ONCOLYTICS BIOTECH INC
Form SUPPL
December 04, 2008

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Filed pursuant to General Instruction II.L of Form F-10;
File No. 333-151513

Prospectus Supplement
(To a Short Form Base Shelf Prospectus Dated June 16, 2008)

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus supplement, together with the short form base shelf prospectus dated June 16, 2008 to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the short form base shelf prospectus, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated by reference in this prospectus supplement and the short form base shelf prospectus may be obtained on request without charge from the Corporate Secretary of Oncolytics Biotech Inc. at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7, telephone (403) 670-7377. In addition, copies of documents incorporated by reference may be obtained from the securities commissions or similar authorities in Canada through the SEDAR website at www.sedar.com. See Documents Incorporated by Reference .*

New Issue December 4, 2008

5,175,000 Common Shares

This prospectus supplement relates to the issuance of: (i) up to 2,500,000 of our common shares (the **Common Shares**), issuable from time to time, on exercise of up to 2,500,000 common share purchase warrants (expected to be issued by us on or about December 5, 2008 pursuant to the 2008 Unit Offering (as described below), (ii) up to 375,000 Common Shares issuable from time to time, on exercise of 375,000 common share purchase warrants that may be issued on the exercise of the over-allotment option granted to the underwriter pursuant to the 2008 Unit Offering; (iii) the issuance of 2,300,000 Common Shares, issuable from time to time, on exercise of 2,300,000 common share purchase warrants issued by us on February 22, 2007 in connection with our unit offering under a short form prospectus dated February 14, 2007 (the **2007 Unit Offering**); and (iv) such indeterminate number of additional Common Shares that may be issuable by reason of the anti-dilution provisions contained in the 2007 Warrant Indenture (as defined herein) and the 2008 Warrant Indenture (as defined herein). See Terms of 2008 Warrants and Terms of 2007 Warrants .

On December 1, 2008, we filed a prospectus supplement to a short form base shelf prospectus dated June 16, 2008 with the securities commissions in the provinces of British Columbia, Alberta, Manitoba and Ontario and a registration statement on Form F-10 (File No. 333-151513), principally filed on June 6, 2008, as amended June 17, 2008, with the United States Securities and Exchange Commission (the **SEC**) relating to the offering (the **2008 Unit Offering**) by us in the provinces of British Columbia, Alberta, Manitoba and Ontario of up to 2,875,000 units of the Corporation, each unit consisting of one Common Share and one common share purchase warrant (the **2008 Warrants**). Each 2008 Warrant will entitle the holder to purchase one Common Share upon payment of Cdn. $1.80, subject to adjustment, at any time until 4:30 p.m. (Calgary time) on the date that is 36 months from the date of the closing of the 2008 Unit Offering. If on any date (the **Accelerated Exercise Date**) the 10-day volume weighted average trading price of the Common Shares on the Toronto Stock Exchange (**TSX**) exceeds $2.50 per share, then, at our sole discretion, and upon us sending the holders of 2008 Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the 2008 Warrants shall only be exercisable for a period of 30 days following the later of the date on which such written notice is sent to holders of 2008 Warrants and the date on which such announcement is made by news release. The exercise price of the 2008 Warrants was determined by negotiation between us and the underwriter for the 2008 Unit Offering. See Plan of Distribution .

On February 14, 2007, we filed a short form prospectus with the securities commissions in the provinces of British Columbia, Alberta, Manitoba and Ontario and a registration statement on Form F-10 (File No. 333-140460)

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with the SEC relating to the offering (the **2007 Unit Offering**) by us of 4,600,000 units of the Corporation, each unit consisting of one Common Share and one-half of a common share purchase warrant (the **2007 Warrants** , together with the 2008 Warrants, the **Warrants**). The 2007 Unit Offering was completed on February 22, 2007. Each whole 2007 Warrant entitles the holder to purchase one Common Share upon payment of Cdn. $3.50, subject to adjustment, at any time until 5:00 p.m. (Calgary time) on February 22, 2010. The exercise price of the 2007 Warrants was determined by negotiation between us and the underwriter for the 2007 Unit Offering. See Plan of Distribution .

Our outstanding Common Shares are listed for trading on the TSX under the trading symbol ONC and on the NASDAQ Capital Market (the **NASDAQ**) under the trading symbol ONCY . The TSX has approved the listing of the Common Shares issuable on the exercise of the 2007 Warrants. The TSX has conditionally approved the listing of the Common Shares issuable on the exercise of the 2008 Warrants. Listing for the 2008 Warrants is subject to us fulfilling all of the requirements of the TSX on or before February 25, 2009. Pursuant to its procedure, the NASDAQ has verbally confirmed that it will not be objecting to the additional listing of the Common Shares issuable upon exercise of the 2007 Warrants. We have also filed an application with the NASDAQ for the additional listing of the Common Shares issuable upon exercise of the 2008 Warrants.

Investing in the Common Shares involves risks that are described in the Risk Factors section beginning on page S-14 of this prospectus supplement and page 4 of the accompanying short form base shelf prospectus.

This prospectus supplement registers the offering of the securities to which it relates under the United States Securities Act of 1933, as amended (the **U.S. Securities Act**), in accordance with the multi-jurisdictional disclosure system adopted by the SEC. This prospectus supplement does not qualify the distribution of Common Shares in any province or territory of Canada.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING SHORT FORM BASE SHELF PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We are permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare this prospectus supplement and the accompanying short form base shelf prospectus in accordance with Canadian disclosure requirements. You should be aware that such requirements are different from those of the United States. We have prepared our financial statements included or incorporated herein by reference in accordance with Canadian generally accepted accounting principles, and they are subject to Canadian auditing and auditor independence standards. Thus, they may not be comparable to the financial statements of United States companies. Information regarding the impact upon our financial statements of significant differences between Canadian and United States generally accepted accounting principles is contained in the notes to our audited financial statements and in our Current Report on Form 6-K dated November 28, 2008, both of which are incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus.

You should be aware that the purchase of Common Shares may have tax consequences both in the United States and Canada. This prospectus supplement and the accompanying short form base shelf prospectus may not describe these tax consequences fully. You should read the tax discussion in this prospectus supplement and the accompanying short form base shelf prospectus. See Canadian Federal Income Tax Considerations and United States Federal Income Tax Considerations in this prospectus supplement and the accompanying short form base shelf prospectus.

Your ability to enforce civil liabilities under United States federal securities laws may be affected adversely by the fact that we are incorporated under the laws of Canada, the majority of our officers and directors and some of the experts named in this prospectus supplement and the accompanying short form base shelf prospectus are residents of Canada, and a substantial portion of our assets and the assets of such persons are located outside the United States.

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Our head office and principal place of business is located at 210, 1167 Kensington Crescent N.W., Calgary, Alberta, T2N 1X7. Our registered office is located at 4500 Bankers Hall East, 855 2nd Street S.W., Calgary, Alberta, T2P 4K7.

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IMPORTANT NOTICE ABOUT THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the Common Shares being offered and also adds to and updates information contained in the accompanying short form base shelf prospectus. The second part, the accompanying short form base shelf prospectus, gives more general information, some of which may not apply to the Common Shares being offered under this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus. If the description of the Common Shares varies between this prospectus supplement and the accompanying short form base shelf prospectus, you should rely on the information in this prospectus supplement. We have not authorized anyone to provide you with different or additional information. We are not making an offer of the Common Shares in any jurisdiction where the offer is not permitted by law. If anyone provides you with any different or inconsistent information, you should not rely on it. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying short form base shelf prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

DEFINITIONS AND OTHER MATTERS

In this prospectus supplement and in the accompanying short form base shelf prospectus, unless otherwise indicated, references to we , us , our , Oncolytics or the Corporation are to Oncolytics Biotech Inc. and/or its subsi corporations, as applicable. All references to dollars , Cdn.$ or $ are to Canadian dollars and all references to U.S.$ to United States dollars.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles (**Canadian GAAP**), which differ from United States generally accepted accounting principles (**U.S. GAAP**). Therefore, our financial statements incorporated by reference in this prospectus supplement and in the accompanying short form base shelf prospectus and in the documents incorporated by reference in this prospectus

supplement and in the accompanying short form base shelf prospectus may not be comparable to financial statements prepared in accordance with U.S. GAAP. You should refer to Note 21 of our financial statements for the year ended December 31, 2007 for a discussion of the principal differences between our financial results determined under Canadian GAAP and under U.S. GAAP. For our financial statements as at and for the three and nine months ended September 30, 2008, you should refer to our reconciliation of our financial statements as at and for the three and nine months ended September 30, 2008 to U.S. GAAP furnished to the SEC on the Corporation s Current Report on Form 6-K dated November 28, 2008 and incorporated into this prospectus supplement by reference. See Documents Incorporated by Reference .

This prospectus supplement is deemed to be incorporated by reference into the accompanying short form base shelf prospectus solely for the purposes of the offering of the Common Shares. Other documents are also incorporated or deemed to be incorporated by reference into this prospectus supplement and into the accompanying short form base shelf prospectus. See Documents Incorporated by Reference in this prospectus supplement.

SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements that we make contain forward-looking statements reflecting our current beliefs, plans, estimates and expectations. Readers are cautioned that these forward-looking statements involve risks and uncertainties, including, without limitation, clinical trial study delays, product development delays, our ability to attract and retain business partners, future levels of government funding, competition from other biotechnology companies and our ability to obtain the capital required for research, product development, operations and marketing. These factors should be carefully considered and readers should not place undue reliance on our forward-looking statements. Actual events may differ materially from our current expectations due to risks and uncertainties.

Our statements of belief , estimates , expectations and other similar statements are based primarily upon our results derived to date from our research and development program with animals and early stage human results and upon which we believe we have a reasonable scientific basis to expect the particular results to occur. It is not possible to predict, based upon studies in animals or early stage human results, whether a new therapeutic will be proved to be safe and effective in humans. There can be no assurance that the particular result expected by us will occur. Except as required by applicable securities laws, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus supplement or to conform these statements to actual results or to changes in our expectations.

DOCUMENTS INCORPORATED BY REFERENCE

This prospectus supplement is deemed to be incorporated by reference into the accompanying short form base shelf prospectus solely for the purposes of the offering of the Common Shares.

Other information has also been incorporated by reference in the accompanying base shelf prospectus from documents filed with securities commissions or similar authorities in certain of the provinces of Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from our Corporate Secretary at 210, 1167 Kensington Crescent N.W., Calgary, Alberta, T2N 1X7 telephone (403) 670-7377, and are available electronically at www.sedar.com.

We have filed the following documents with the securities commissions or similar regulatory authorities in certain of the provinces of Canada and such documents are specifically incorporated by reference in and form an integral part of the accompanying base shelf prospectus and this prospectus supplement:

our Renewal Annual Information Form dated March 5, 2008, for the year ended December 31, 2007 (the **AIF**);

our Management Proxy Circular dated March 23, 2007 relating to the annual and special meeting of shareholders held on May 2, 2007;

our Management Proxy Circular dated March 20, 2008 relating to the annual and special meeting of shareholders held on May 7, 2008;

our audited financial statements, together with the notes thereto, as at and for the years ended December 31, 2007 and 2006 and the auditors report thereon addressed to our shareholders;

our management s discussion and analysis of financial condition and results of operations dated March 5, 2008, for the year ended December 31, 2007;

our unaudited interim consolidated financial statements, together with the notes thereto, as at and for the three and nine months ended September 30, 2008;

our management s discussion and analysis of financial condition and results of operations dated November 4, 2008, for the three and nine months ended September 30, 2008; and

the reconciliation of our unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008 to U.S. GAAP, filed on November 28, 2008 under the heading Other .

Any documents of the type required by Section 11.1 of Form 44-101F1 *Short Form Prospectus* promulgated under National Instrument 44-101 *Short Form Prospectus Distributions* of the Canadian Securities Administrators to be incorporated by reference in a short form prospectus, including, without limitation, any annual information form, comparative annual financial statements and the auditors report thereon, comparative interim financial statements, management s discussion and analysis of financial condition and results of operations, material change report (except a confidential material change report), business acquisition report and information circular, if filed by us with the securities commissions or similar authorities in the provinces of British Columbia, Alberta, Manitoba and Ontario after the date of this prospectus supplement and prior to the termination of the distribution of the Common Shares under this prospectus supplement shall be deemed to be incorporated by reference in the accompanying base shelf prospectus for the purposes of this Offering.

Any report filed by us with the SEC pursuant to section 13(a), 13(c), 14 or 15(d) of the United States Securities Exchange Act of 1934, as amended, after the date of this prospectus supplement shall be deemed to be incorporated by reference into the registration statement of which this prospectus supplement forms a part, if and to the extent expressly provided in such report.

Any statement contained in the accompanying base shelf prospectus, in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in the accompanying base shelf prospectus will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference into the accompanying base shelf prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus supplement or the accompanying base shelf prospectus.

Upon a new annual information form and related audited annual financial statements and management s discussion and analysis being filed by us with, and where required, accepted by, the securities commission or similar regulatory authority in the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this prospectus supplement, the previous annual information form, the previous audited annual financial statements and related management s discussion and analysis, all unaudited interim financial statements and related management s discussion

and analysis, material change reports and business acquisition reports filed prior to the commencement of

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our financial year in which the new annual information form and related audited annual financial statements and management s discussion and analysis are filed shall be deemed no longer to be incorporated into the accompanying base shelf prospectus for purposes of future offers and sales of Common Shares under this prospectus supplement. Upon new interim financial statements and related management s discussion and analysis being filed by us with the securities commission or similar regulatory authority in the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this prospectus supplement, all interim financial statements and related management s discussion and analysis filed prior to the new interim consolidated financial statements and related management s discussion and analysis shall be deemed no longer to be incorporated into the accompanying base shelf prospectus for purposes of future offers and sales of Common Shares under this prospectus supplement. Upon a new information circular relating to an annual meeting of holders of Common Shares being filed by us with the securities commission or similar regulatory authority in the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this prospectus supplement, the information circular for the preceding annual meeting of holders of Common Shares shall be deemed no longer to be incorporated into the accompanying base shelf prospectus for purposes of future offers and sales of Common Shares under this prospectus supplement.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the registration statement on Form F-10 (File No. 333-151513) of which this prospectus supplement forms a part: the documents referred to under Documents Incorporated by Reference , consent of Ernst & Young LLP, consent of Bennett Jones LLP, and powers of attorney from our directors and officers.

The Warrant Indenture for the 2007 Warrants has been filed with the SEC as Exhibit 7.1 to the registration statement on Form F-10 (File No. 333-140460) as filed with the SEC on February 15, 2007 as is hereby incorporated by reference into the registration statement on Form F-10 (File No. 333-151513) to which this prospectus supplement relates.

The Warrant Indenture for the 2008 Warrants has been or will be filed with the SEC as part of the registration statement on Form F-10 (File No. 333-151513).

ONCOLYTICS BIOTECH INC.

Oncolytics Biotech Inc. was incorporated pursuant to the provisions of the *Business Corporations Act* (Alberta) on April 2, 1998 as 779738 Alberta Ltd. On April 8, 1998, we amended our articles and changed our name to Oncolytics Biotech Inc. On July 29, 1999, we further amended our articles by removing the private company restrictions and subdividing our 2,222,222 Common Shares issued and outstanding into 6,750,000 Common Shares. On February 9, 2007, we further amended our articles to permit for our shareholder meetings to be held at any place in Alberta or at any other location as determined by our directors.

Our head office and principal place of business is located at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7. Our registered office is located at 4500 Bankers Hall East, 855 2nd Street S.W., Calgary, Alberta T2P 4K7.

We have one direct wholly-owned subsidiary, Oncolytics Biotech (Barbados) Inc. (**Oncolytics Barbados**), which is incorporated pursuant to the laws of Barbados and one indirect wholly-owned subsidiary, Oncolytics Biotech (U.S.), Inc., which is incorporated pursuant to the laws of Delaware.

OUR BUSINESS

We focus on the discovery and development of oncolytic viruses for the treatment of cancers that have not been successfully treated with conventional therapeutics. Recent scientific advances in oncology, virology, and molecular biology have created opportunities for new approaches to the treatment of cancer. The product we are presently developing may represent a novel treatment for Ras-mediated cancers which can be used as an alternative to existing cytotoxic or cytostatic therapies or as an adjuvant therapy to conventional chemotherapy, radiation

therapy, or surgical resections. It could also potentially be used to treat certain cellular proliferative disorders for which no current therapy exists.

Our technologies are based primarily on discoveries in the Department of Microbiology and Infectious Diseases at the University of Calgary in the 1990 s. Oncolytics was formed in 1998 to explore the natural oncolytic capability of the reovirus, a virus that preferentially replicates in cells with an activated Ras pathway.

The lead product being developed by us may represent a novel treatment for certain tumour types and some cellular proliferative disorders. Our lead product is a virus that is able to replicate specifically in, and hence kill, certain tumour cells both in tissue culture as well as in a number of animal models without damaging normal cells.

Our potential product for human use, REOLYSIN®, is developed from the reovirus. This virus has been demonstrated to replicate specifically in tumour cells bearing an activated Ras pathway. Activating mutations of Ras occur in approximately thirty per cent of all human tumours directly, but considering its central role in signal transduction, activation of the Ras pathway has been shown to play a role in approximately two-thirds of all tumours.

The functionality of REOLYSIN® is based upon the finding that tumours bearing an activated Ras pathway are deficient in their ability to activate the anti-viral response mediated by the host cellular protein, Protein Kinase R (**PKR**). Since PKR is responsible for preventing reovirus replication, tumour cells lacking the activity of PKR are susceptible to reovirus infections. As normal cells do not possess Ras activations, these cells are able to thwart reovirus infections by the activity of PKR. In a tumour cell with an activated Ras pathway, reovirus is able to freely replicate and hence kill the host tumour cell. The result of this replication is progeny viruses that are then free to infect surrounding cancer cells. This cycle of infection, replication and cell death is believed to be repeated until there are no longer any tumour cells carrying an activated Ras pathway available.

The following schematic illustrates the molecular basis of how the reovirus kills cancer cells.

For both non-cancer cells and cancer cells with an activated Ras pathway, virus binding, entry, and production of viral genes all proceed normally. In the case of normal cells however, the viral genes cause the activation of the anti-viral response that is mediated by the host cell s PKR, thus blocking the replication of the reovirus. In cells with an activated Ras pathway, the activation of PKR is prevented or reversed by an element of the Ras signal transduction pathway, thereby allowing the replication of the reovirus in these cancer cells. The end result of this replication is the death of the cancer cell. The action of the Ras pathway in allowing reovirus

replication to ensue can be mimicked in non-cancerous cells by treating these cells with the chemical 2-aminopurine (2-AP) which prevents the activation of PKR.

RECENT DEVELOPMENTS

On July 1, 2008, we completed an internal reorganization to provide additional international flexibility and promote broadened opportunities for the Corporation. Pursuant to the internal reorganization we transferred certain assets to our wholly-owned subsidiary, Oncolytics Barbados, in consideration for additional shares in the capital of Oncolytics Barbados. The transferred assets consisted of: (a) the rights to certain regulatory submissions; (b) certain non-Canadian patents and patent applications; and (c) certain agreements to which we were a party, including, clinical research management agreements, clinical trial agreements, research agreements and manufacturing agreements. We also granted Oncolytics Barbados permission to use certain other intellectual property rights not transferred by us to Oncolytics Barbados. Concurrently with the asset transfer, the Corporation and Oncolytics Barbados entered into a trust agreement pursuant to which we agreed to hold legal title to the transferred assets with beneficial title remaining with Oncolytics Barbados.

As part of the internal reorganization, the Corporation and Oncolytics Barbados also entered into a research and development agreement on July 1, 2008 pursuant to which we agreed to provide certain services to Oncolytics Barbados, including: conducting research and development related to the transferred assets; coordinating clinical trials and the handling of data generated by such trials; pursuing regulatory approvals as required; coordinating the filing, prosecution and maintenance of patent applications and patents; and coordinating the development and implementation of manufacturing processes.

On October 7, 2008, we announced the issuance of our 29th U.S. patent, No. 7,431,931, entitled Reovirus Clearance of Ras-Mediated Neoplastic Cells from Mixed Cellular Compositions. The allowed claims cover methods of selectively removing cancer cells ex vivo from blood stem cells and other organs using reovirus.

On November 6, 2008, we announced interim results of our U.S. REOLYSIN® Phase II clinical trial in patients with bone and soft tissue sarcomas metastatic to the lung. The results were delivered by Dr. Monica Mita of the Institute of Drug Development, the Cancer Therapy and Research Center at the University of Texas Health Science Center, San Antonio, Texas, at the Chemotherapy Foundation Symposium XXVI, held in New York from November 4-8, 2008.

At the time of the presentation, 35 patients had been enrolled in the study, and 29 were evaluable. 21% (6/29) of the evaluable patients experienced stable disease (SD) for more than 16 weeks. The investigators concluded that the study has met its established objectives, and that enrolment will continue to the full 52 patients.

Tumour Type	Cycles	Best Response
Synovial sarcoma	17*	SD
Ewing s sarcoma	9*	SD
Malignant Fibrous Histiocytoma	7*	SD, tumor resection after cycle 4

Tumour Type	Cycles	Best Response
Leiomyosarcoma	6	SD
Chordoma	5*	SD
Unspecified Spindle Cell	5*	SD

* patients still on study

An oral presentation covering results of the trial (REO 014) was also delivered at the Connective Tissue Oncology Society (CTOS) annual meeting, held in London, U.K. from November 13-15, 2008.

On November 14, 2008, Dr. Anders Kolb of the Nemours Center for Childhood Cancer Research delivered a poster entitled *Systemic Administration of REOLYSIN Inhibits Growth of Human Sarcoma Xenografts Alone and in Combination with Cisplatin and Radiation* at the CTOS meeting.

In the study, mice were engrafted with a variety of sarcoma cell lines including rhabdomyosarcoma, Ewing s sarcoma, synovial sarcoma and osteosarcoma, then treated with REOLYSIN® or REOLYSIN® in combination with either cisplatin or radiation. The researchers concluded that in all tumour lines evaluated, REOLYSIN® exhibits significant antitumour activity, including a complete response in a rhabdomyosarcoma line. The combination of REOLYSIN® and radiation is effective in inhibiting the growth of rhabdomyosarcoma and Ewing s sarcoma xenografts, and the combination of REOLYSIN® and cisplatin is effective in Ewing s sarcoma, osteosarcoma and synovial sarcoma xenografts.

On November 18, 2008, we announced the issuance of our 30th U.S. patent, No. 7,452,723, entitled Methods for Preventing Reovirus Recognition for the Treatment of Cellular Proliferative Disorders. The allowed claims relate to kits comprised of reovirus and an immune suppressive agent that are designed to prevent reovirus recognition by the immune system.

On December 1, 2008, we filed a prospectus supplement to the short form base shelf prospectus dated June 16, 2008 in respect of the 2008 Unit Offering.

CAPITALIZATION

On September 30, 2008 and December 4, 2008, we had 41,180,748 Common Shares issued and outstanding. If all of our stock options and warrants outstanding as of December 4, 2008 were exercised, we would have 49,271,241 Common Shares issued and outstanding. Following the 2008 Unit Offering, we will have up to 43,680,748 Common Shares issued and outstanding (up to 54,521,241 Common Shares on a fully-diluted basis). Following the 2008 Unit Offering, and assuming the over-allotment option granted to the underwriter pursuant to the 2008 Unit Offering is exercised in full, we will have 44,055,748 Common Shares issued and outstanding (55,308,741 Common Shares on a fully-diluted basis).

MARKET FOR SECURITIES

Our outstanding Common Shares are listed and posted for trading on the TSX under the trading symbol ONC and on NASDAQ under the trading symbol ONCY . The following table sets forth the market price ranges and the aggregate volume of trading of the Common Shares on the TSX and NASDAQ for the periods indicated:

	TSX				NASDAQ			
	High ($)	Low ($)	Close ($)	Volume (Shares)	High (U.S.$)	Low (U.S.$)	Close (U.S.$)	Volume (Shares)
Period								
2007								
December	2.38	1.67	1.70	355,628	2.38	1.67	1.72	795,031
2008								
January	2.04	1.66	1.95	538,887	2.04	1.69	1.93	622,530
February	2.26	1.82	1.90	564,976	2.27	1.85	1.94	588,210
March	2.01	1.70	1.83	376,635	2.02	1.70	1.84	618,300
April	2.50	1.78	1.96	1,159,535	2.46	1.76	1.94	1,138,020
May	2.18	1.60	2.15	6,682,910	2.21	1.62	2.15	897,410
June	2.40	1.85	1.98	786,060	2.39	1.84	1.95	934,260
July	2.10	1.80	1.91	508,040	2.00	1.79	1.85	467,500
August	2.01	1.82	1.87	333,770	1.90	1.75	1.77	297,960
September	1.94	1.40	1.57	484,830	1.80	1.32	1.50	634,990
October	1.92	1.23	1.64	1,147,860	1.54	1.00	1..39	2,045,040
November	1.90	1.35	1.44	694,411	1.64	1.12	1.17	1,106,707
December 1-3	1.41	1.34	1.41	108,151	1.38	1.07	1.10	68,337

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USE OF PROCEEDS

From time to time, when the Warrants are exercised, we will receive proceeds equal to the aggregate exercise price of such Warrants. Assuming that all of the Warrants are exercised prior to their respective expiry times and that no adjustment based on the anti-dilution provisions contained in the 2008 Warrant Indenture and the 2007 Warrant Indenture has taken place, the net proceeds to us will be approximately $13,742,500.

The net proceeds for the exercise of the Warrants will be used by us for our research and development program, our manufacturing activities in support of the program and general corporate purposes.

The principle purposes in the research and development area will be the advancement of our clinical trial program and the continued development of our manufacturing process. Our clinical trial program has been designed and directed to test the safety and activity of REOLYSIN® either as a mono-therapy or in combination with other approved chemotherapies.

The net proceeds of exercise of the Warrants will further these objectives and will assist us in completing our ongoing Phase II clinical trial program. Specifically, the net proceeds will further our mono and co-therapy trials in the U.S. and our co-therapy trials in the U.K. Manufacturing is a key element in the progress towards regulatory approval and the net proceeds will assist in funding the lyophilization and process development activities in this area. These two areas in the development process are expected to cost approximately $6 million in 2009.

We contract out the majority of our activities, conducting our clinical trial program at selected clinical trial sites coordinated and managed through Contract Research Organizations. The manufacturing program is contracted out to a major manufacturer and directed by us.

In order to reach commercial production we will need to receive regulatory approval allowing us to sell REOLYSIN®. To receive regulatory approval, we will be required to run a successful pivotal clinical trial program and validate our GMP manufacturing process. We expect to commence these activities in the later part of 2009. As we have yet to determine the size of our pivotal trial program, the jurisdictions where we plan to file our program, and who the principal investigators will be, the timing and the ultimate costs of such activities are currently indeterminable.

PRIOR SALES

On December 12, 2007, we granted options to acquire an aggregate of 431,493 Common Shares at an exercise price of $2.22 per Common Share. No other Common Shares or securities exchangeable or convertible into Common Shares have been issued during the twelve month period preceding the date of this prospectus supplement.

TERMS OF 2008 WARRANTS

The 2008 Warrants will be governed by an indenture (the **2008 Warrant Indenture**) to be entered into between us and Computershare Trust Company of Canada, as agent for the holders of the 2008 Warrants. The following is a summary of the material attributes and characteristics of the 2008 Warrants. The following description of the terms of the Warrant Indenture is subject to the detailed provisions of the Warrant Indenture.

Under the 2008 Unit Offering, up to 2,875,000 2008 Warrants may be issued. Each 2008 Warrant will entitle the holder to purchase one Common Share upon payment of $1.80, subject to adjustment, at any time until 4:30 p.m. (Calgary time) on the date that is 36 months following the closing of the 2008 Unit Offering. If on any Accelerated Exercise Date the 10 day volume weighted average trading price of our Common Shares on the TSX exceeds $2.50 per share, then, at our sole discretion and upon us sending the holders of the 2008 Warrants written notice of such Accelerated Exercise Date (the **Notice**) and issuing a news release announcing such Accelerated Exercise Date, the 2008 Warrants shall only be exercisable for a period of 30 days following the later of the date on which such Notice is sent to holders of 2008 Warrants and the date on which such announcement is made by news

release. The Notice will be deemed to be sent by us on the date the Notice is deposited in first class mail to the registered address of the holder of the 2008 Warrants as reflected on the 2008 Warrant register maintained under the Warrant Indenture.

No U.S. Person (as that term is defined by Regulation S under the U.S. Securities Act) or person holding 2008 Warrants for the benefit of or for the account of a U.S. Person is permitted to exercise 2008 Warrants during any period of time prior to the expiration date of the 2008 Warrants during which a registration statement under the U.S. Securities Act, relating to the Common Shares underlying the 2008 Warrants, is not effective. As a condition to closing the 2008 Unit Offering, we have agreed to use reasonable efforts to maintain the registration statement on Form F-10 (File No. 333-151513) relating to the short form base shelf prospectus accompanying the prospectus supplement, or another registration statement relating to the Common Shares underlying the Warrants, effective until the earlier of the expiration date of the 2008 Warrants and the date on which no 2008 Warrants remain outstanding. If a registration statement under the U.S. Securities Act is not effective during such period of time, we will notify the holders of the 2008 Warrants in the United States, in accordance with the 2008 Warrant Indenture.

Holders of 2008 Warrants will not have any voting rights or any other rights which a holder of Common Shares would have (including, without limitation, the right to receive notice of or to attend meetings of shareholders or any right to receive dividends or other distributions). Holders of 2008 Warrants will have no pre-emptive rights to acquire our securities. If all of the 2008 Warrants were exercised, we would be required to issue 2,875,000 Common Shares (subject to adjustment in certain circumstances)**,** assuming exercise in full of the over-allotment option granted to the underwriter in connection with the 2008 Unit Offering.

TERMS OF 2007 WARRANTS

The 2007 Warrants are governed by an indenture (the **2007 Warrant Indenture**) entered into by us and Computershare Trust Company of Canada on February 12, 2007, as trustee for the holders of the 2007 Warrants. The following is a summary of the material attributes and characteristics of the 2007 Warrants. The following description of the terms of the 2007 Warrant Indenture is subject to the detailed provisions of the 2007 Warrant Indenture.

Under the 2007 Unit Offering, 2,300,000 2007 Warrants were issued. Each whole 2007 Warrant entitled the holder to purchase one Common Share upon payment of Cdn. $3.50, subject to adjustment, at any time until 5:00 p.m. (Calgary time) on February 22, 2010.

No U.S. Person (as that term is defined by Regulation S under the U.S. Securities Act) or person holding 2007 Warrants for the benefit of or for the account of a U.S. Person is permitted to exercise 2007 Warrants during any period of time prior to the expiration date of the 2007 Warrants during which a registration statement under the U.S. Securities Act, relating to the Common Shares underlying the 2007 Warrants, is not effective. As a condition to closing the 2007 Unit Offering, we agreed to use reasonable efforts to maintain the registration statement on Form F-10 (File No. 333-140529) relating to the short form base shelf prospectus accompanying the prospectus supplement, or another registration statement relating to the Common Shares underlying the Warrants, effective until the earlier of the expiration date of the 2007 Warrants and the date on which no 2007 Warrants remain outstanding. If a registration statement under the U.S. Securities Act is not effective during such period of time, we will notify the holders of the 2007 Warrants in the United States, in accordance with the 2007 Warrant Indenture.

Holders of 2007 Warrants do not have any voting rights or any other rights which a holder of Common Shares has (including, without limitation, the right to receive notice of or to attend meetings of shareholders or any right to receive dividends or other distributions). Holders of 2007 Warrants do not have any pre-emptive rights to acquire our securities. If all of the 2007 Warrants were exercised, we would be required to issue 2,300,000 Common Shares (subject to adjustment in certain circumstances).

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PLAN OF DISTRIBUTION

This prospectus supplement relates to the issuance of: (i) up to 2,500,000 Common Shares, issuable from time to time, on exercise of 2,500,000 common share purchase warrants (expected to be issued by us on or about December **[5]**, 2008 pursuant to the 2008 Unit Offering (as described below), (ii) up to 375,000 Common Shares issuable from time to time, on exercise of 375,000 common share purchase warrants that may be issued on the exercise of the over-allotment option granted to the underwriter pursuant to the 2008 Unit Offering; (iii) the issuance of 2,300,000 Common Share, issuable from time to time, on exercise of 2,300,000 common share purchase warrants issued by us pursuant to the 2007 Unit Offering and (iv) such indeterminate number of additional Common Shares that may be issuable by reason of the anti-dilution provisions contained in the 2007 Warrant Indenture and 2008 Warrant Indenture governing the 2007 Warrants and 2008 Warrants, respectively. See Terms of 2008 Warrants and Terms of 2007 Warrants .

This prospectus supplement registers the offering of the securities to which it relates under the U.S. Securities Act, in accordance with the multi-jurisdictional disclosure system adopted by the SEC and the securities commission or similar regulatory authority in each of the provinces of Canada. This prospectus supplement does not qualify the distribution of the Common Shares in any province or territory of Canada.

Holders of Warrants resident in the United States who acquire Common Shares pursuant to the exercise of Warrants in accordance with their respective terms and under the accompanying short form base shelf prospectus and this prospectus supplement may have a right of action against us for any misrepresentation in the accompanying base shelf prospectus and this prospectus supplement. However, the existence and enforceability of such a right of action is not without doubt. By contrast, holders of Warrants resident in Canada who may acquire Common Shares pursuant to the exercise of Warrants in accordance with their respective terms and who will be deemed to acquire such Common Shares under applicable Canadian prospectus exemptions, will not have any such right of action with respect to such acquisition of Common Shares.

The Common Shares to which this prospectus supplement relates will be sold directly by us to holders of Warrants on the exercise of such Warrants. No underwriters, dealers or agents will be involved in these sales.

2008 Warrants

On June 16, 2008, we filed a short form base shelf prospectus with the Alberta Securities Commission and on June 6, 2008, as amended June 17, 2008, a registration statement on Form F-10 (File No. 333-151513) with the SEC relating to the offering by the Corporation from time to time during the 25 months that the short form base shelf prospectus, including amendments thereto, remained valid of up to Cdn. $150,000,000 of Common Shares, subscription receipts, warrants, debt securities and units. The shelf registration statement was declared effective by the SEC on February 15, 2007.

On December 1, 2008, we filed a prospectus supplement to the short form base shelf prospectus dated June 16, 2008 with the securities commissions in the provinces of British Columbia, Alberta, Manitoba and Ontario and a registration statement on Form F-10 (File No. 333-151513) with the SEC relating to the offering by us in British Columbia, Alberta, Manitoba and Ontario of (i) up to 2,875,000 units of the Corporation, each unit consisting of one Common Share and one common share purchase warrant and (ii) up to 287,500 broker warrants. Each 2008 Warrant will entitle the holder to purchase one Common Share upon payment of Cdn. $1.80, subject to adjustment, at any time until 4:30 p.m. (Calgary time) on the date that is 36 months from the date of the closing of the 2008 Unit Offering. If on the Accelerated Exercise Date the 10 -day volume weighted average trading price of the Common Shares on the TSX exceeds $2.50 per share, then, at our sole discretion, and upon us sending the holders of 2008 Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the 2008 Warrants shall only be exercisable for a period of 30 days following the later of the date on which such written notice is sent to holders of 2008 Warrants and the date on which such announcement is made by news release. The exercise price of the 2008 Warrants was determined by negotiation between us and the underwriter for the 2008 Unit Offering. Each broker warrant is exercisable, in whole or in part, within 3 years of the initial closing date of the 2008 Unit Offering (subject to acceleration), into one Common Share at an exercise price of $1.80. The 2008 Unit Offering is expected to be completed on or about December 5, 2008.

It is a condition of closing of the 2008 Unit Offering that the shelf registration statement be declared effective by the SEC and that we file with the SEC this prospectus supplement registering the offering of the Common Shares issuable from time to time on the exercise of the 2008 Warrants.

2007 Warrants

On February 14, 2007, we filed a short form prospectus with the securities commissions in the provinces of British Columbia, Alberta, Manitoba and Ontario and a registration statement on Form F-10 (File No. 333-140460) with the SEC relating to the offering by us of 4,600,000 units, each unit consisting of one Common Share and one-half of a common share purchase warrant. Each whole common share purchase warrant will entitle the holder to purchase one Common Share upon payment of Cdn. $3.50, subject to adjustment, at any time until 5:00 p.m. (Calgary time) on February 22, 2010. The 2007 Unit Offering was completed on February 22, 2007.

On February 15, 2007, we filed a short form base shelf prospectus with the Alberta Securities Commission and a registration statement on Form F-10 (File No. 333-140529) with the SEC relating to the offering by the Corporation from time to time during the 25 months that the short form base shelf prospectus, including amendments thereto, remained valid of up to Cdn. $12,000,000 of common shares. The shelf registration statement was declared effective by the SEC on February 15, 2007. It is a condition of closing of the 2007 Unit Offering that the shelf registration statement be declared effective by the SEC and that we file with the SEC a prospectus supplement registering the offering of the Common Shares issuable from time to time on the exercise of the 2007 Warrants. We filed a prospectus supplement with the Alberta Securities Commission and a registration statement on Form F-10 (File No. 333-140529) with the SEC relating to the issuance of up to 2,300,000 Common Shares issuable from time to time on the exercise of the 2007 Warrants (the **Previous Prospectus Supplement**). This prospectus supplement replaces and supersedes the Previous Prospectus Supplement and qualifies the issuance of up to 2,300,000 Common Shares issuable on the exercise of the 2007 Warrants.

United States Securities Law Compliance

No U.S. Person or person holding Warrants on behalf or for the account of a U.S. Person may exercise the Warrants during any period of time when a registration statement covering such Common Shares is not effective. See Terms of 2008 Warrants and Terms of 2007 Warrants .

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Bennett Jones LLP (**Counsel**), the following is a general summary of the principal Canadian federal income tax considerations generally applicable to a purchase of Common Shares acquired on the exercise of Warrants. This summary is based upon the current provisions of the *Income Tax Act* (Canada) (the **Tax Act**), the regulations thereunder (the **Regulations**), all specific proposals to amend the Tax Act and the Regulations publicly announced by the Government of Canada prior to the date hereof (the **Proposed Amendments**) and Counsel s understanding of the prevailing administrative views of the Canada Revenue Agency (the **CRA**). This summary is not exhaustive of all possible Canadian federal income tax considerations and except for the Proposed Amendments does not otherwise take into account any changes in law, whether by legislative, governmental or judicial action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations. There can be no assurance that the Proposed Amendments will be enacted in their current form or at all.

This summary is applicable only to investors who acquire such Common Shares on the exercise of the Warrants and who for the purposes of the Tax Act and at all relevant times, will hold the Common Shares and Warrants acquired as capital property, deal at arm s length, and are not affiliated with us and do not use or hold, and are not deemed to use or hold, their Common Shares and Warrants in, or in the course of, carrying on a business in Canada. Common Shares and Warrants will generally constitute capital property to an investor provided that the investor does not hold such securities in the course of carrying on a business and has not acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. This summary does not apply to investors who are financial institutions or specified financial institutions for the purposes of the Tax Act. Such investors should consult their own tax advisors for advice.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Accordingly, all prospective investors are urged to consult their own tax advisors with respect to their particular circumstances.

Residents of Canada

This portion of the summary is applicable to an investor who, for the purposes of the Tax Act and at all relevant times, is resident or is deemed to be resident in Canada. Certain investors who are resident in Canada for the purposes of the Tax Act whose Common Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such Common Shares and every Canadian Security (as defined in the Tax Act) owned by such investor in the taxation year of the election and in all subsequent taxation years treated as capital property. This election is not applicable to Warrants.

Exercise of Warrants

An investor will not realize a gain or a loss upon the exercise of a Warrant. For the purposes of the Tax Act, when a Warrant is exercised, the investor s adjusted cost base of the Common Share acquired thereby will (subject to averaging) be the aggregate of the investor s adjusted cost base of the Warrant and the exercise price paid on the exercise of the Warrant.

Disposition of Common Shares

In general, a disposition, or a deemed disposition, of a Common Share, other than to us, will give rise to a capital gain (or a capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition of the Common Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Common Share, to the holder thereof. The tax treatment of capital gains and capital losses are described in greater detail below under Treatment of Capital Gains and Capital Losses .

Treatment of Capital Gains and Capital Losses

In the year of disposition an investor will be required to include one-half of the amount of any capital gain (a **taxable capital gain**) in income, and will be required to deduct one-half of the amount of any capital loss (an allowable capital loss) against taxable capital gains realized by the investor. Allowable capital losses not deducted in the taxation year in which they are realized may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act. A capital gain realized by an investor who is an individual (including certain trusts) may give rise to alternative minimum tax. A Canadian-controlled private corporation (as defined in the Tax Act) may be liable to an additional 6 2/3% refundable tax under the Tax Act on certain investment income, including taxable capital gains.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by an investor that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where an investor that is a corporation is a member of a partnership or is beneficiary of a trust that owns Common Shares and where Common Shares are owned by a partnership or trust of which a partnership or trust is a partner or beneficiary. Investors to whom these rules may be relevant should consult their own tax advisors.

Dividends

Dividends (including deemed dividends) received on Common Shares will be included in computing the investor s income. In the case of an individual investor (other than certain trusts), such dividends will generally be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from taxable Canadian corporations. Provided that appropriate designations are made by us at the time the dividend is paid, such dividend will be treated as an eligible dividend for purposes of the Tax Act and an investor will be entitled to an enhanced gross up and dividend tax credit in respect of such dividend. There may be limitations on our ability to

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designate dividends as eligible dividends. In the case of a corporation, such dividends will generally be deductible in computing the corporation s taxable income. An investor that is a private corporation , as defined in the Tax Act, or any other corporation resident in Canada and controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay a refundable tax at the rate of $33^1/_3$% under Part IV of the Tax Act on dividends received (or deemed to be received) on Common Shares to the extent such dividends are deductible in computing its taxable income.

Alternative Minimum Tax

In general terms, a holder who is an individual (other than certain trusts) that receives or is deemed to receive taxable dividends on the Common Shares or realizes a capital gain on the disposition of the Common Shares or Warrants may realize an increase in the holder s liability for alternative minimum tax.

Non-Residents of Canada

This portion of the summary is applicable to an investor who, for the purposes of the Tax Act and at all relevant times, is not, and has never been, resident in Canada and is not, and has never been, deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, Common Shares in, or in the course of, carrying on business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere (a **Non-Resident Holder**).

Exercise of Warrants and Disposition of Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act on the exercise of Warrants.

A Non-Resident Holder will be subject to tax under the Tax Act in respect of a disposition of Common Shares only to the extent such Common Shares constitute taxable Canadian property for purposes of the Tax Act and the Non-Resident Holder is not afforded relief from such tax under an applicable income tax treaty.

The Common Shares will normally not be taxable Canadian property at a particular time provided that: (i) the Common Shares are listed on a designated stock exchange at the particular time (which includes the TSX and NASDAQ); (ii) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm s length (within the meaning of the Tax Act), or the Non-Resident Holder together with such persons, did not own 25% or more of the issued shares of any class or series of Oncolytics at any time during the 60-month period preceding the particular time; and (iii) such Common Shares are not otherwise deemed under the Tax Act to be taxable Canadian property at the particular time.

A Non-Resident Holder who is subject to tax under the Tax Act on a disposition of Common Shares will generally be required to compute such gains in the same manner described above under Residents of Canada Disposition of Common Shares .

Dividends

Dividends paid or credited, or which are deemed to be paid or credited, on the Common Shares will be subject to a Canadian non-resident withholding tax of 25%, subject to reduction of such rate under an applicable income tax treaty. For example, Non-Resident Holders who are residents of the United States for the purposes of the *Canada-United States Tax Convention* will generally have such rate of withholding reduced to 15% (or 5% if such Non-Resident Holder is a company which owns at least 10% of the voting stock of Oncolytics).

Non-Resident Holders should consult their tax advisors with respect to the tax implications of acquiring Common Shares on the exercise of Warrants in their jurisdiction of residence and the application of any bilateral income tax treaty between Canada and their jurisdiction of residence.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain material anticipated U.S. federal income tax consequences to a U.S. Holder (as defined below) arising from and relating to the acquisition of Common Shares received on the exercise of Warrants under this prospectus supplement.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. Holder as a result of the acquisition of Common Shares received on the exercise of Warrants. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal income, U.S. state and local, and foreign tax consequences of the acquisition of Common Shares received on the exercise of Warrants.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the **IRS**) has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition of Common Shares received on the exercise of Warrants. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

Scope of this Summary

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the **Code**), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the **Canada-U.S. Tax Convention**), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this prospectus supplement. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis.

U.S. Holders

For purposes of this summary, a U.S. Holder is a beneficial owner of Warrants that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or resident of the U.S., (b) a corporation, or any other entity classified as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the U.S., any state in the U.S., or the District of Columbia, (c) an estate if the income of such estate is subject to U.S. federal income tax regardless of the source of such income, or (d) a trust if (i) such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or (ii) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

Non-U.S. Holders

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For purposes of this summary, a non-U.S. Holder is a beneficial owner of Warrants other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences to non-U.S. Holders of the acquisition of Common Shares received on the exercise of Warrants. Accordingly, a non-U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal income, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any income tax treaties) of the acquisition of Common Shares received on the exercise of Warrants.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax consequences applicable to U.S. Holders that are subject to special provisions under the Code, including the following U.S. Holders: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are dealers in securities or currencies or U.S. Holders that are traders in securities that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a functional currency other than the U.S. dollar; (e) U.S. Holders that are liable for the alternative minimum tax under the Code; (f) U.S. Holders that own units, warrants, or common shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (g) U.S. Holders that received units, warrants, or common shares in connection with the exercise of employee stock options or otherwise as compensation for services; (h) U.S. Holders that hold units, warrants, or common shares other than as a capital asset within the meaning of Section 1221 of the Code; (i) U.S. expatriates or former longer-term residents of the U.S. or (j) U.S. Holders that own (directly, indirectly, or constructively) 10% or more of the total combined voting power of the outstanding shares of the Corporation. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own financial advisor, legal counsel or accountant regarding the U.S. federal income tax consequences of the acquisition of Common Shares received on the exercise of Warrants.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Warrants, the U.S. federal income tax consequences to such partnership and the partners of such partnership generally will depend on the activities of the partnership and the status of such partners. Partners of entities that are classified as partnerships for U.S. federal income tax purposes should consult their own financial advisor, legal counsel or accountant regarding the U.S. federal income tax consequences of the acquisition of Common Shares received on the exercise of Warrants.

Tax Consequences Other than U.S. Federal Income Tax Consequences Not Addressed

This summary does not address the U.S. state and local, U.S. federal estate and gift, or foreign tax consequences to U.S. Holders of the acquisition of Common Shares received on the exercise of Warrants. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. state and local, U.S. federal estate and gift, and foreign tax consequences of the acquisition of Common Shares received on the exercise of Warrants.

U.S. Federal Income Tax Consequences of the Exercise of Warrants

A U.S. Holder should not recognize gain or loss on the exercise of a warrant and related receipt of a common share (except if cash is received in lieu of the issuance of a fractional common share). A U.S. Holder s initial tax basis in the common share received on the exercise of a warrant should be equal to the sum of (a) such U.S. Holder s tax basis in such warrant plus (b) the exercise price paid by such U.S. Holder on the exercise of such warrant. A U.S. Holder s holding period for the common share received on the exercise of a warrant should begin on the date that such warrant is exercised by such U.S. Holder.

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Distributions on Common Shares

General Taxation of Distributions

Subject to the passive foreign investment company rules discussed below, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to the Common Shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated earnings and profits of the Corporation. To the extent that a distribution exceeds the current and accumulated earnings and profits of the Corporation, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder s tax basis in the Common Shares and, (b) thereafter, as gain from the sale or exchange of such Common Shares. (See more detailed discussion at Disposition of Common Shares below). Dividends paid on the Common Shares generally will not be eligible for the dividends received deduction.

Reduced Tax Rates for Certain Dividends

For taxable years beginning before January 1, 2011, a dividend paid by the Corporation generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) the Corporation is a qualified foreign corporation (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on Common Shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date.

The Corporation generally will be a qualified foreign corporation under Section 1(h)(11) of the Code (a **QFC**) if (a) the Corporation is eligible for the benefits of the Canada-U.S. Tax Convention, or (b) the Common Shares are readily tradable on an established securities market in the U.S. However, even if the Corporation satisfies one or more of such requirements, the Corporation will not be treated as a QFC if the Corporation is a passive foreign investment company (as defined below) for the taxable year during which the Corporation pays a dividend or for the preceding taxable year.

As discussed below, based on current business plans and available financial information, the Corporation anticipates that it may qualify as a passive foreign investment company for the taxable year ending December 31, 2008 and subsequent taxable years, depending on the assets and income of the Corporation over the course of the taxable year ending December 31, 2008. (See more detailed discussion at Additional Rules that May Apply to U.S. Holders Passive Foreign Investment Corporation below). Accordingly, there can be no assurances that the Corporation will be a QFC for the current or any future taxable year or that the Corporation will be able to certify that it is a QFC in accordance with the certification procedures issued by the Treasury and the IRS.

If the Corporation is not a QFC, a dividend paid by the Corporation to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). The dividend rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the dividend rules.

Distributions Paid in Foreign Currency

The amount of a distribution paid to a U.S. Holder in foreign currency generally will be equal to the U.S. dollar value of such distribution based on the exchange rate applicable on the date of receipt. A U.S. Holder that does not convert foreign currency received as a distribution into U.S. dollars on the date of receipt generally will have a tax basis in such foreign currency equal to the U.S. dollar value of such foreign currency on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of such foreign currency (including an exchange for U.S. dollars).

Disposition of Common Shares

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property

received and (b) such U.S. Holder s tax basis in the Common Shares sold or otherwise disposed of. Subject to the passive foreign investment company rules discussed below, any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the Common Shares are held for more than one year. Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of Common Shares generally will be treated as U.S. source for purposes of applying the U.S. foreign tax credit rules unless the gain is subject to tax in Canada and is resourced as foreign source under the Canada-U.S. Tax Convention and such U.S. Holder elects to treat such gain or loss as foreign source. (See more detailed discussion at Foreign Tax Credit below).

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

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 $143,412 for the three months ended June 30, 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 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.

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 $4,681 at June 30, 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.

Concentration of Credit Risk

During the three months ended June 30, 2016, the Company had fifteen different customers and three customers that each accounted for more than 10% of our total revenues. At June 30, 2016, the Company had a receivable from Renaissance Created Diamond Company, LLC, a Florida limited liability company ("RCDC") of $174,413. 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 ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," 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 2014-9, 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 ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", 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 March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation". This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash

Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. 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 February 2016, the FASB issued ASU No. 2016-02, "Leases". 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 July 2015, the FASB issued ASU 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.

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 INTERUPTION

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 has received payments from our insurance carrier for coverage of this business interruption and property losses during the fiscal year ended March 31, 2016. The Company continues to work with our insurance carrier for reimbursement to offset the financial impact of 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 June 30, 2016 and March 31, 2016:

	Life	June 30, 2016	March 31, 2016
Patents, gross	6.75 – 19.46	$9,967,433	$9,967,433
Accumulated amortization		(2,983,359)	(2,741,987)
Net intangible assets		$6,984,074	$7,225,446

Total amortization expense for the quarter ending June 30, 2016 and 2015 was $241,372 and $193,710, respectively.

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

Fiscal Year Ending	
Nine months ending March 31, 2017	$724,118
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	$6,984,074

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 months ended June 30, 2016, the Company paid $0 in principal on the HGI Loan and recognized $37,056 in interest expense. The Company recognized $44,849 in interest expense during the three months ended June 30, 2015. The outstanding balance on the HGI Loan was $2,000,000 at June 30, 2016, and is considered a non-current note payable.

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 June 30, 2016, which is considered a current liability. The remaining $201,001 on the Expansion Note is considered a non-current note payable at June 30, 2016. During the three months ended June 30, 2016, the Company paid $0 in principal on the Expansion Note and recognized $15,036 in interest expense.

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 June 30, 2016, which is considered a current liability. During the three months ended June 30, 2016, the Company paid $0 in capital lease obligation and incurred $10,024 in interest expense.

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 three months ended June 30, 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 65,098,291 shares of common stock issued and outstanding as of June 30, 2016. This total includes 1,885,000 shares of non-vested restricted stock.

The following sets forth the warrants to purchase shares of the Company’s stock issued and outstanding as of June 30, 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	4.98
Exercised	—		—	—
Expired	—		—	—
Warrants Outstanding June 30, 2016	1,039,825	$	0.67	1.43

During our fiscal year ending March 31, 2017, 275,000 warrants with an exercise price of $0.15 will expire if not exercised.

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 June 30, 2016:

Restricted Stock	Shares
Restricted stock outstanding March 31, 2016	1,885,000
Granted	—
Vested	—
Expired/cancelled	—
Restricted stock outstanding June 30, 2016	1,885,000

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The following sets forth the employee options to purchase shares of the Company's stock issued and outstanding as of June 30, 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	—	—	—
Employee options outstanding June 30, 2016	694,375	$ 0.87	6.88
Exercisable at June 30, 2016	190,333	$ 0.99	8.31

A summary of the status of non-vested employee options as of June 30, 2016 and changes during the three months ended June 30, 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	—	—
Non-vested at June 30, 2016	504,042	$ 0.75

The following table summarizes information about employee stock options outstanding by price range as of June 30, 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	535,000	8.86	$ 1.03	178,333	$ 1.03
$ 0.33	159,375	0.24	0.33	12,000	0.33
	694,375	6.88	$ 0.87	190,333	$ 0.99

At June 30, 2016, unrecognized compensation cost related to non-vested employee awards was $385,744. Of this unrecognized compensation cost, $30,949 is only expected to be recognized if certain performance criteria are attained over a weighted average period of 0.24 years.

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 three months ended June 30, 2016 and the Company did not recognize any expense related to these options.

NOTE 8 — RELATED PARTIES

During the three months ended June 30, 2016 and 2015, the Company sold product to RCDC valued at $0 and $156,800, respectively. The Company defers 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. For the three months ended June 30, 2016 and 2015, the Company recognized revenue for product sold to RCDC of $0 and $123,250, respectively. As of June 30, 2016, the Company has deferred $174,280 of revenue and $142,471 of expenses related to our sales to RCDC. In addition, at June 30, 2016, the Company had a receivable from RCDC of $174,413. Additional detail on the RCDC joint venture is provided in Note 10.

Renaissance holds 550,000 non-vested restricted shares that only vest based on the attainment of specific performance criteria. The Company has not recognized any expense for these restricted shares and will only recognize expense if vesting of the restricted stock becomes likely.

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 June 30, 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 LLC Agreement provides that RCDC is a manager-managed limited liability company, and each of the Company and Renaissance will appoint one manager, with both such managers appointing a third manager. The managers will manage the day-to-day operations of RCDC, subject to certain customary limitations on managerial actions that require the consent of the Company and Renaissance, including but not limited to making or guaranteeing loans, distributing cash or other property to the members of RCDC, entering into affiliate transactions, amending or modifying limited liability company organizational documents, and entering into major corporate events, such as a merger, acquisition or asset sale. 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. Pursuant to the LLC Agreement, the arrangement will last three years, unless terminated earlier, with the option to automatically renew for additional two-year periods. The Company made an initial $1,000 investment in RCDC and was granted a 50% equity stake. RCDC has the right of first refusal to purchase diamond gemstones from the Company, including rough diamond preforms or processed stones. RCDC purchases rough diamond material produced by the Company. RCDC then processes and finishes the rough gemstones into retail-grade gemstones. RCDC then markets the finished stones 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 Company utilizes the equity method of accounting for its investment in RCDC. As such, the Company recognized $(20,369) and $16,339 as its proportional shares of RCDC’s net loss and income during the three months ended June 30, 2016 and 2015, respectively, as other income (loss).

Rollforward of the Company's ownership interest in the joint venture for the three months ended June 30, 2016:

-

Balance of ownership interest in joint venture at March 31,2016	$48,271
Aggregate fiscal 2017 equity loss – share of joint venture income	(20,369)
Balance of ownership interest in joint venture at June 30, 2016	$27,902
Cumulative recognized income on ownership interest in joint venture at June 30, 2016	$26,902

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<u>Selected financial results for RCDC for the three months ended June 30, 2016 are as follows:</u>

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Revenues	$7,111
Expenses	47,849
Net loss	$(40,738)
Total assets	$513,766
Total liabilities	$457,962
Total partner capital	55,804
Total liabilities and partner capital	$513,766

END NOTES TO FINANCIALS

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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 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 has had significant turnover in management and may not be able 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 may expend a substantial amount of time and resources in connection with the SEC subpoena received in 2014, potential inquiries or legal actions in connection with its filings with the SEC or otherwise, which 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.

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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 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.

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 June 30, 2016 substantially all of the Company's production capacity is being sold as gemstone materials. As of June 30, 2016, we had generated $3,828,104 in net revenue since inception from sales of our diamond materials and licensing of our technology.

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RESULTS OF OPERATIONS

Three Month Period Ended June 30, 2016 Compared to the Three Month Period Ended June 30, 2015

During the three months ended June 30, 2016, we recorded revenue of $185,061 compared to $172,175 during the three months ended June 30, 2015. This increase in revenue was due to increased prices for gemstones sold during the quarter.

Cost of goods sold was $547,149 for the three months ended June 30, 2016 versus $415,367 for the three months ended June 30, 2015. Cost of goods sold includes direct labor costs of $129,697 during the three months ended June 30, 2016 and $106,293 during the three months ended June 30, 2015. Depreciation expense of $155,957 and $140,668 was recorded in cost of goods sold during the three months ended June 30, 2016 and 2015, respectively. The overall increase in cost of goods sold is due to increased manufacturing costs as the Company's product sales shifted to white gemstone material.

Gross deficit was $(362,088) for the three months ended June 30, 2016 versus $(243,192) for the three months ended June 30, 2015.

Salary and benefit expenses recognized as general and administrative expenses were $312,589 and $202,302 for the three months ended June 30, 2016 and 2015, respectively. This increase of $110,287 is primarily the result of the Company recognizing $168,543 in non-cash stock based compensation during the three months ended June 30, 2016, versus $64,501 during the three months ended June 30, 2015.

Professional fees were $141,088 compared to $51,943 for the three months ended June 30, 2016 and 2015, respectively. The professional fees for the three months ended June 30, 2015 included reductions of $102,311 for payments made by our insurance carrier and other reversals of past professional fees. Adjusting for these reductions, professional fees would be $141,088 and $154,254 for the three months ended June 30, 2016 and 2015, respectively. This decrease is primarily due to reduced legal expenses.

The other components of our general and administrative expenses were relatively consistent between the three months ended June 30, 2016 and 2015. Rent and facilities expenses were $41,784 and $39,013, respectively; marketing costs were $3,071 and $28,183, respectively; corporate general and administrative expenses were $75,595 and $85,547, respectively and depreciation and amortization expenses were $245,460 and $198,405, respectively.

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 June 30, 2016 was $1,264,160, compared to a net loss of $877,095 during the three months ended June 30, 2015. Our net loss per share for the three month period ended June 30, 2016 was $(0.02) per share, compared to a net loss per share of $(0.02) for the three months ended June 30, 2015. The weighted average number of shares outstanding was 62,446,500 and 56,534,466, respectively, for the three month periods ended June 30, 2016 and 2015.

FINANCIAL CONDITION

At June 30, 2016, we had total assets of $9,645,511, compared to total assets of $10,239,502 at March 31, 2016. We had cash of $67,898 at June 30, 2016 compared to cash of $192,880 at March 31, 2016.

Total liabilities at June 30, 2016 were $3,869,671, compared to total liabilities of $3,595,821 at March 31, 2016. Total liabilities at June 30, 2016 were comprised primarily of accounts payable, accrued expenses, customer deposits deferred revenue, notes payables and capital lease obligations. The increase in total liabilities is primarily due to our increased accounts payable and accrued expenses.

The Company had negative working capital (defined as current assets less current liabilities) of $(910,548) at June 30, 2016 versus $(462,543) at March 31, 2016. This decrease in working capital resulted from the Company's increase in accounts payable and accrued expenses and the decrease in cash during the three months ended June 30, 2016.

Total shareholders' equity was $5,775,840 at June 30, 2016, compared to $6,643,681 at March 31, 2016. Shareholders' equity decreased $867,841 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 three months ended June 30, 2016, net cash flows used in operating activities were $(352,758) compared to $(576,246) for three months ended June 30, 2015. The net cash flow used in operating activities for the three months ended June 30, 2016 consists primarily of a net loss of $(1,264,160) offset by depreciation and amortization of $401,417, employee stock based compensation of $168,543, loss from joint venture of $20,369, increases in accounts receivable and deferred revenue of $(3,203), increases in accounts payable of $139,167, increase in accrued expenses of $175,995, decrease in customer deposits of $(41,312), and net decreases in other current assets of $50,426.

Investing Activities

For the three month periods ended June 30, 2016 and 2015, net cash flows used in investing activities were $(0), and $(19,916), respectively. These amounts consist of the purchase of property, plant and equipment. The cash used during the three months ended June 30, 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 three month periods ended June 30, 2016 and June 30, 2015, we generated $227,776 and $5,738, 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 June 30, 2016 our cash balance was reduced to $67,898. This reduction was due to our operating cash needs. Our cash at June 30, 2016 is not expected to be adequate to fund our operations over the current fiscal year ending March 31, 2017. As of June 30, 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 June 30, 2016 through the proceeds of sales of our common stock 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.

On December 18, 2014 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.

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 $4,681 at June 30, 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.

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.

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 June 30, 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 June 30, 2016.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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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 June 30, 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

During the three months ended June 30, 2016, the Company sold 1,179,000 shares of common stock at a price of $0.22 per share to accredited investors. The Company raised $227,776 net of cash commissions and fees of $31,604. The Company used the funds raised to fund ongoing operations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following exhibits are filed as part of this Report:

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 June 30, 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: August 15, 2016 */s/ Gerald McGuire*
By: Gerald McGuire
Its: Chief Executive Officer

Dated: August 15, 2016 */s/ Jonathan Pfohl*
By: Jonathan Pfohl
Its: Chief Financial Officer

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