

SCIO DIAMOND TECHNOLOGY CORP

FORM 8-K (Current report filing)

Filed 06/27/13 for the Period Ending 06/21/13

Address	411 UNIVERSITY RIDGE, SUITE D GREENVILLE, SC 29601
Telephone	864.346.2733
CIK	0001488934
Symbol	SCIO
SIC Code	3290 - Abrasive, Asbestos, And Miscellaneous
Industry	Constr. - Supplies & Fixtures
Sector	Capital Goods
Fiscal Year	03/31

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

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report: **June 21, 2013**
(Date of earliest event reported)

SCIO DIAMOND TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Commission File Number: **333-166786**

Nevada
(State or other jurisdiction of incorporation)

45-3849662
(IRS 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 or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

Item 1.01 Entry into a Material Definitive Agreement.

On June 21, 2013, Scio Diamond Technology Corporation (the “Company”) entered into a Loan Agreement (the “Loan Agreement”) and Security Agreement (the “Security Agreement”), each dated as of June 21, 2013, with Platinum Capital Partners, LP (“Platinum”) providing for a \$1 million secured revolving line of credit (the “Loan”) that the Company may draw on to fund working capital and other corporate purposes. The Loan, which is represented by a Promissory Note dated June 21, 2013 (the “Note”), matures on June 20, 2014. On June 21, 2013, \$910,000 was drawn on the Loan, \$20,000 of which was retained by Platinum to cover applicable fees.

The Company plans to utilize funds drawn on the Loan to fund its ongoing operations. Borrowings accrue interest at the rate of 18% per annum, payable monthly on or before the last calendar day of each month, and a service charge of 3% applies to late payments. The loan agreement also provides for payment of an accommodation fee of up to 10% of the commitment amount as provided in the Loan Agreement, and payment of a monthly collateral monitoring fee of \$2,000 per month for the first six months and \$1,000 per month for the last six months of the term of the Loan Agreement. The Loan Agreement contains a number of restrictions on the Company’s business, including restrictions on its ability to merge, sell assets, create or incur liens on assets, make distributions to its shareholders and sell, purchase or lease real or personal property or other assets or equipment. The Loan Agreement also contains affirmative covenants and events of default, including an event of default in the event the Company fails to maintain a book net worth of at least \$7.5 million at all times. The Company’s obligations under the Loan Agreement are not guaranteed by any other party. The Company may prepay borrowings without premium or penalty upon notice to Platinum as provided in the Loan Agreement. The Loan Agreement requires the Company enter the Security Agreement and provide the Note.

Under the Security Agreement, which is filed as Exhibit 4.2 to this Form 8-K, the Company grants Platinum a first priority security interest in the Company’s inventory, equipment, accounts and other rights to payments and intangibles as security for the Loan. The Note, which is filed as Exhibit 4.3, provides for monthly interest payments commencing July 2013 and for repayment of all amounts drawn, together with accrued interest, on June 20, 2014.

The descriptions of the terms of the Loan Agreement, the Security Agreement and the Note in this Item 1.01 are qualified in their entirety by reference to Exhibits 4.1, 4.2 and 4.3 to this Form 8-K.

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

The information contained in Item 1.01 above is incorporated herein by reference. On June 21, 2013, \$910,000 was drawn on the Loan, \$20,000 of which was retained by Platinum to cover applicable fees.

Item 9.01 Financial Statement and Exhibits

(d) Exhibits

- 4.1 Loan Agreement dated as of June 21, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP.
- 4.2 Security Agreement dated as of June 21, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP.
- 4.3 Promissory Note dated as of June 21, 2013 made by Scio Diamond Technology Corporation in favor of Platinum Capital Partners, LP.

SIGNATURE

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 hereunto duly authorized.

SCIO DIAMOND TECHNOLOGY CORPORATION

By: /s/ Michael W. McMahon
Michael W. McMahon
Chief Executive Officer

Date: June 27, 2013

EXHIBIT INDEX

Exhibit Number	Description
4.1	Loan Agreement dated as of June 21, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP.
4.2	Security Agreement dated as of June 21, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP.
4.3	Promissory Note dated as of June 21, 2013 made by Scio Diamond Technology Corporation in favor of Platinum Capital Partners, LP.

LOAN AGREEMENT

THIS LOAN AGREEMENT (“Agreement”) is made as of the 21st day of June, 2013 by and between **SCIO Diamond Technology Corporation**, a Nevada corporation (“Borrower”), and **PLATINUM CAPITAL PARTNERS, LP**, a Minnesota limited partnership (“Lender”).

RECITALS

- A. The Borrower has requested from the Lender an extension of credit in the form of a revolving cash advances (“Line” or “Loan”), the proceeds of which are to be used for general working capital purposes.
- B. The Lender is willing to agree to provide the Loan to the Borrower on the terms and conditions hereinafter contained;

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

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

- 1.1 Promissory Note. The Borrower’s Promissory Note of even date herewith, in the amount of \$1,000,000.00, payable to the Lender;
- 1.2 Security Agreement. A Security Agreement in favor of the Lender covering and guarantying Lender a first priority security interest in the personal property described therein (“Personal Property”);
- 1.3 Financing Statement. UCC-1 Financing Statement executed by Borrower for filing in such offices as the Lender may deem necessary or desirable relating to the Security Agreement Line.
- 1.4 Borrower’s Certificate of Incumbency and Resolutions. A Certificate of Incumbency and Resolutions executed by the Borrower and relating to Borrower’s organizational documents and resolutions authorizing the Loan.
- 1.5 Insurance Certificate. Certificates of insurance evidencing a policy or policies of insurance covering the Borrower’s operations and the Personal Property as required by Section 4.2 of this Agreement, such policy to insure against all risks and name the Lender as loss payee on all property policies and as an additional insured as to all liability policies.
- 1.6 Financial Statements. Current financial statements of Borrower in a form and prepared in a manner acceptable to the Lender.

- 1.7 Searches. Complete UCC and state and federal tax lien searches from such offices as the Lender may request which confirm that there are no interests which would be prior to the Lender's interest.
- 1.8 Releases. A release/amendment document pursuant to which any security interest in the Personal Property other than the interest of Lender shall be released.

2. Commitment of Lender.

2.1 Advancing Loan. So long as there exists no Event of Default hereunder and no event has occurred which would be an Event of Default with the giving of notice or lapse of time or both, and subject to all other terms and conditions hereof, the Lender shall lend to the Borrower and Borrower may borrow from the Lender against the Line for the account of Borrower. The advances in aggregate shall not exceed \$1,000,000.00 for the Promissory Note. The Borrower and Lender acknowledge and agree that the Promissory Note shall be a revolving loan, and that any payments by Borrower applied to the principal balance of the Promissory Note may be re-drawn by Borrower upon 3 days written notice, at any time prior to the Maturity Date.

2.2 Fees.

- (a) Late Fees. Borrower agrees to pay a late payment service charge in an amount equal to three percent (3.0%) of any installment of principal or interest (excluding the final balloon payment) not received by the Lender within ten (10) days after the date due.
- (b) ACCOMMODATION FEE:
An Accommodation fee equal to up to **10%** of the commitment amount is earned and is due and payable as follows:
2.5% is earned at the date the loan is closed—payable at the Maturity Date or upon full repayment of the loan if that occurs prior to stated maturity.
2.5% is earned 90 days after the date the loan is closed—payable at the Maturity Date or upon full repayment of the loan if that occurs prior to stated maturity—provided that the loan facility is still a committed facility at the date of measurement (which is 90 days after the date the loan is closed).
5% is earned at 12/31/2013—payable at the Maturity Date or upon full repayment of the loan if that occurs prior to stated maturity—provided that the loan facility is still a committed facility at 12/31/2013.

2.3 Interest and Payments.

(a) Interest accrued on the Line Note shall be payable monthly on or before the last calendar day of each month and on the same day of each month thereafter, and shall automatically be deducted from an account held by Borrower with the Bank. Borrower shall ensure sufficient funds are in such account in order to allow the Lender to deduct the payments when due.

(b) Interest will accrue on the Line Note as stated therein.

2.4 Maturity. All unpaid principal of the Promissory Note, all interest accrued thereon, and all fees and costs, shall be due and payable on June 20, 2014.

2.5 Computations. Interest on the Term Note and any other compensation payable to Lender thereunder shall be computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding.

2.6 Prepayments. No prepayment premium shall be applicable to any payment of principal pursuant to the Line Note.

3. Representations and Warranties. The Borrower represents and warrants that:

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

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

3.3 Title to Assets. The Borrower has good and marketable title to all of its property and assets reflected in its most recent balance sheet delivered to the Lender, subject to the encumbrances as therein detailed.

- 3.4 Litigation. No actions, suits or proceedings are pending or, to Borrower's knowledge, threatened, against or affecting it before any court, governmental or administrative body or agency which might result in any material adverse change in the operations, business property, assets or condition (financial or otherwise) of Borrower, or which would question the validity of this Agreement or of any action taken or to be taken by Borrower pursuant to or in connection with this Agreement.
- 3.5 No Events of Default. No Event of Default as hereinafter defined has occurred and is continuing as of the date hereof and no event has occurred and is continuing which would be an Event of Default hereunder were it not for any grace period specified herein or which would become an Event of Default if notice thereof were given to Borrower.
- 3.6 Financial Condition. The financial statements of the Borrower heretofore furnished to the Lender, if any, are complete and correct in all material aspects and fairly present the respective financial condition of the Borrower at the date of such statements, and have been prepared in accordance with generally accepted accounting principles, consistently applied. Since the most recent set of financial statements delivered by the Borrower to the Lender, if any, there have been no material adverse changes in the financial condition of the Borrower.
- 3.7 Licenses. The Borrower possesses adequate licenses, permits, franchises, patents, copyrights, trademarks and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted.
- 3.8 Taxes. The Borrower has filed all tax returns required to be filed and either paid all taxes shown thereon to be due, including interest and penalties, which are not being contested in good faith and by appropriate proceedings, or provided adequate reserves for payment thereof, and the Borrower has no information or knowledge of any objections to or claims for additional taxes in respect of federal income or excise profit tax returns for prior years.
4. Affirmative Covenants. The Borrower covenants and agrees with Lender that so long as any amount remains unpaid on the Term Note, Borrower will:
- 4.1 Maintain Assets. Maintain and keep its assets, properties and equipment in good repair, working order and condition and from time to time make or cause to be made all needed renewals, replacements and repairs so that at all times Borrower's business can be operated efficiently.
- 4.2 Insurance. Insure and keep insured all of its property of an insurable value under all risk policies in an amount reasonably acceptable to the Lender and carry such other property insurance as is usually carried by persons engaged in the same or similar business (and as required by the Term Security Agreement) all such insurance to name the Lender as loss payee and additional insured with a standard

mortgagee clause, and from time to time furnish to Lender upon request appropriate evidence of the carrying of such insurance.

4.3 Financial Information. Furnish to the Lender:

(a) Within 15 (fifteen) days after the end of each month and within 90 days after the end of each of Borrower's fiscal years a set of, respectively, interim and annual financial statements, including a balance sheet, statement of cash flow, profit and loss statement and related statements, prepared by Borrower and, compiled for annual statement only, by a public accounting firm reasonably acceptable to Lender, in accordance with generally accepted accounting principles;

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

(d) Within 15 (fifteen) days after the end of each month, an accounts receivable aging report in form and substance reasonably acceptable to Lender;

(e) Within 15 (fifteen) days after the end of each month, a listing of inventory in sufficient detail as to determine composition and value.

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

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

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

4.6 Notification of Changes. Promptly notify the Lender of:

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

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

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

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

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

4.9 Reimbursement of Expenses. Promptly reimburse Lender for any and all reasonable out-of-pocket expenses, and all fees and disbursements, including attorneys' fees (legal deposit of \$10,000 required at closing) incurred in connection with the preparation and performance of this Agreement and the instruments and documents related thereto, and all expenses relating to the administration and collection of the Loan to be made hereunder, including reasonable attorneys' fees.

4.10 MONTHLY COLLATERAL MONITORING FEE:

\$2,000 PER MONTH FOR THE FIRST SIX MONTHS AND \$1,000 PER MONTH FOR THE LAST SIX MONTHS OF THE TERM. THIS FEE IS PAYABLE MONTHLY IN ADVANCE, DUE ON THE FIRST OF EACH MONTH.

5. Negative Covenants. The Borrower hereby covenants and agrees with the Lender that so long as any amount shall remain unpaid on the Term Note, Borrower will not:

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

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

5.3 Limitation on Liens and Encumbrances. Except for the interests of Lender, the Borrower will not at any time create, assume, incur or permit to exist, any mortgage, lien, pledge, charge, security interest or other encumbrance of any kind in respect of the Personal Property (except such purchase money security interests

granted by Borrower prior hereto as disclosed to and approved by Lender prior hereto), or any other assets, income or revenues of any character, whether heretofore or hereafter acquired by it.

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

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

6. Defaults.

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

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

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

(c) Insolvency. Borrower shall (i) become insolvent, (ii) suspend business, (iii) make a general assignment for the benefit of its creditors, (iv) admit in writing its or his inability to pay its or his debts generally as they mature, (v) file a petition in bankruptcy or a petition or answer seeking a reorganization, arrangement with creditors or other similar relief under the Federal bankruptcy laws or under any other applicable law of the United States of America or any State thereof, (vi) consent to the appointment of a trustee or receiver for Borrower or for a substantial part of its property, (vii) be adjudicated a bankrupt or fail to cause an involuntary petition in bankruptcy to be dismissed within sixty (60) days after the filing thereof, (viii) take any action for the purpose of effecting or consenting to any of the foregoing, or (ix) have an order, judgment or decree entered appointing a trustee, conservator or receiver for Borrower or for a substantial part of its property, or approving a petition filed against Borrower

seeking a reorganization, arrangement with creditors or other similar relief under the Federal bankruptcy laws or under any other applicable law of the United States of America or any State hereof, which order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry; or

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

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

(f) Net Worth Stop. Borrower shall maintain a Book Net Worth of at least \$7,500,000.00 at all times.

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

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

7. Miscellaneous.

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

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

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

If to Borrower: SCIO DIAMOND TECHNOLOGY CORPORATION
411 University Ridge, Suite D
Greenville, SC 29601
Attn: Jonathan Pfohl

If to Lender: PLATINUM CAPITAL PARTNERS, LP
9855 West 78th Street
Eden Prairie, MN 55344
Attn: Jeffrey Reed

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

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

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

EXECUTED IN Minneapolis, Minnesota, as of the year and day first above written.

BORROWER:
SCIO DIAMOND TECHNOLOGY CORPORATION
a Nevada corporation

By: _____
Michael McMahon
Its: Chief Executive Officer

LENDER:
PLATINUM CAPITAL PARTNERS, LP

By: _____

Its: _____

SECURITY AGREEMENT

Dated: Effective June 21, 2013

DEBTOR:

SCIO Diamond Technology Corporation
411 University Ridge, Suite D
Greenville, SC 29601
State of Formation: Nevada
Federal ID No. 45-3849662

SECURED PARTY:

Platinum Capital Partners, LP
9855 West 78th Street, #50
Eden Prairie, MN 55344

1. Security Interest and Collateral. To secure the payment and performance of each and every debt, liability and obligation of every type and description that Debtor may now or at any time hereafter owe to Secured Party (including, but not limited to, whether such debt, liability or obligation now exists or is hereafter created or incurred, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations collectively referred to as the "Obligations"), including the debt liability and obligation of Debtor to Secured Party evidenced by that certain Promissory Note of even date herewith in the original principal amount of \$1,000,000.00 (the "Note" or "Secured Note"), Debtor hereby grants Secured Party a security interest (the "Security Interest") in the following property (the "Collateral"):

(a) **INVENTORY:**

All inventory of Debtor, whether now owned or hereafter acquired and wherever located;

(b) **EQUIPMENT:**

All equipment of Debtor, whether now owned or hereafter acquired, including but not limited to all present and future machinery, vehicles, furniture, fixtures, manufacturing equipment, shop equipment, office and recordkeeping equipment, parts and tools, and the goods described in any equipment schedule or list herewith or hereafter furnished to Secured Party by Debtor (but no such schedule or list need be furnished in order for the security interest granted herein to be valid as to all of Debtor's equipment);

(c) **ACCOUNTS AND OTHER RIGHTS TO PAYMENT:**

Each and every right of Debtor to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by Debtor, out of a rendering of services by Debtor, out of a loan by Debtor, out of the overpayment of taxes or other liabilities of Debtor, or otherwise arises under any contract or agreement, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other

rights and interests (including all liens and security interests) that Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor; all including but not limited to all payment intangibles, debt instruments, chattel paper, accounts, deposit accounts, loans and obligations receivable and tax refunds;

(d) INTANGIBLES:

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

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

- (a) Debtor is a Nevada Corporation.
- (b) The Collateral will be used primarily for business purposes.
- (c) Debtor's chief executive office is located at the address of Debtor shown at the beginning of this Agreement.

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

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

(b) Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, setoff or counterclaim (other than those arising in the ordinary course of business) of the account debtor or other obligor named therein or in Debtor's records pertaining thereto as being obligated to pay such obligation.

Debtor will neither agree to any material modification or amendment nor agree to any cancellation of any such obligation without Secured Party's prior written consent, and will not subordinate any such right to claims of other creditors of such account debtor or other obligor.

(c) Debtor will:

- (i) keep all tangible Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof;
- (ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest except as Debtor shall contest in good faith and by appropriate proceedings providing such reserves as are required by generally accepted accounting principles;
- (iii) keep all Collateral free and clear of all security interests, liens and encumbrances except for security interests previously granted to third parties and the Security Interest;
- (iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition and to send and discuss with account debtors and other obligors requests for verifications of amounts owed to Debtor;
- (v) keep accurate and complete records pertaining to the Collateral and pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning the Collateral and Debtor's business and financial condition as Secured Party may from time to time reasonably request;
- (vi) promptly notify Secured Party of any loss of or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due on or under any instrument, chattel paper, or account constituting Collateral;
- (vii) if Secured Party at any time so requests (whether the request is made before or after the occurrence of an Event of Default), promptly deliver to Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Debtor;
- (viii) at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts as Secured Party may reasonably request with any loss payable to Secured Party to the extent of its interest;

- (ix) from time to time authorize such financing statements as Secured Party may reasonably require in order to perfect the Security Interest and, if any Collateral consists of an asset subject to a certificate of title, execute such documents as may be required to have the Security Interest properly noted on a certificate of title;
- (x) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings;
- (xi) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings that Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement;
- (xii) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance;
- (xiii) not permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest, or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein; and
- (xiv) inform Secured Party of any change to Debtor's name, address or state of formation prior to the effective date of such change and authorize and deliver to Secured Party any financing statement that is necessary as a result of that change to maintain the perfected status of the Security Interest.

If Debtor at any time fails to perform or observe any agreement contained in this Section 3(c), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained in clauses (viii) and (ix) of this Section 3(c), immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions that Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of insurance, the filing of financing statements, the endorsement of instruments, and

the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such agreements or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, termination statements for filings not permitted under this Agreement held by other secured parties, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3.

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

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

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

(a) Debtor fails to pay when due any principal, interest, fees or other payments due under the Secured Note or any other indebtedness of Debtor to Secured Party, whether any such indebtedness is now existing or hereafter arises and whether direct or indirect, due or to become due, absolute or contingent, primary or secondary or joint or joint and several;

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

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

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

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

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

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

any or all other rights or remedies available to Secured Party at law, equity, or agreement against the Collateral, against Debtor or against any other person or property. Secured Party is hereby granted a nonexclusive, worldwide and royalty-free license to use or otherwise exploit all trademarks, trade secrets, franchises, copyrights and patents of Debtor that Secured Party deems necessary or appropriate to the disposition of any Collateral.

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

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

Minnesota District Court, any Federal District Court in the District of Minnesota, over any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of such action or proceeding may be heard and determined in any such court.

DEBTOR:

SCIO Diamond Technology,
a Nevada Corporation

By: _____

Michael McMahon

Its: Chief Executive Officer

SECURED PARTY:

Platinum Capital Partners, LP, a Minnesota
limited partnership

By: _____

Its: Chief Credit Officer

PROMISSORY NOTE

\$1,000,000.00

Minneapolis, Minnesota
June 21, 2013

FOR VALUE RECEIVED, the undersigned, SCIO DIAMOND TECHNOLOGY CORPORATION, a Nevada corporation (hereinafter designated as "Borrower"), promises to pay to the order of PLATINUM CAPITAL PARTNERS, LP, a Minnesota limited partnership (hereinafter referred to as "Lender") (Lender and any holder of this Note from time to time are each hereinafter sometimes referred to as "Holder"), at 9855 West 78th Street, Suite 50, Eden Prairie, MN 55344, or such other place as may hereinafter be designated from time to time in writing by the Holder hereof, the principal sum of One Million and 00/100 Dollars (\$1,000,000.00) or so much thereof as shall have been advanced hereunder to or for the benefit of the undersigned pursuant to the terms of a Loan Agreement of even date herewith (hereinafter referred to as the "Loan Amount"), made by the Borrower and Lender (hereinafter referred to as the "Loan Agreement"), together with interest from the date hereof until fully paid, at the rate hereinafter provided, on the Loan Amount, from time to time, advanced and remaining unpaid (hereinafter referred to as the "Principal Balance"). The Principal Balance and interest shall be due as follows:

A. Interest accrued shall be paid monthly. The first monthly interest payment shall be due and payable no later than the tenth day of each month following invoicing, commencing July 2013, and accrued interest shall be payable on the same day of each month thereafter. Accrued interest calculated for the months of July, September, November, 2013 and for the months January, March and May, 2014 will be paid from and deducted from the hold back interest reserve in the amount of \$90,000. To the extent the reserve is insufficient to pay the interest calculated for the month of May, 2014, the company will remit such additional amount necessary to be considered paid in full. Note that interest payable by the company by check is every other month, with interest due for every alternate month paid from the interest reserve.

B. On June 20, 2014 (the "Maturity Date"), the entire unpaid Principal Balance and all accrued and unpaid interest shall be paid in full. Borrower acknowledges that the payment due on the Maturity Date is a balloon payment and that Lender or any Holder of this Note shall have no obligation and has made no commitment to the Borrower to renew and/or extend or otherwise assist the Borrower in making arrangements for continued financing of this Note, which Borrower shall have to do from its own funds or from funds obtained from other sources or means.

C. Interest from the date hereof until the Maturity Date shall accrue at an annual rate equal to eighteen percent (18%) (such rate as is in effect during the term hereof is hereinafter referred to as the "Interest Rate"). The annual Interest Rate for the Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding.

D. If any scheduled payment, excluding the balloon payment, due on the Note is not paid within ten (10) days of the due date thereof, the Borrower shall pay to the Lender a late charge equal to three percent (3%) of the amount of such late installment.

E. The outstanding principal balance of this Note may be prepaid at any time at the option of Borrower, in whole or in part, without penalty. All payments and prepayments shall, at the option of the Lender, be applied first to any costs of collection, second to any late charges, third to accrued interest due on the Note, and lastly to principal. Lender and Borrower acknowledge and agree that the loan pursuant hereto shall be deemed a revolving loan and that any payment(s) applied toward the Principal Balance of this Note may be redrawn by Borrower during the term of this Note.

This Note is secured by a Security Agreement of even date herewith upon the personal property referenced thereon. All of the terms and conditions contained in the Loan Documents (as defined in the Loan Agreement) which are to be kept and performed by Borrower are hereby made a part of this Note and to the same extent and with the same force and effect as if they were fully set forth herein; and Borrower covenants and agrees to keep and perform them, or cause them to be kept and performed, strictly in accordance with their terms.

Time is of the essence hereof. During the continuance of an Event of Default, as defined in the Loan Agreement, Lender, at its option, may also, if permitted under applicable law and after thirty (30) days written notice to Borrower, increase the interest rate of the Note 3.0 percent (3%). Upon an Event of Default, as defined in the Loan Agreement, the Holder at its option and without further notice, demand or presentment for payment to Borrower or others, may declare immediately due and payable the Principal Balance and interest accrued thereon, together with any reasonable attorneys' fees incurred by Holder in collecting or enforcing payment thereof, whether suit be brought or not, and all other sums due by Borrower hereunder or under the Loan Documents, anything herein or in Loan Documents to the contrary notwithstanding, and payment thereof may be enforced and recovered in whole in or in part at any time by one or more of the remedies provided to Holder in this Note or in the Loan Documents.

The remedies of Holder as provided herein and in the Mortgage shall be cumulative and concurrent and may be pursued singly, successively or together, at the sole discretion of Holder, and may be exercised as often as occasion therefore shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

Borrower waives presentment for payment, demand, notice of demand, notice of nonpayment or dishonor, protest and notice of protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default or enforcement of the payment of this Note.

Holder shall not be deemed by any act of omission or commission to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the Holder, and then only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event.

All agreements herein are expressly limited so that in no contingency or event whatsoever shall the amount paid or agreed to be paid to the Holder for the use, forbearance or detention of the money to be advanced hereunder exceed the highest lawful rate permissible under applicable usury laws. If from any circumstances whatsoever fulfillment of any provision hereof at the time performance of such provisions shall be due shall involve transcending the limit of validity prescribed by law which a court of competent jurisdiction may deem applicable hereto, then the obligation to be fulfilled shall be reduced to the limit of such validity and if from any circumstance the Holder shall ever receive as interest an amount which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the unpaid principal balance due hereunder and not to the payment of interest.

This instrument shall be governed by and construed according to the laws of the State of Minnesota.

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note the day and year first above written.

SCIO DIAMOND TECHNOLOGY CORPORATION
a Minnesota corporation

Witness: _____
Print Name _____

By: _____
Michael McMahon
Its: Chief Executive Officer