposition of the Licensed Products by LICENSEE, or by its sublicensee.

11.2 **Licensor Indemnity.** Subject to the final sentence of Sections 3.1 and 3.2, LICENSOR shall defend LICENSEE and its officers, directors, agents, shareholders, members and affiliates(collectively, the "INDEMNITEES") from and against any claim, suit or other proceeding (each a "Claim") brought or threatened against the INDEMNITEES by a third party to the extent the Claim arises out of or results from a breach by Licensor of any obligation under this Agreement, or any claim that a Licensed Product, to the extent that the Licensed Product's manufacture is within the scope of the licenses under this Agreement, infringes any patent, and shall settle such Claim and pay the amount of such settlement or, as in the case of suit, pay all damages, expenses and costs (excluding attorneys' fees) awarded from an unappealable decision of a court of competent jurisdiction. As an express condition precedent to LICENSOR's obligations under this Section 11.2, the INDEMNITEE must: (a) give LICENSOR prompt written notice of any such Claim, (b) grant LICENSOR sole control over the defense and settlement of the Claim, (c) provide LICENSOR with full cooperation for the defense of the Claim, and (d) not enter into any settlement or compromise of such

Claim without LICENSOR's prior written approval. If such Licensed Product is held to infringe or, in LICENSOR's opinion, likely to be held to infringe, LICENSOR shall, at LICENSEE's option but at LICENSOR's expense, (i) procure for the INDEMNITEES the right to continue exercising their rights under this Agreement with respect to the Licensed Product, (ii) replace or modify the Licensed Product so it is not infringing, or (iii) if neither (i) nor (ii) are commercially practicable, terminate this Agreement immediately upon written notice, subject to any damage claim by LICENSEE. Licensee may participate in the defense or settlement of the Claim with counsel of its choice and at its own expense provided that control of such defense and settlement remains in LICENSOR. THE FOREGOING STATES LICENSOR'S ENTIRE LIABILITY AND THE INDEMNITEES' EXCLUSIVE REMEDY FOR INFRINGEMENT CLAIMS WITH RESPECT TO THE LICENSED PRODUCTS.

11.3 **Exception to Licensee Indemnity.** LICENSOR shall not have any obligation to indemnify the INDEMNITEES from and against any Claim that arises out of or is based upon the modification of the any of the Growers or the modification of any Licensed Technology by or for the INDEMNITEES without the written approval of LICENSOR.

12. **TERM AND TERMINATION**

12.1 TERM . The term of this Agreement shall commence on the Effective Date and shall continue for the life of the last to expire of the Licensed Patents. Thereafter, LICENSEE shall be free to continue to use, in any manner LICENSEE desires, the Licensed Technology and the Licensed Patents, so long as not in violation of any applicable law or contractual restriction.

12.2 TERMINATION BY LICENSOR . Should LICENSEE fail to perform any obligation or meet any warranty of this Agreement on its part to be respectively performed or met, which failure can be cured, then upon written notice of such failure from LICENSOR, LICENSEE shall have two (2) years from the date of such notice to correct such failure, and upon the failure of LICENSEE to do so, LICENSOR may cancel and terminate this Agreement upon ten (10) days further written notice. Should such failure by its nature not be curable, LICENSOR may terminate this Agreement effective upon ten (10) days written notice.

12.3 LICENSEE may terminate this Agreement, and/or pursue all other available legal remedies in the event of a default by LICENSOR hereunder. A default shall exist in the event of any of the following: (a) LICENSOR fails to perform any of its obligations under this Agreement, including the obligation to make the Licensed Technology and the Licensed Patents fully available to LICENSEE, (b) LICENSOR breaches, defaults under or makes a material misrepresentation in any other material agreement between LICENSOR and LICENSEE, (c) LICENSOR files or has filed against it a bankruptcy petition or seeks protection afforded by any insolvency laws, including an assignment for the benefit of creditors or a state court receivership, (d) LICENSOR violates any applicable law, rule or regulation and such violation has a detrimental effect on LICENSEE or its affiliated entities, (e) any of LICENSOR's representations or warranties set forth herein are false or become false , or (f) there is a change in control of LICENSOR.

12.4 LICENSEE agrees not to challenge the validity of any of the Licensed Patents or Licensed Technology, either solely, or jointly with one or more other party. Any such challenge shall be null and void.

12.5 SUBLICENSE TERMINATION. Every sublicense agreement granted to an Affiliate shall terminate on the effective date of termination of this Agreement.

12.6 RIGHTS AFTER TERMINATION . No termination of this Agreement shall relieve LICENSEE or the Affiliates of any obligation or liability accrued hereunder prior to such terminations, or rescind or give rise to any right to rescind anything done by LICENSEE or the Affiliate, or to rescind any payments made or other consideration given to LICENSOR under this Agreement or the sublicense agreement prior to the time such terminations become effective, and such terminations shall not affect in any manner any rights of LICENSOR arising under this Agreement or the sublicense agreement prior to such terminations.

13. **EXPORT CONTROLS**

13.1 LICENSEE understands that LICENSOR is subject to United States laws and regulations (including the Arms Export Control Act, as amended, and the Export Administration Act of 1979), controlling the export of technical data, LICENSOR'S computer software, laboratory prototypes and other commodities, and LICENSOR'S obligations under this Agreement are contingent on compliance with such laws and regulations. The transfer of certain technical data and commodities may require a license from the applicable agency of the United States Government and/or written assurances by LICENSEE that LICENSEE shall not export such technical data and/or commodities to certain foreign countries without prior approval of such agency. LICENSOR neither represents that a license shall not be required nor that, if required, it shall be issued.

14. Notices

14.1 All notices required or permitted to be given pursuant or in reference to this Agreement shall be in writing and shall be valid and sufficient if dispatched by certified mail, postage prepaid, and addressed as follows:

If to LICENSOR, to:

SCIO Diamond Technology Corporation
411 University Ridge, Suite D,
Greenville, SC 29601
Attention: Gerald A McGuire, CEO

Email: gmcguire@sciodiamond.com

If to Licensee, to:

Grace Rich
c/o 354 Indusco Court
Troy, MI 48083
Attention: Roger Parsons

Email:rogerp@combine.com

14.2 Notices of change of address may be made at any time in the manner set forth above. Notices of change of address given as herein provided shall be considered to have been given when sent electronically (email) with proof of delivery or five (5) days after the dispatch thereof using a reputable courier service.

15 GENERAL

15.1 AGREEMENT CONFIDENTIALITY . This Agreement and its terms and conditions are confidential. Neither party shall make any public announcement about or otherwise disclose to any third party the terms, conditions or content of this Agreement or the parties' discussions regarding the subject matter of this Agreement without the prior written consent of the other party, except to perfect its rights under this Agreement.

15.2 ASSIGNMENT . This Agreement may not be assigned in whole or in party by LICENSEE without the prior written consent of the LICENSOR. Any attempted assignment in derogation of the foregoing shall be null and void.

15.3 BANKRUPTCY . All rights and licenses granted under or pursuant to this Agreement are, and shall be deemed to be, for purposes of § 365(n) of Title 11 of the United States Code (the "Bankruptcy Code"), licenses of rights to "intellectual property" as defined under § 101 of the Bankruptcy Code. The Parties agree that in the event that any proceeding shall be instituted by or against the LICENSOR seeking to adjudicate it bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking an entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or any substantial part of its property, or the LICENSOR shall take any action to authorize any of the foregoing, the LICENSEE hereunder shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code including, without limitation, the exercise of its licenses hereunder

15.4 NO SUCCESSION . The parties agree that (a) this Agreement is not intended to confer upon LICENSEE the status of a successor corporation or entity of LICENSOR, and (b) LICENSEE is not assuming or undertaking any liabilities or obligations of LICENSOR, of any kind or nature, as part of the transactions contemplated by this Agreement.

15.5 COUNTERPARTS . This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original; such counterparts shall together constitute but one agreement.

15.6 HEADINGS . The headings in this Agreement are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

15.7 INTEGRATION . This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior written and oral agreements and understandings with respect to such subject matter.

15.8 EQUITABLE RELIEF . Because LICENSEE will have access to and become acquainted with the Confidential Information, the unauthorized use or disclosure of which would cause irreparable harm and significant injury which would be difficult to ascertain and which would not be compensable by damages alone, the parties agree that the LICENSOR will have the right to obtain an injunction, specific performance, or other equitable relief without prejudice to any other rights and remedies that it may have for such breach of this Agreement.

15.9 GOVERNING LAW; ARBITRATION

15.10 This Agreement shall be governed in all respects by the laws of the United States of America and by the laws of the State of Michigan, excluding its conflict of law provisions.

15.10.1 Each party agrees that any arbitration arising under or related to this Agreement shall be commenced only after good faith attempts to resolve the subject dispute have been made in a meeting between respective executives of the parties.

15.10.2 All disputes, controversies or claims arising out of or relating to this Agreement, or the breach, termination, or invalidity thereof, shall be settled by arbitration in Detroit, Michigan in accordance with the American Arbitration Association Arbitration Rules. Discovery shall be according to the Federal Rules of Civil Procedure, including the taking of depositions. The award rendered by the arbitrator shall include costs of the arbitration, reasonable attorneys' fees and reasonable costs for experts and other witnesses. Judgment on the award may be entered in any court having jurisdiction. The parties agree that the arbitrator shall have the authority to issue interim orders for provisional relief, including, but not limited to, orders for injunctive relief, attachment or other provisional remedy, as necessary to protect either party's name, proprietary information, trade secrets, know-how or any other proprietary right. The parties agree that any interim order of the arbitrator for any injunctive or other preliminary relief shall be enforceable in any court of competent jurisdiction.

15.10.3 In addition, either party shall be free at any time to seek equitable relief in accordance with Section 15.8 (Equitable Relief) from any court of competent jurisdiction, in order to protect that party's name, Confidential Information, or trade secrets.

15.11 SEVERABILITY . If any provision or provisions of this Agreement shall be held to be invalid, illegal, or otherwise unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby if the material benefits to be enjoyed by the parties under this Agreement will otherwise be realized.

15.12 AMENDMENT AND WAIVER . No amendment to this Agreement shall be effective unless it shall be in writing and signed by the parties to the amendment. Any failure of a party to comply with any obligation, covenant, agreement or condition contained in this Agreement may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure of compliance. Except as may otherwise be specifically provided herein, any consent or approval required hereunder to be obtained from either party shall be deemed not to have been given by such a party unless such consent or approval is evidenced by a writing executed on behalf of such party by an authorized signatory.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

SCIO DIAMOND TECHNOLOGY CORPORATION

By: _____
Gerald McGuire
Chief Executive Officer

GRACE RICH LIMITED By: _____

Name: _____

Title: _____

EXHIBIT A

Licensed United States Patents

Title	Patent #	Date Filed	Date Issued	Expiration Date
System And Method For Producing Synthetic Diamond	6,582,513	5/14/1999	6/24/2003	5/13/2019
System And Method For Producing Synthetic Diamond	2001281404	8/8/2001	2/24/2003	8/7/2021
System And Method For Producing Synthetic Diamond	2,456,847	8/8/2001	4/23/2013	8/7/2021
Method Of Growing Single Crystal Diamond In A Plasma Reactor	8,187,380	10/29/2004	5/29/2012	10/28/2024
Grown Diamond Mosaic Separation	8,048,223	7/21/2005	11/1/2011	7/20/2025
Enhanced Diamond Polishing	7,238,088	1/5/2006	7/3/2007	1/4/2025
System And Method For Producing Synthetic Diamond	7,879,148	3/13/2008	1/1/2011	3/12/2028
Method Of Growing A Single Crystal Diamond	10/978,104	10/29/2004		
System And Method For Producing Synthetic Diamond	2003-519552*	8/8/2001		
System And Method For Producing Synthetic Diamond	2012-108309*	8/8/2001		
System And Method For Producing Synthetic Diamond	11/776,682	7/12/2007		
Synthetic Diamond Having Alternating Layers With Different Concentrations Of Impurities	10/997,377	10/29/2004		
Diamond Structure Separation	11/056,338	2/11/2005		
System And Method For Producing Synthetic Diamond	12/047,690	3/13/2008		
Gemstone Production From Cvd Diamond Plate	8,342,164	5/8/2009	1/1/2013	5/7/2029
Angle Cut On CVD Diamond	12/463,132	5/8/2009		
Diamond Identifier	12/463,121	5/8/2009		

*Japan

U.S. Patent Application Serial Numbers included in the above table means that the application is still pending.

EXHIBIT B

Third Party Beneficiary Language

Third Party Beneficiary . This Agreement is for the benefit of SCIO Diamond Technology Corporation as a third party beneficiary. This Agreement may be enforced by SCIO Diamond Technology Corporation or its subsidiaries, which shall have all of the benefits of this Agreement, as if named herein for Grace Rich Limited.

EXHIBIT C

Employee Confidential Information and Invention Agreement

This Proprietary Information And Inventions Agreement (the "Agreement") is made between me, the undersigned employee, and Grace Rich, Ltd. (the "Company"), and is a material part of the consideration for my continued employment by the Company, is further entered into for a cash payment of $100, for the premises, mutual covenants and representations contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties. The parties agree as follows.

1. No Conflict . I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict with this Agreement or my employment with the Company. I will not violate any agreement with or rights of any third party or, except as expressly authorized by the Company in writing, hereafter use or disclose my own or any third party's confidential information or intellectual property when acting within the scope of my employment or otherwise on behalf of the Company. Further, I have not retained anything containing any confidential information of a prior employer or other third party, whether or not created by me.

2. Intellectual Property Assignment . The Company shall own all right, title and interest (including, but not limited to, patent rights, copyrights, trade secret rights, mask work rights, database rights and all other intellectual and industrial property rights of any sort throughout the world) relating to any and all inventions (whether or not patentable), works of authorship, mask works, designs, know-how, research, development, trade secrets, techniques, processes, procedures, plans, policies, discoveries, hardware, software, screens, specifications, designs, drawings, ideas and information made or conceived or reduced to practice, in whole or in part, by me or any other employee, independent contractor or agent of the Company during the term of my employment with Company (collectively, "Inventions"), and I will promptly disclose all Inventions to the Company. "Inventions" is to be broadly defined. By way of example and without limitation, Inventions include all items mentioned in the first sentence of this paragraph and any and all information concerning teaching techniques, processes, formulas, innovations, discoveries, improvements, research or development and test results, data, formats, marketing plans, business plans, strategies, forecasts, unpublished financial information, budgets, projections, and customer and supplier identities, characteristics and agreements.

I hereby make all assignments necessary to accomplish the foregoing. I shall further assist the Company, at the Company's expense, to further evidence, record and perfect such assignments, and to perfect, obtain, maintain, enforce, and defend any rights specified to be so owned or assigned. I hereby irrevocably designate and appoint the Company and its agents as attorneys-in-fact to act for and in my behalf to execute and file any document and to do all other lawfully permitted acts to further the purposes of the foregoing with the same legal force and effect as if executed by me. If I wish to clarify that anything created by me prior to my employment that relates to the Company's actual or proposed business is not within the scope of this Agreement, I have listed it on Appendix A (Prior Matter) . If I use or (except pursuant to this paragraph 2) disclose my own or any third party's confidential information or intellectual property when acting within the scope of my employment or otherwise on behalf of the Company, the Company will have and I hereby grant the Company a perpetual, irrevocable, worldwide, royalty-free, non-exclusive, sub licensable right and license to exploit and exercise all such confidential information and intellectual property rights.

3. Moral Rights . To the extent allowed by law, paragraph 2 includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as "moral rights," "artist's rights," "droit moral," or the like (collectively "Moral Rights"). To the extent I retain any such Moral Rights under applicable law, I hereby ratify and consent to any action that may be taken with respect to such Moral Rights by or authorized by the Company and agree not to assert any Moral Rights with respect thereto. I will confirm any such ratifications, consents and agreements from time to time as requested by the Company.

4. Confidential Information . I agree that all Inventions and all other business, technical and financial information (including, without limitation, the identity of and information relating to customers, potential customers, suppliers, strategic partners, service providers, employees, agents or shareholders of the Company) I develop, learn or obtain during the term of my employment that relate to the Company or the business or demonstrably anticipated business of the Company or that are received by or for the Company in confidence, constitute "Proprietary Information." Proprietary Information includes not only information disclosed by the Company or its clients to me in the course of my employment, but also information developed or learned by me during the course of my employment with the Company, such as Inventions (as defined above). Proprietary Information is to be broadly defined. Proprietary Information includes all information that has or could have commercial value or other utility in the business in which the Company or clients are engaged or contemplate engaging. Proprietary Information also includes all information of which the unauthorized disclosure could be detrimental to the interests of the Company or clients, whether or not such information is identified as Proprietary Information by the Company or clients. By example and without limitation, Proprietary Information includes any and all information concerning teaching techniques, processes, formulas, trade secrets, innovations, inventions, discoveries, improvements, research or development and test results, specifications, data, know-how, formats, marketing plans, business plans, strategies, forecasts, unpublished financial information, budgets, projections, and customer and supplier identities, characteristics, and agreements. During the term of my employment with Company, and thereafter, I will hold in confidence and not divulge, disclose or otherwise use any Proprietary Information except within the scope of my employment by the Company. However, I shall not be obligated under this paragraph with respect to information I can document is or becomes readily publicly available without restriction through no fault of mine. I acknowledge that all Proprietary Information, in any form or medium, including copies thereof is the sole and exclusive property of the Company. Upon termination of my employment, I will promptly return to the Company any and all items containing or embodying Proprietary Information in any form or medium (including all copies), except that I may keep a single personal copy of (i) my compensation records, (ii) materials distributed to shareholders generally and (iii) this Agreement. I also recognize and agree that I have no expectation of privacy with respect to the Company's telecommunications, networking or information processing systems (including, without limitation, stored computer files, email messages and voice messages) and that my activity and any files or messages on or using any of those systems may be monitored at any time without notice.

At the time of termination, regardless of reason and without reservation, employee will sign the attached Appendix B (Affidavit).

5. Non-Solicitation . I agree that during the term of my employment and until the fifth anniversary of the conclusion of my employment with the Company, I will not encourage or solicit any employee or consultant of the Company to leave the Company for any reason (except for the bona fide firing of Company personnel within the scope of my employment). I also agree that during the term of my employment (whether or not during business hours) and until the fifth anniversary of the conclusion of my employment with the Company, I will not solicit business from, divert business from, or attempt to convert to other methods of using or offering the same or similar products or services as provided by the Company or its affiliates to any client or prospective client of the Company or its affiliates.

6. Non-Compete . I agree that upon termination of my employment for any reason and until the fifth anniversary of the conclusion of my employment with the Company, I will not engage in any activity that is in any way competitive with the business or demonstrably anticipated business of the Company or its affiliates, and I will not in any way assist any other person or organization in competing or in preparing to compete with any business or demonstrably anticipated business of the Company or its affiliates.

7. Survival . I agree that my obligations under paragraphs 2, 3, 4, 5 and 6 of this Agreement shall continue in effect after termination of my employment, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary on my part, and that the Company is entitled to communicate my obligations under this Agreement to any future employer or potential employer of mine. My obligations under paragraphs 2, 4 and 4 also shall be binding upon my heirs, executors, assigns, and administrators and shall inure to the benefit of the Company, its subsidiaries, successors and assigns.

8. Governing Law; Choice of Forum . Any dispute in the meaning, effect or validity of this Agreement shall be resolved in accordance with the laws of the State of South Carolina without regard to the conflict of laws provisions thereof. I further agree that if one or more provisions of this Agreement are held to be illegal or unenforceable under applicable South Carolina law, such illegal or unenforceable portion(s) shall be limited or excluded from this Agreement to the minimum extent required so that this Agreement shall otherwise remain in full force and effect and enforceable in accordance with its terms. I also agree that if any restriction in this Agreement shall be determined to be invalid and unenforceable, it shall automatically be modified, or may be modified by a court of competent jurisdiction, to the extent necessary to make it valid and enforceable. I also understand that any breach of this Agreement will cause irreparable harm to the Company for which damages would not be an adequate remedy, and, therefore, the Company will be entitled to injunctive relief with respect thereto in addition to any other remedies. I hereby waive any requirement that the Company post a bond or similar security or instrument in connection with any action the Company may commence in an effort to enforce this Agreement.

9. Miscellaneous . Except for my employment agreement with the Company, this Agreement supersedes all prior agreements and understandings between the parties—whether communicated in writing, orally or otherwise—and the representations, covenants and agreements herein shall be binding and in full force against the parties effective from the commencement of my employment with the Company. I may not assign this Agreement or any rights or obligations hereunder. This Agreement shall bind and inure to the benefit of each party and its respective successors, heirs and assigns. Any references to the "Company" in this Agreement shall include any subsidiary, affiliate, strategic partner, assign and/or successor of the Company or any similarly situated party.

I HAVE READ THIS AGREEMENT CAREFULLY AND I UNDERSTAND AND ACCEPT THE OBLIGATIONS WHICH IT IMPOSES UPON ME WITHOUT RESERVATION. I SIGN THIS AGREEMENT VOLUNTARILY AND FREELY, IN DUPLICATE, WITH THE UNDERSTANDING THAT ONE COUNTERPART WILL BE RETAINED BY COMPANY AND THE OTHER COUNTERPART WILL BE RETAINED BY ME.

EMPLOYEE

By: _____

Address: _____

Date of Commencement of Employment

Date: _____

Signed: _____

Exhibit 10.32

FIRST AMENDED SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This FIRST AMENDED SETTLEMENT AGREEMENT AND MUTUAL RELEASE ("Agreement") is dated as of November 22, 2016 ("Effective Date"), by and between Grace Rich Limited, a Hong Kong corporation having a principal place of business c/o 354 Indusco Ct., Troy, MI 48083 ("Grace Rich"), SAAMABA, LLC, a Michigan limited liability company having a principal place of business at 354 Indusco Ct., Troy, MI 48083 ("SAAMABA"), and Scio Diamond Technology Corporation, a Nevada corporation having a principal place of business at411 University Ridge, Suite D, Greenville SC 29601 ("Scio") (together, the "Parties").

RECITALS

A. The Parties are subject to a certain Settlement Agreement and Mutual Release dated November 21, 2016 ("Original Settlement"), where among other things the Parties resolved their disputes regarding five certain agreements, each of which is dated September 16, 2013, namely: a Grace Rich Joint Venture Agreement; a Grace Rich Shareholders Agreement; a Scio Diamond Technology Corporation License Agreement; a Grace Rich Consulting Services Agreement; and a Scio Diamond Technology Corporation Development Agreement.

B. The Parties desire to amend the Original Settlement to replace the requirement that the Parties execute a Redemption Agreement with the requirement that the Parties execute a Share Purchase Agreement and also to require the Parties to execute any additional documentation required under United States and Hong Kong law to fulfill their obligations under the Share Purchase Agreement.

THEREFORE , for good and valuable consideration, the receipt of which is hereby acknowledged, and in consideration of the foregoing representations, agreements and covenants contained herein, the Parties agree as follows:

AGREEMENT

1. **Recitals.** The foregoing Recitals are incorporated herein by reference and form an integral part of this Agreement.

2. **Amended Agreement** .

(a) The Original Settlement shall be amended to remove the requirement that Grace Rich and Scio execute the Redemption Agreement and shall be replaced with the requirement that Scio and SAAMABA execute the Share Purchase Agreement attached hereto as **Exhibit A.**

(b) The Original Settlement shall be amended to require the Parties to execute any additional documentation required under Hong Kong or United States law to fulfill the obligations of the Parties under the Share Purchase Agreement.

(c) All other terms of the Original Settlement shall remain effective.

3. **Miscellaneous** . This Agreement binds and benefits the Parties, their heirs, executors, administrators, successors, assigns, parents, affiliates, members, subsidiaries, officers, agents, servants, employees, distributors, licensees, affiliates, subsidiaries, attorneys, and all other persons who are in active concert or participation with them and receive actual notice of these provisions. By affixing their signatures below, the Parties to this Agreement acknowledge that they understand the modification under this Agreement and agree to be bound by its terms and all terms of the Original Settlement previously executed. Disputes arising out of this Agreement or concerning the subject matter thereof may not be brought in any court, tribunal, or forum other than a state or federal court in the State of Michigan, and shall be governed by Michigan law except with respect to its choice of law principles. This Agreement is the entire agreement between the Parties; it supersedes any prior agreements or understandings between the Parties, as to the subject matter of this Agreement, whether written or verbal, and may only be modified by a writing signed by the Parties. This Agreement may be executed in counterparts. Digital copies of the Agreement shall be as binding as an original hard copy.

WHEREFORE , the Parties, by their authorized agents, have executed this Agreement as of the Effective Date.

Grace Rich Limited

By: /s/ Shrikant Mehta
Shrikant Mehta, Chairman

Date: November 21, 2016

Scio Diamond Technology Corporation

By: /s/ Gerald McGuire
Jerry McGuire, President/CEO

Date: November 17, 2016

SAAMABA, LLC

By /s/ Shrikant Mehta
Shrikant Mehta, Managing Member

Date: November 21, 2016

Exhibit A

SHARE PURCHASE AGREEMENT

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT , is effective November 22, 2016 (this "Agreement"), between SAAMABA, LLC, a Michigan limited liability company having a principal place of business at c/o 354 Indusco Court, Troy, Michigan 48083 ("Buyer"), and SCIO DIAMOND TECHNOLOGY CORPORATION, a Nevada corporation, having a principal place of business at 411 University Ridge, Suite D, Greenville, SC 29601 ("Seller").

RECITALS:

A. Seller owns 3,000 shares of Series B Preferred Shares in Grace Rich Ltd. (" **Company** "), a Hong Kong corporation (the " **Shares** "). The Shares constitute all of the shares owned by Seller in the Company.

B. As required by a certain Settlement Agreement and Mutual Release dated of even date of this Agreement, by and between Company, Buyer, and Seller (the " **Settlement** "), Seller has agreed to execute this Agreement and convey all of the Shares to the Buyer, and Buyer has agreed to purchase those Shares in accordance with the terms hereof.

C. Company, Buyer and Seller have executed the Settlement and now desire to fulfil their respective duties thereunder by executing this Agreement.

NOW, THEREFORE , it is agreed:

1. Purchase.

A. Closing . At the Closing, Seller agrees to sell and transfer to Buyer, and Buyer agrees to purchase from Seller, all of the Shares, including by delivery of such certificate or certificates representing the Shares and/or execution of an assignment effectuating the transfer of the Shares. The closing of such purchase (the " **Closing** ") shall take place at the Buyer's offices, or such other place as the parties may agree upon, including electronically, and shall occur as of the effective date.

B. Purchase Price . Pursuant to the Settlement, the purchase price for the Shares shall be $10.00 (the " **Purchase Price** "). The Purchase Price represents all of the consideration payable to Seller and Seller acknowledges that it is not entitled to share in any future profit, return on investment, tax or other distributions of any kind and is hereby relinquishing all of its right, title and interest in the Shares and all rights related thereto. The Purchase Price represents fair consideration in light of the current substantial negative net worth of the Company.

C. **Free and Clear** . Seller represents and warrants to Buyer (i) Seller is, and at the Closing be, the sole beneficial and record owner of Shares, free and clear of any and claims, liens, mortgages, security interests, encumbrances, transfer restrictions, charges, obligations, assignments, rights of third parties, and any other defect in title or restriction of any kind ("Encumbrances"), (ii) the Shares will be delivered to the Buyer free of any Encumbrances, and (iii) the Shares represent the entire ownership interest of Seller in Company.

D. **Resignation.** At the Closing, Seller and its officers, directors, employees or other agents, shall resign from all positions and rights of any kind in or with respect to the Company, including as an officer, director, employee, or other agent, and Buyer will cause Company to accept such resignations of Seller.

E. **Further Actions** . Seller and Buyer shall take all further actions and execute and deliver any additional instruments upon or after the execution of this Agreement as Buyer, Company and/or Seller deem reasonably necessary to effectuate the transactions contemplated by this Agreement. Seller hereby authorizes Buyer to execute such documents on Seller's behalf to accomplish the transaction contemplated herein, including any documents necessary to comply with the local laws of the jurisdiction of the Company's country of organization, and to modify and execute the Settlement Agreement and the Assignment of Shares to reflect a purchase of the Shares by Buyer, rather than a redemption of the Shares by the Company.

2. **Mutual Release** . As of Closing and except as with respect to representations, warranties, indemnities, and covenants contained in this Agreement:

A. Company and Buyer release Seller from any and all claims that Company or Buyer ever had, now have or hereafter may have against Seller for, upon, or by reason of any matter, cause, or thing whatsoever known to Company or Buyer and occurring prior to the date of this Agreement.

B. Seller releases Company, Buyer and their respective officers, directors, shareholders, members, managers, beneficial owners, trustees, partners, affiliates, employees, participants, and agents from any and all claims that Seller ever had, now has or hereafter may have against any of the foregoing for, upon, or by reason of any matter, cause, or thing whatsoever known to Seller and occurring prior to the date of this Agreement.

3. Indemnification .

A. **Company Indemnification** . Buyer will cause Company to indemnify and hold Seller harmless from any and all party claims asserted against Seller and arising, directly or indirectly, out of or resulting from (i) any breach of contract, negligence or intentional misconduct of Company or Buyer on or after Closing; and (ii) the breach by Company or Buyer of a covenant, obligation, representation or warranty contained in this Agreement.

B. **Seller's Indemnification** . Seller shall indemnify and hold Company, Buyer and their respective shareholders, officers, directors and affiliate entities harmless from any and all third party claims asserted against Company, Buyer or any of their shareholders, officers, directors, members and affiliate entities arising, directly or indirectly, out of or resulting from (i) any breach of contract, negligence or intentional misconduct of Seller; and (ii) the breach by Seller of a covenant, obligation, representation or warranty contained in this Agreement.

4. Representations and Warranties . Each party represents to the other that: (a) such party has the full capacity, power and authority to enter into this Agreement and to carry out the transactions contemplated by this Agreement, and this Agreement is binding upon, and is enforceable against, such party in accordance with the terms of this Agreement; and (b) the execution and delivery of this Agreement by such party and the consummation of the transactions contemplated by this Agreement by such party will not (i) with respect to Company, result in the breach of any of the terms or conditions of, or constitute a default under its articles of association or bylaws or other corporate organizational documents, (ii) result in the breach of any of the terms or conditions of, or constitute a default under any agreement or other instrument or obligation to which such party is now a party or by which such party may be bound or affected, or (iii) violate any law, rule or regulation of any administrative agency or governmental body or any order.

5. Confidentiality . The parties agree that all of the terms and conditions of this Agreement are strictly confidential and that none of the parties shall, without prior written consent of the other, in any manner, publish, publicize, suggest, disclose or otherwise make known, permit, or cause to be made known to any third person the terms and conditions of this Agreement. Nothing in this paragraph shall be construed to prohibit the disclosure by any party of such information as may be specifically required by law, or by judicial administrative or regulatory or self-regulatory, or as is necessary to enforce the provisions of this Agreement; provided that each of the parties agree to provide the other with reasonable advance notice of the subpoena or other judicial notice which it believes requires such disclosure. Nothing in this paragraph shall be construed to prohibit the disclosure of the terms and conditions of this Agreement by any party to that party's attorney, accountant, lender, or tax advisor to the extent necessary to seek professional, tax, or financial advice concerning this Agreement, who shall be instructed as to the confidential nature of this Agreement.

6. **Severability**. Whenever possible, each provision and term of this Agreement will be interpreted in a manner to be effective and valid, but if any provision or term of this Agreement is held invalid, then such provision or term will be ineffective only to the extent of such invalidity, without invalidating or affecting in any manner whatsoever the remainder of such provisions or terms or the remaining provisions or terms of this Agreement.

7. **Amendment**. This Agreement may be amended only by an agreement in writing signed by all of the parties to this Agreement or their legal representatives. This Agreement will inure to the benefit of, and will be binding upon, the parties to this Agreement and their respective successors, assigns, heirs, and legal representatives.

8. **Waiver**. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege.

9. **Governing Law**. This Agreement will be governed in all respects by the laws of the United States of America and construed and enforced in accordance with the substantive laws of the State of Michigan, without regard to conflicts of laws rules.

10. **Counterparts**. This Agreement may be executed in counterparts, each of which will be an original, and all of which, taken together, will constitute a single instrument. The exchange of copies of this Agreement and of signature pages by facsimile or electronic mail transmission will constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original agreement for all purposes. Signatures of the parties transmitted by facsimile or electronic mail will be deemed to be their original signatures for all purposes.

11. **Miscellaneous**. All of the terms of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by and against Buyer and Seller, and their respective heirs, personal representatives, successors, and permitted assigns. The representations and warranties of the parties shall survive the execution of this Agreement. This Agreement sets forth the entire agreement and understanding of the parties with respect to the transactions contemplated by this Agreement and supersedes all prior and contemporaneous agreements, arrangements, and understandings relating to the subject matter of this Agreement. This Agreement may not be assigned, pledged, hypothecated, or in any other way transferred or encumbered by any party without the prior written consent of the other parties.

[Signatures contained on the following page]

The parties have signed this Agreement as of the date set forth above.

SELLER:

SCIO DIAMOND TECHNOLOGY
CORPORATION, a Nevada corporation

By: _____

Gerald McGuire
Chief Executive Officer

BUYER:

SAAMABA, LLC
a Michigan limited liability company

By: _____

Shrikant Mehta
Member

Exhibit 31.1

Rule 13a-14(a) Certification of the Principal Executive Officer

I, Gerald McGuire, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Scio Diamond Technology Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2017

/s/ Gerald McGuire

By: Gerald McGuire
Its: Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Rule 13a-14(a) Certification of the Principal Financial Officer

I, Jonathan Pfohl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Scio Diamond Technology Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2017

/s/ Jonathan Pfohl

By: Jonathan Pfohl
Its: Chief Financial Officer (Principal Financial Officer)

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Scio Diamond Technology Corporation (the "Company") on Form 10-Q for the period ending December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The report fully complies with complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 14, 2017

/s/ Gerald McGuire

By: Gerald McGuire
Its: Chief Executive Officer (Principal Executive Officer)

Date: February 14, 2017

/s/ Jonathan Pfohl

By: Jonathan Pfohl
Its: Chief Financial Officer (Principal Financial Officer)