BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10-Q
February 07, 2019
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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

For the transition period from _______ to _________

Commission File No. 000-19333

Bion Environmental Technologies, Inc.
(Name of registrant in its charter)

| | |
|---|---|
| Colorado | 84-1176672 |
| (State or other jurisdiction of incorporation or formation) | (I.R.S. employer identification number) |

Box 566 / 1774 Summitview Way
Crestone, Colorado 81131
(Address of principal executive offices)

(212) 758-6622
(Registrant's telephone number, including area code)

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

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

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |

| | |
|---|---|
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS: Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On February 1, 2019, there were 27,524,289 Common Shares issued and 26,819,980 Common Shares outstanding.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "project," "predict," "plan," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. The expectations reflected in forward-looking statements may prove to be incorrect.

PART I – FINANCIAL INFORMATION
BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31, 2018 (unaudited) | June 30, 2018 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $42,321 | $22,013 |
| Prepaid expenses | 1,608 | 7,474 |
| Deposits and other receivables | 1,000 | 1,000 |
| Total current assets | 44,929 | 30,487 |
| Property and equipment, net (Note 3) | 1,711 | 1,448 |
| Total assets | $46,640 | $31,935 |
| LIABILITIES AND EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $643,707 | $719,633 |
| Series B Redeemable Convertible Preferred stock, $0.01 par value, 50,000 shares authorized; 200 shares issued and outstanding, liquidation preference of $35,000 and $34,000, respectively (Note 7) | 32,400 | 31,400 |
| Deferred compensation (Note 4) | 698,766 | 421,641 |
| Loan payable and accrued interest (Note 5) | 9,160,313 | 9,028,983 |
| Total current liabilities | 10,535,186 | 10,201,657 |
| Convertible notes payable - affiliates (Note 6) | 3,588,130 | 3,525,216 |
| Total liabilities | 14,123,316 | 13,726,873 |
| Deficit: | | |
| Bion's stockholders' equity (deficit): | | |
| Series A Preferred stock, $0.01 par value, 50,000 shares authorized, no shares issued and outstanding | - | - |
| Series C Convertible Preferred stock, $0.01 par value, 60,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock, no par value, 100,000,000 shares authorized, 27,121,371 and 25,939,892 shares issued, respectively; 26,417,062 and 25,235,583 shares outstanding, respectively | - | - |
| Additional paid-in capital | 109,507,489 | 108,117,330 |
| Subscription receivable - affiliates (Note 7) | (504,650) | (174,650) |
| Accumulated deficit | (123,130,161) | (121,691,956) |
| Total Bion’s stockholders’ deficit | (14,127,322) | (13,749,276) |

| | | |
|---|---|---|
| Noncontrolling interest | 50,646 | 54,338 |
| Total deficit | (14,076,676 ) | (13,694,938 ) |
| Total liabilities and deficit | $46,640 | $31,935 |

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(UNAUDITED)

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | $- | $- | $- | $- |
| Operating expenses: | | | | |
| General and administrative (including stock-based compensation (Note 7)) | 289,599 | 808,576 | 967,489 | 1,120,693 |
| Depreciation | 259 | 436 | 695 | 872 |
| Research and development (including stock-based compensation (Note 7)) | 114,192 | 338,755 | 283,913 | 445,501 |
| Total operating expenses | 404,050 | 1,147,767 | 1,252,097 | 1,567,066 |
| Loss from operations | (404,050) | (1,147,767) | (1,252,097) | (1,567,066) |
| Other expense (income): | | | | |
| Gain on extinguishment of liabilities | - | (718,580) | - | (718,580) |
| Interest expense | 97,304 | 93,662 | 189,800 | 192,101 |
| Total other expense (income) | 97,304 | (624,918) | 189,800 | (526,479) |
| Net loss | (501,354) | (522,849) | (1,441,897) | (1,040,587) |
| Net loss attributable to the noncontrolling interest | 523 | 507 | 3,692 | 1,014 |
| Net loss applicable to Bion's common stockholders | $(500,831) | $(522,342) | $(1,438,205) | $(1,039,573) |
| Net loss applicable to Bion's common stockholders per basic and diluted common share | $(0.02) | $(0.02) | $(0.06) | $(0.04) |
| Weighted-average number of common shares outstanding: | | | | |
| Basic and diluted | 26,382,778 | 24,233,123 | 26,021,254 | 24,150,108 |

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
SIX MONTHS ENDED DECEMBER 31, 2018
(UNAUDITED)

| | Bion's Shareholders' Series A Preferred Stock | | Series C Preferred Stock | | Common Stock | | Additional paid-in capital | Subscription Receivables for Shares | Accumulated deficit | Noncontrolling interest | Total equity/(deficit) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| Balances, July 1, 2018 | - | - | - | - | 25,939,892 | - | 108,117,330 | (174,650) | (121,691,956) | 54,338 | (13,694,938) |
| Issuance of common stock for services | - | - | - | - | 25,718 | - | 13,904 | - | - | - | 13,904 |
| Vesting of options for services | - | - | - | - | - | - | 118,000 | - | - | - | 118,000 |
| Modification of options | - | - | - | - | - | - | 222,300 | - | - | - | 222,300 |
| Sale of units | - | - | - | - | 954,733 | - | 477,365 | - | - | - | 477,365 |
| Commissions on sale of units | - | - | - | - | 1,028 | - | (44,436) | - | - | - | (44,436) |
| Modification of warrants | - | - | - | - | - | - | 166,776 | - | - | - | 166,776 |
| Issuance of warrants | - | - | - | - | - | - | 336,250 | (330,000) | - | - | 6,250 |
| Conversion of debt and liabilities | - | - | - | - | 200,000 | - | 100,000 | - | - | - | 100,000 |
| Net loss | - | - | - | - | - | - | - | - | (1,438,205) | (3,692) | (1,441,897) |
| Balances, December 31, 2018 | - | $- | - | $- | 27,121,371 | $- | $109,507,489 | $(504,650) | $(123,130,161) | $50,646 | $(14,076,676) |

See notes to consolidated financial statements

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(UNAUDITED)

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $(1,441,897) | $(1,040,587) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation expense | 695 | 872 |
| Accrued interest on loan payable, deferred compensation and other | 203,632 | 209,684 |
| Stock-based compensation | 527,230 | 819,698 |
| Gain on extinguishment of liabilities | - | (718,580) |
| Decrease in prepaid expenses | 5,866 | 5,691 |
| (Decrease) increase in accounts payable and accrued expenses | (62,989) | 68,102 |
| Increase in deferred compensation | 355,800 | 406,800 |
| Net cash used in operating activities | (411,663) | (248,320) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (958) | - |
| Net cash used in investing activities | (958) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from sale of units | 477,365 | 186,832 |
| Commissions on sale of units | (44,436) | (13,508) |
| Proceeds from loans payable - affiliates | - | 30,500 |
| Net cash provided by financing activities | 432,929 | 203,824 |
| Net increase (decrease) in cash | 20,308 | (44,496) |
| Cash at beginning of period | 22,013 | 72,932 |
| Cash at end of period | $42,321 | $28,436 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $- | $- |
| Non-cash investing and financing transactions: | | |
| Purchase of warrants for subscription receivable - affiliates | $330,000 | $134,650 |
| Conversion of debt and liabilities | $100,000 | $- |
| Shares issued for warrant exercise commissions | $514 | $- |
| Warrants issued for unit commissions | $4,850 | $- |
| Forgiveness of deferred compensation - related parties | $- | $1,685,252 |

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017

1. ORGANIZATION, NATURE OF BUSINESS, GOING CONCERN AND MANAGEMENT'S PLANS:
Organization and nature of business:
Bion Environmental Technologies, Inc. ("Bion" or "We" or the "Company") was incorporated in 1987 in the State of Colorado and has developed and continues to develop patented and proprietary technology and business models that provide comprehensive environmental solutions to a significant source of pollution in United States agriculture, large scale livestock facilities known as Concentrated Animal Feeding Operations ("CAFO's"). Application of our technology and technology platform can simultaneously remediate environmental problems and improve operational/resource efficiencies by recovering value from the CAFOs' waste stream that has traditionally been wasted or underutilized, including renewable energy, nutrients (nitrogen and phosphorus)--- in organic and conventional form-- and clean water. Bion's technologies (and applications related thereto) produce substantial reductions of nutrient releases (primarily nitrogen and phosphorus) to both water and air (including ammonia, which is subsequently re-deposited to the ground) from livestock waste streams based upon our operations and research to date (and third party peer review thereof). Our technology simultaneously enables the documentation of the remediation efforts thereby providing the basis for product branding which addresses consumer concerns regarding sustainability and food safety. We are continually involved in research and development to upgrade and improve our technology and technology applications, including integration with third party technology. Bion provides comprehensive and cost-effective treatment of livestock waste onsite (and/or at nearby locations), while it is still concentrated and before it contaminates air, soil, groundwater aquifers and/or downstream waters, and, in certain configurations, can be optimized to maximize recovery of marketable nutrients for potential use as fertilizer (organic and/or inorganic) and/or feed additives plus renewable energy (and related environmental credits).
From 2014 through the current 2019 fiscal year, the Company has focused its research and development on augmenting the basic 'separate and aggregate' approach of its technology platform to provide additional flexibility and to increase recovery of marketable nutrient by-products (in organic and non-organic forms) and renewable energy production (either/both biogas and/or renewable electricity), thereby increasing potential related revenue streams and reducing dependence of its future projects on the monetization of nutrient reductions (which still remain an important part of project revenue streams). Bion has worked on development of its third generation technology ("3G Tech") which is designed to: a) generate significantly greater value from the nutrients and renewable energy recovered from the waste stream, b) treat dry (poultry) waste streams as well as wet waste streams (dairy/beef cattle/swine) while c) maintaining or improving environmental performance. This research and development effort also involves ongoing review of potential "add-ons" and applications to our technology platform for use in different regulatory and/or climate environments. These research and development activities have targeted completion of development of the next generation of Bion's technology and technology platform. We believe such activities will continue at least through the 2019 calendar year (and likely longer), subject to availability of adequate financing for the Company's operations, of which there is no assurance. Such activities may include design and construction of an initial, commercial-scale module utilizing our 3G Tech to assist in optimization efforts before construction of the full Kreider 2 project (see below) and other Projects.
For the past decade, Bion has been directed toward creating applications of our patented and proprietary waste management technologies and technology platform to pursue JVs in three main business opportunities:

1) Installation of Bion systems to retrofit and environmentally remediate existing large CAFOs ("Retrofits" and "Retrofit Projects") in selected markets where:
a) government policy supports such efforts (such as the Chesapeake Bay watershed, Great Lakes Basin states, and/or other states and watersheds facing EPA 'total maximum daily load' ("TMDL") issues), and/or

b) CAFO's need our technology to obtain permits to expand or develop without negative environmental consequences.

2) Development of new state-of-the-art large scale waste treatment facilities (now utilizing the Company's 3G Tech) which may be developed in conjunction with new CAFOs in strategic locations that were previously impracticable due to environmental impacts or to treat the waste streams from one or more existing large livestock facilities ("Projects"). Some of these Projects may be either a) Integrated Projects as described below, b) 'central processing facilities' which receive the waste from multiple livestock facilities, c) Retrofit Projects or d) hybrids with elements of each of these types. Each version will be able to realize revenue from multiple revenue streams potentially generated by our 3G Tech.

3) Licensing and/or joint venturing of Bion's technology and applications (primarily) outside North America.

In both categories 1) and 2) above, the Company intends to directly participate (whether by joint venture agreement or other contractual arrangements) in the revenues of the Retrofits and Projects.

The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion's efforts are focused on such political and regulatory matters. Bion currently intends to pursue the international opportunities primarily through the use of consultants with existing relationships in target countries.

At this time, our primary focus is on category 2) above using our 3G Tech to develop new (or expanded) large-scale Projects with strategic partners (including the Kreider 2 Project) on a joint venture (or other participating contractual form) basis. Bion's business model opens up the opportunity for JV's in various forms based upon the revenue generated by our 3G Tech platform from nutrient reductions, fertilizer co-products and renewable natural gas (which revenue streams will be secured through long term take-off agreements for each of these co-products) providing initial support for financing of required capital expenditures (whether equity or debt). We anticipate that these revenue streams will be supplemented by revenue realized from long-term premium pricing resulting from the sustainable branding opportunity. We believe that the branding opportunity may provide the single largest contribution to the economic opportunity over time.

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms ("KF"), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority ("Pennvest") approved a $7.75 million loan to Bion PA 1, LLC ("PA1"), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project ("Kreider 1 System"). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 System. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system 'operational shakedown' during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the Pennsylvania Department of Environmental Protection ("PADEP") re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider 1 System was 'placed in service'. As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 System to test improvements and add-ons. However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 System and Bion's other proposed projects.

These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 System to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 System. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than four years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018. Due to the failure of the Pennsylvania nutrient reduction credit market to develop, the Company determined (on three separate occasions) that the carrying amount of the property and equipment related to the Kreider 1 System exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits. Therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets totaling $3,750,000 through June 30, 2015. During the 2016 fiscal year, PA1 and the Company recorded an additional impairment of $1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company’s books to zero. This impairment reflects management’s judgment that the salvage value of the Kreider 1 assets roughly equals PA1’s contractual obligations related to the Kreider 1 System, including expenses related to decommissioning of the Kreider 1 System, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. No formal proposals are presently under consideration and only sporadic communication has taken place regarding the matters involved over the last 48 months. It is not possible at this date to predict the outcome of such this matter, but the Company believes that a loan modification agreement (coupled with an agreement regarding an update and re-start of full operations of the Kreider 1 System) may be reached in the future if/when a more robust market for nutrient reductions develops in Pennsylvania, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System met the 'technology guaranty' standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan has been (and is now) solely an obligation of PA1 since that date.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up.

On May 5, 2016, Bion PA2 LLC ("PA2") executed a stand-alone joint venture agreement with Kreider Farms covering matters related to development and operation of a system to treat the waste streams from Kreider's poultry facilities ("Kreider 2").

The Kreider projects are owned and operated by Bion through separate subsidiaries, in which Kreider has the option to acquire a noncontrolling interest. Substantial capital (equity and/or debt) has been and will continue to be expended on these projects. Additional funds will be required for continuing operations and additional capital expenditures for upgrades at Kreider 1 until sufficient revenues can be generated, of which there is no assurance. The Company anticipates that the Kreider 1 System will generate revenue primarily from the sale of nutrient reduction (and/or other) environmental credits. A portion of Bion's research and development activities has taken place at the Kreider 1 facility.

Kreider Farms – 3G Tech Project

Bion is completing an envelope of policy change and technology pilots that will allow it to move forward with the first commercial large scale 3G Tech project at Kreider Farms. Having recently received a Notice of Allowance of the initial 3G Tech patent (and subsequent filing of related additional patent applications/continuations), Bion is focused on two key tasks during the remainder of the 2019 fiscal and calendar year that will 'complete the envelope' and allow Bion to launch active development of the Kreider 2 poultry project (and/or other Projects) in 2019:

1. Support for adoption of PA SB 799 (and/or successor bills): This will create a competitively-bid market for nutrient reductions/Credits that we believe will provide support for project financing for Kreider 2 prior to development of markets for the coproducts from Kreider 2 are established.
2. Installation of a small-scale 3G Tech ammonia recovery system to produce ammonium bicarbonate to be used for grower trials and to make application to OMRI for organic certification.

The 3G Tech Kreider 2 project is planned for two (or more) locations. It is intended to treat the waste from Kreider's 1,800 dairy cows and approximately six million egg layer chickens (with capacity for an additional three million layers). The Project will be designed with modules with capacity of 450 tons (or more) per day of waste and will remove nitrogen and phosphorus from the waste stream that will be converted into high-value coproducts instead of polluting local and downstream waters. The Project is planned to be built in three phases and may be expanded to include a 'central processing facility' with modules that will accept transported waste from the region on fee basis.

Bion has a long-standing relationship with Kreider Farms including a 2016 joint venture agreement related to this facility. Kreider has already made a significant investment in upgrading its poultry facilities to maximize the treatment and recovery efficiencies that can be achieved with Bion's technology. We are cautiously optimistic that once PA SB799 has been passed, a market will be put in place for long-term commercial sale of the nutrient reduction credits produced at Kreider 2. Bion anticipates that it may require up to 6 months after SB799 becomes law to develop the rules/regulations related to the competitive bidding program. If the competitive bidding program is implemented, we intend to arrange project financing for the Kreider 2 Project during 2019.

Assuming there are positive developments related to the market for nutrient reductions in Pennsylvania, the Company intends to pursue development, design and construction of the Kreider 2 poultry waste/renewable energy project with a goal of achieving operational status for its initial modules during 2019. However, as discussed above, this Project faces challenges related to the current limits of the existing nutrient reduction market and funding of technology-based, verifiable agricultural nutrient reductions which are anticipated to constitute the largest share of its revenues.

Bion's current long-term goal is to acquire or develop, or have in a development pipeline, 6 to 12 Projects over the next 36 to 48 months.

A significant portion of Bion's activities concern efforts with private and public stakeholders (at local and state level) in Pennsylvania (and other Chesapeake Bay and Midwest and Great Lakes states) and at the federal level EPA and the Department of Agriculture ("USDA") (and other executive departments) and Congress) to establish appropriate public policies which will create regulations and funding mechanisms that foster installation of the low cost environmental solutions that Bion (and others) can provide through clean-up of agricultural waste streams. The Company anticipates that such efforts will continue in Pennsylvania and other Chesapeake Bay watershed states throughout the next 12 months and in various additional states thereafter.

Going concern and management's plans:

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has not generated significant revenues and has incurred net losses (including significant non-cash expenses) of approximately $3,018,000 and $2,463,000 during the years ended June 30, 2018 and 2017, respectively, and a net loss of approximately $1,442,000 during the six months ended December 31, 2018. At December 31, 2018, the Company has a working capital deficit and a stockholders' deficit of approximately $10,490,000 and $14,127,000, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern. The following paragraphs describe management's plans with regard to these conditions.

The Company continues to explore sources of additional financing (including potential agreements with strategic partners – both financial and ag-industry) to satisfy its current and future operating and capital expenditure requirements as it is not currently generating any significant revenues.

During the years ended June 30, 2018 and 2017, the Company received total proceeds of approximately $418,000 and $452,000 from the sale of its debt and equity securities. Proceeds during the 2018 and 2017 fiscal years have been lower than in earlier years which reduction has negatively impacted the Company's business development efforts. During the six months ended December 31, 2018, the Company received gross proceeds of approximately $477,000 from the sale of its equity securities and paid approximately $44,000 in commissions.

During fiscal years 2018 and 2017, the Company continued to experience greater difficulty in raising equity funding than in the prior years. As a result, the Company faced, and continues to face, significant cash flow management challenges due to working capital constraints. To partially mitigate these working capital constraints, the Company's core senior management and several key employees and consultants have been deferring (and continue to defer) all or part of their cash compensation and/or are accepting compensation in the form of securities of the Company (Notes 4 and 6) and members of the Company's senior management have made loans to the Company. During the year ended June 30, 2018, senior management and certain core employees and consultants agreed to a one-time extinguishment of liabilities owed by the Company which in aggregate totaled $2,404,000. Additionally, the Company made reductions in its personnel during the years ended June 30, 2014 and 2015 and again during the year ended June 30, 2018. The constraint on available resources has had, and continues to have, negative effects on the pace and scope of the Company's efforts to develop its business. The Company has had to delay payment of trade obligations and has had to economize in many ways that have potentially negative consequences. If the Company does not have greater success in its efforts to raise needed funds during the remainder of the current fiscal year (and subsequent periods), management will need to consider deeper cuts (including additional personnel cuts) and curtailment of operations (including possibly Kreider 1 operations) and/or research and development activities.

The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects (including Integrated Projects and the Kreider 2 facility) and CAFO Retrofit waste remediation systems and to continue to operate the Kreider 1 facility. The Company anticipates that it will seek to raise from $2,500,000 to $50,000,000 or more debt and/or equity through joint ventures, strategic partnerships and/or sale of its equity securities (common, preferred and/or hybrid) and/or debt (including convertible) securities, and/or through use of ‘rights’ and/or warrants (new and/or existing) during the next twelve months. However, as discussed above, there is no assurance, especially in light of the difficulties the Company has experienced in recent periods and the extremely unsettled capital markets that presently exist (especially for companies like us), that the Company will be able to obtain the funds that it needs to stay in business, complete its technology development or to successfully develop its business and Projects.

There is no realistic likelihood that funds required during the next twelve months (or in the periods immediately thereafter) for the Company’s basic operations and/or proposed Projects will be generated from operations. Therefore, the Company will need to raise sufficient funds from external sources such as debt or equity financings or other potential sources. The lack of sufficient additional capital resulting from the inability to generate cash flow from operations and/or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Further, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company’s existing shareholders. All of these factors have been exacerbated by the extremely limited and unsettled credit and capital markets presently existing for small companies like Bion.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bion Integrated Projects Group, Inc. (“Projects Group”), Bion Technologies, Inc., BionSoil, Inc., Bion Services, PA1, and PA2; and its 58.9% owned subsidiary, Centerpoint Corporation (“Centerpoint”). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The consolidated financial statements reflect all adjustments (consisting of only normal recurring entries) that, in the opinion of management, are necessary to present fairly the financial position at December 31, 2018, and the results of operations and cash flows of the Company for the three and six months ended December 31, 2018 and 2017. Operating results for the three and six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2019.

Cash and cash equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash and cash equivalents.

Property and equipment:

Property and equipment are stated at cost and are depreciated, when placed into service, using the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. The Company capitalizes all direct costs and all indirect incrementally identifiable costs related to the design and construction of its Integrated Projects. The Company has elected to expense all costs and filing fees related to obtaining patents (resulting in no related asset being recognized in the Company’s balance sheet) because the Company believes such costs and fees are immaterial (in the context of the Company’s total costs/expenses) and have no direct relationship to the value of the Company’s patents. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized based on the amount by which the carrying value of the assets or asset group exceeds its estimated fair value, and is recognized as a loss from operations.

Stock-based compensation:

The Company follows the provisions of Accounting Standards Codification (“ASC”) 718, which generally requires that share-based compensation transactions be accounted and recognized in the statement of income based upon their grant date fair values.

Derivative Financial Instruments:

Pursuant to ASC Topic 815 “Derivatives and Hedging” (“Topic 815”), the Company reviews all financial instruments for the existence of features which may require fair value accounting and a related mark-to-market adjustment at each reporting period end. Once determined, the Company assesses these instruments as derivative liabilities. The fair value of these instruments is adjusted to reflect the fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Warrants:

The Company has issued warrants to purchase common shares of the Company. Warrants are valued using a fair value based method, whereby the fair value of the warrant is determined at the warrant issue date using a market-based option valuation model based on factors including an evaluation of the Company’s value as of the date of the issuance, consideration of the Company’s limited liquid resources and business prospects, the market price of the Company’s stock in its mostly inactive public market and the historical valuations and purchases of the Company’s warrants. When warrants are issued in combination with debt or equity securities, the warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined.

Concentrations of credit risk:

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash. The Company's cash is in demand deposit accounts placed with federally insured financial institutions and selected brokerage accounts. Such deposit accounts at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Noncontrolling interests:

In accordance with ASC 810, “Consolidation”, the Company separately classifies noncontrolling interests within the equity section of the consolidated balance sheets and separately reports the amounts attributable to controlling and noncontrolling interests in the consolidated statements of operations. In addition the noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

Fair value measurements:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Company uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value.

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 – assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company’s market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment.

The fair value of cash and accounts payable approximates their carrying amounts due to their short-term maturities. The fair value of the loan payable is indeterminable at this time due to the nature of the arrangement with a state agency and the fact that it is in default. The fair value of the redeemable preferred stock approximates its carrying value due to the dividends accrued on the preferred stock which are reflected as part of the redemption value. The fair value of the deferred compensation and convertible notes payable - affiliates are not practicable to estimate due to the related party nature of the underlying transactions.

Revenue Recognition:

The Company currently does not generate revenue and if and when the Company begins to generate revenue the Company will comply with the provisions of Accounting Standards Codification ("ASC") 606 "Revenue from Contracts with Customers".

Loss per share:

Basic loss per share amounts are calculated using the weighted average number of shares of common stock outstanding during the period. Diluted loss per share assumes the conversion, exercise or issuance of all potential common stock instruments, such as options or warrants, unless the effect is to reduce the loss per share or increase the earnings per share. During the three and six months ended December 31, 2018 and 2017, the basic and diluted loss per share was the same, as the impact of potential dilutive common shares was anti-dilutive.

The following table represents the warrants, options and convertible securities excluded from the calculation of basic loss per share:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Warrants | 16,305,320 | 12,195,920 |
| Options | 7,152,225 | 4,840,037 |
| Convertible debt | 8,136,018 | 6,855,942 |
| Convertible preferred stock | 17,500 | 16,500 |

The following is a reconciliation of the denominators of the basic and diluted loss per share computations for the three and six months ended December 31, 2018 and 2017:

| | Three months ended December 31, 2018 | Three months ended December 31, 2017 | Six months ended December 31, 2018 | Six months ended December 31, 2017 |
|---|---|---|---|---|
| Shares issued – beginning of period | 26,996,148 | 24,809,841 | 25,939,892 | 24,748,213 |
| Shares held by subsidiaries (Note 7) | (704,309) | (704,309) | (704,309) | (704,309) |
| Shares outstanding – beginning of period | 26,291,839 | 24,105,532 | 25,235,583 | 24,043,904 |
| Weighted average shares issued during the period | 90,939 | 127,591 | 785,681 | 106,204 |
| Diluted weighted average shares – end of period | 26,382,778 | 24,233,123 | 26,021,264 | 24,150,108 |

Use of estimates:

In preparing the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements:

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financial statements properly reflect the change.

In May 2017, the FASB issued ASU No. 2017-09 "Scope of Modification Accounting" which clarifies when changes to the terms or conditions of a share-based payment awards must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications.  ASU No. 2017-09 will be applied prospectively to awards modified on or after the adoption date.  The guidance is effective for annual periods, and interim periods within those annual periods beginning after December 15, 2017, with early adoption permitted.  The adoption of ASU 2017-09 did not have a material impact on the Company’s financial statements.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

| | December 31, 2018 | June 30, 2018 |
|---|---|---|
| Machinery and equipment | $2,222,670 | $2,222,670 |
| Buildings and structures | 401,470 | 401,470 |
| Computers and office equipment | 171,720 | 171,613 |
| | 2,795,860 | 2,795,753 |
| Less accumulated depreciation | (2,794,149) | (2,794,305) |
| | $1,711 | $1,448 |

Management reviewed property and equipment for impairment as of June 30, 2016 and determined that the carrying amount of property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and potentially needed capital expenditures and it was also determined that the salvage value of the system components will be offset by contractual decommissioning obligations. Kreider 1 was measured at estimated fair value on a non-recurring basis using level 3 inputs, which resulted in an impairment of $1,684,562 of the property and equipment for the year ended June 30, 2016. As of June 30, 2016, the net book value of Kreider 1 was zero. As of December 31, 2018, management believes that no additional impairment exists.

Depreciation expense was $259 and $436 for the three months ended December 31, 2018 and 2017, respectively and $695 and $872 for the six months ended December 31, 2018 and 2017, respectively.

4. DEFERRED COMPENSATION:

The Company owes deferred compensation to various employees, former employees and consultants totaling $698,766 and $141,284 as of December 31, 2018 and 2017, respectively. Included in the deferred compensation balances as of December 31, 2018, are $396,041 and $42,541 owed Bassani and Smith, respectively, pursuant to extension agreements effective January 1, 2015, whereby unpaid compensation earned after January 1, 2015, accrues interest at 4% per annum and can be converted into shares of the Company's common stock at the election of the employee during the first five calendar days of any month. The conversion price shall be the average closing price of the Company's common stock for the last 10 trading days of the immediately preceding month. The deferred compensation owed Bassani and Smith as of December 31, 2017 was $31,000 and $18,000, respectively. The Company also owes various consultants, pursuant to various agreements, for deferred compensation of $186,700 and $18,800 as of December 31, 2018 and 2017, respectively, with similar conversion terms as those described above for Bassani and Smith, with the exception that the interest accrues at 3% per annum. Bassani and Smith have each been granted the right to convert up to $300,000 of deferred compensation balances at a price of $0.75 per share until December 31, 2019 (to be issued pursuant to the 2006 Plan). Smith has the right to convert all or part of his deferred compensation balance into the Company's securities (to be issued pursuant to the 2006 Plan) "at market" and/or on the same terms as the Company is selling or has sold its securities in its then current (or most recent if there is no current) private placement. The Company also owes a current employee deferred compensation of $984 which is convertible into 1,427 shares of the Company's common stock as of December 31, 2018 and, a former employee $72,500, which is not convertible and is non-interest bearing.

The Company recorded interest expense of $8,388 ($6,596 with related parties) and $31,055 ($25,177 with related parties) for the six months ended December 31, 2018 and 2017, respectively.

5. LOAN PAYABLE:

PA1, the Company's wholly-owned subsidiary, owes $9,160,313 as of December 31, 2018 under the terms of the Pennvest Loan related to the construction of the Kreider 1 System including accrued interest and late charges totaling $1,406,313 as of December 31, 2018. The terms of the Pennvest Loan provided for funding of up to $7,754,000 which was to be repaid by interest-only payments for three years, followed by an additional ten-year amortization of principal. The Pennvest Loan accrues interest at 2.547% per annum for years 1 through 5 and 3.184% per annum for years 6 through maturity. The Pennvest Loan required minimum annual principal payments of approximately $3,502,000 in fiscal years 2013 through 2018, and $771,000 in fiscal year 2019, $794,000 in fiscal year 2020, $819,000 in fiscal year 2021, $846,000 in fiscal year 2022, $873,000 in fiscal year 2023 and $149,000 thereafter. The Pennvest Loan is collateralized by the Kreider 1 System and by a pledge of all revenues generated from Kreider 1 including, but not limited to, revenues generated from nutrient reduction credit sales and by-product sales. In addition, in consideration for the excess credit risk associated with the project, Pennvest is entitled to participate in the profits from Kreider 1 calculated on a net cash flow basis, as defined. The Company has incurred interest expense related to the Pennvest Loan of $60,408 and $49,373 for the three months ended December 31, 2018 and 2017, respectively. The Company has incurred interest expense related to the Pennvest Loan of $113,747 and $98,747 for the six months ended December 31, 2018 and December 31, 2017, respectively. Based on the limited development of the depth and breadth of the Pennsylvania nutrient reduction credit market to date, PA1 commenced negotiations with Pennvest related to forbearance and/or re-structuring the obligations under the Pennvest Loan. In the context of such negotiations, PA1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. As of the date of this report, no formal proposals are presently under consideration and only sporadic communication has taken place regarding the matters involved over the past 48 months. It is not possible at this date to predict the outcome of this matter, but the Company believes it is possible that an agreement may yet be reached that will result in a viable loan modification. Subject to the results of the negotiations with Pennvest and pending development of a more robust market for nutrient reductions in Pennsylvania, PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

In connection with the Pennvest Loan financing documents, the Company provided a 'technology guaranty' regarding nutrient reduction performance of Kreider 1 which was structured to expire when Kreider 1's nutrient reduction performance had been demonstrated. During August 2012 the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System had surpassed the requisite performance criteria and that the Company's 'technology guaranty' was met. As a result, the Pennvest Loan is solely an obligation of PA1.

6. CONVERTIBLE NOTES PAYABLE - AFFILIATES:

January 2015 Convertible Notes

The January 2015 Convertible Notes accrue interest at 4% per annum and were due and payable on December 31, 2017. Effective June 30, 2017, the maturity dates were extended on the January 2015 Convertible Notes until July 1, 2019 and were further extended to July 1, 2021 effective September 30, 2018. The January 2015 Convertible Notes (including accrued interest, plus all future deferred compensation), are convertible, at the sole election of the noteholder, into Units consisting of one share of the Company's common stock and one half warrant to purchase a share of the Company's common stock, at a price of $0.50 per Unit until December 31, 2020. The warrant contained in the Unit shall be exercisable at $1.00 per share until December 31, 2020. The original conversion price of $0.50 per Unit approximated the fair value of the Units at the date of the agreements; therefore no beneficial conversion feature exists. Management evaluated the terms and conditions of the embedded conversion features based on the guidance of ASC 815-15 "Embedded Derivatives" to determine if there was an embedded derivative requiring bifurcation. An embedded derivative instrument (such as a conversion option embedded in the deferred compensation) must be bifurcated from its host instruments and accounted for separately as a derivative instrument only if the "risks and rewards" of the embedded derivative instrument are not "clearly and closely related" to the risks and rewards of the host instrument in which it is embedded. Management concluded that the embedded conversion feature of the deferred compensation was not required to be bifurcated because the conversion feature is clearly and closely related to the host instrument, and because of the Company's limited trading volume that indicates the feature is not readily convertible to cash in accordance with ASC 815-10, "Derivatives and Hedging".

As of December 31, 2018, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were $1,698,873, $882,202 and $438,816, respectively. As of December 31, 2017, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were $1,640,291, $851,781 and $423,685, respectively. The Company recorded interest expense related to the January 2015 Convertible Notes of $26,247 for both of the three months ended December 31, 2018 and 2017, respectively. The Company recorded interest expense of $52,495 for both the six months ended December 31, 2018 and 2017, respectively.

During the six months ended December 31, 2018, the Company agreed to sell Bassani and Smith, 3,000,000 and 300,000 warrants, respectively, exercisable at $0.60 per share until June 30, 2025 and June 30, 2023, respectively. The purchase price for the warrants is $0.10 per warrant and is payable with secured promissory notes of $300,000 and $30,000 from Bassani and Smith, respectively, both of which are secured by their January 2015 Convertible Notes (Note 7).

September 2015 Convertible Notes

During the year ended June 30, 2016, the Company entered into September 2015 Convertible Notes with Bassani, Schafer and a Shareholder which replaced previously issued promissory notes. The initial principal balances of the September 2015 Convertible Notes were $405,831, $16,382 and $82,921, respectively. The September 2015 Convertible Notes bear interest at 4% per annum, had maturity dates of December 31, 2017 and may be converted at the sole election of the noteholders into restricted common shares of the Company at a conversion price of $0.60 per share. As the conversion price of $0.60 approximated the fair value of the common shares at the date of the September 2015 Convertible Notes, no beneficial conversion feature exists. During the year ended June 30, 2018, Bassani and the Company agreed to split his original September 2015 Convertible Note into two replacement notes with all the terms remaining the same. One of the replacement notes' original principal is $130,000, which is being held by the Company as collateral for a subscription receivable promissory note from Bassani. During the six months ended December 31, 2018, with the Company's approval, Bassani sold $300,000 of his second replacement note to a Shareholder with all the terms remaining the same.

The balances of the September 2015 Convertible Notes as of December 31, 2018, including accrued interest owed Bassani, Schafer and Shareholder, are $157,141, $18,554 and $392,544, respectively. The balances of the September 2015 Convertible Notes as of December 31, 2017, including accrued interest, were $443,627, $17,899 and $90,600, respectively.

Effective June 30, 2017, the maturity dates of the September 2015 Convertible Notes due Bassani and Schafer were extended until July 1, 2019 and during the year ended June 30, 2018, the maturity date of the note due a Shareholder was extended until July 1, 2019. During the six months ended December 31, 2018, the maturity dates of the all the September 2015 Convertible Notes were extended until July 1, 2021.

The Company recorded interest expense of $5,410 and $5,308 for the three months ended December 31, 2018 and 2017, respectively. The Company recorded interest expense of $10,420 and $10,401 for the six months ended December 31, 2018 and 2017, respectively.

7. STOCKHOLDERS' EQUITY:

Series B Preferred stock:

At July 1, 2014, the Company had 200 shares of Series B redeemable convertible Preferred stock outstanding with a par value of $0.01 per share, convertible at the option of the holder at $2.00 per share, with dividends accrued and payable at 2.5% per quarter. The Series B Preferred stock is mandatorily redeemable at $100 per share by the Company three years after issuance and accordingly was classified as a liability. The 200 shares have reached their maturity date, but due to the cash constraints of the Company have not been redeemed.

During the years ended June 30, 2018 and 2017, the Company declared dividends of $2,000 and $2,000 respectively. During the six months ended December 31, 2018, the Company declared dividends of $1,000. At December 31, 2018, accrued dividends payable are $15,000. The dividends are classified as a component of operations as the Series B Preferred stock is presented as a liability in these financial statements.

Common stock:

Holders of common stock are entitled to one vote per share on all matters to be voted on by common stockholders. In the event of liquidation, dissolution or winding up of the Company, the holders of common stock are entitled to share in all assets remaining after liabilities have been paid in full or set aside and the rights of any outstanding preferred stock have been satisfied. Common stock has no preemptive, redemption or conversion rights. The rights of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any outstanding series of preferred stock or any series of preferred stock the Company may designate in the future.

Centerpoint holds 704,309 shares of the Company's common stock. These shares of the Company's common stock held by Centerpoint are for the benefit of its shareholders without any beneficial interest.

During the six months ended December 31, 2018, the Company issued 25,718 shares of the Company's common stock at prices ranging from $0.50 to $0.74 per share for services valued at $13,904, in the aggregate, to a consultant and an employee.

During the six months ended December 31, 2018, the Company issued 1,028 shares as commissions for the warrant exercises during the year ended June 30, 2018 valued at $514.

During the six months ended December 31, 2018, the Company entered into subscription agreements under two different offerings to sell units for $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share with expiry dates of June 30, 2019 and pursuant thereto, the Company issued 954,733 units for total proceeds of $477,365, net proceeds of $432,929 after commissions.  The Company allocated the proceeds from the 954,733 shares and the 477,369 warrants based upon their relative fair values, using the share price on the day each of the subscription agreements were entered into and the fair value of the warrants, which was determined to be $0.05 per warrant. As a result, $17,515 was allocated to the warrants and $459,850 was allocated to the shares, and both were recorded as additional paid in capital.

During the six months ended December 31, 2018, Smith elected to convert deferred compensation and accounts payable of $87,063 and $12,937, respectively, into an aggregate 200,000 units at $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share until December 31, 2022.

Warrants:

As of December 31, 2018, the Company had approximately 16.3 million warrants outstanding, with exercise prices from $0.60 to $3.00 and expiring on various dates through June 30, 2025.

The weighted-average exercise price for the outstanding warrants is $0.96, and the weighted-average remaining contractual life as of December 31, 2018 is 4.1 years.

During the six months ended December 31, 2018, warrants to purchase 41,319 shares of common stock of the Company at a price of $1.00 per share expired.

During the six months ended December 31, 2018, the Company entered into subscription agreements under two different offerings to sell units for $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share with expiry dates of June 30, 2019 and pursuant thereto, the Company issued 954,733 units for total proceeds of $477,365, net proceeds of $432,932 after commissions.  The Company allocated the proceeds from the 954,733 shares and the 477,369 warrants based upon their relative fair values, using the share price on the day each of the subscription agreements were entered into and the fair value of the warrants, which was determined to be $0.05 per warrant. As a result, $17,515 was allocated to the warrants and $459,850 was allocated to the shares, and both were recorded as additional paid in capital.

During the six months ended December 31, 2018, the Company received an interest bearing, secured promissory note for $300,000 from Bassani as consideration to purchase warrants to purchase 3,000,000 shares of the Company's restricted common stock, which warrants are exercisable at $0.60 and have expiry dates of December 31, 2025.  The promissory note bears interest at 4% per annum, is secured by Bassani's January 2015 Convertible Note.  The secured promissory note is payable July 1, 2020.

During the six months ended December 31, 2018, the Company received an interest bearing, secured promissory note for $30,000 from Smith as consideration to purchase warrants to purchase 300,000 shares of the Company's restricted common stock, which warrants are exercisable at $0.60 and have expiry dates of December 31, 2023. The warrants have a 75% exercise bonus. The promissory note bears interest at 4% per annum, is secured by Smith's 2015 January 2015 Convertible Note. The secured promissory note is payable on July 1, 2020.

During the six months ended December 31, 2018, Smith elected to convert deferred compensation and accounts payable of $87,063 and $12,937, respectively, into an aggregate 200,000 units at $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share until December 31, 2022.

During the six months ended December 31, 2018, the Company issued 125,000 warrants to a consultant to purchase 125,000 shares of the Company's restricted common stock, which warrants have exercise prices ranging between $0.74 and $1.20 per share and have expiry dates of ranging from August 27, 2020 through October 27, 2020. The warrants were in exchange for services expensed at $6,250, in aggregate.

During the six months ended December 31, 2018, the Company agreed to extend the expiration dates of 5,079,188 warrants owned by certain individuals (including 1,765,000 owned by Bassani and 3,104,010 owned by Smith) which were scheduled to expire at various dates ranging from September 30, 2018 through December 31, 2021. The Company recorded non-cash compensation expense related to the modification of the warrants of $163,026 ($88,250 and $68,758 for Bassani and Smith, respectively) and $3,750 as interest expense.

Stock options:

The Company's 2006 Consolidated Incentive Plan, as amended (the "2006 Plan"), provides for the issuance of options (and/or other securities) to purchase up to 30,000,000 shares of the Company's common stock. Terms of exercise and expiration of options/securities granted under the 2006 Plan may be established at the discretion of the Board of Directors, but no option may be exercisable for more than ten years.

During the six months ended December 31, 2018, the Company approved the modification of existing stock options held by Smith, which extended certain expiration dates. The modifications resulted in incremental non-cash compensation of $222,300.

The Company recorded compensation expense related to employee stock options of $22,500 and $97,350 for the three months ended December 31, 2018 and 2017, respectively, and $118,000 and $99,650 for the six months ended December 31, 2018 and 2017, respectively. The Company granted 325,000 and 295,000 options during the six months ended December 31, 2018 and 2017, respectively.

The fair value of the options granted during the six months ended December 31, 2018 and 2017 were estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

| | Weighted Average, December 31, 2018 | Range, December 31, 2018 | Weighted Average, December 31, 2017 | Range, December 31, 2017 |
|---|---|---|---|---|
| Volatility | 70% | 63%-76% | 73% | 73% |
| Dividend yield | - | - | - | - |
| Risk-free interest rate | 2.73% | 2.68%-2.78% | 1.75% | 1.75% |
| Expected term (years) | 3.9 | 3.4 to 4.3 | 3 | 3 |

The expected volatility was based on the historical price volatility of the Company's common stock. The dividend yield represents the Company's anticipated cash dividend on common stock over the expected term of the stock options. The U.S. Treasury bill rate for the expected term of the stock options was utilized to determine the risk-free interest rate. The expected term of stock options represents the period of time the stock options granted are expected to be outstanding based upon management's estimates.

A summary of option activity under the 2006 Plan for the six months ended December 31, 2018 is as follows:

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at July 1, 2018 | 6,827,225 | $ 1.11 | 3.8 | $ - |
| Granted | 325,000 | 0.68 | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Expired | - | - | | |
| Outstanding at December 31, 2018 | 7,152,225 | $ 1.10 | 3.5 | $ 36,675 |
| Exercisable at December 31, 2018 | 7,002,225 | $ 1.11 | 3.6 | $ 23,175 |

The following table presents information relating to nonvested stock options as of December 31, 2018:

| | Options | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at July 1, 2018 | - | $ - |
| Granted | 325,000 | 0.36 |
| Vested | (175,000) | 0.46 |
| Nonvested at December 31, 2018 | 150,000 | $ 0.25 |

The total fair value of stock options that vested during the six months ended December 31, 2018 and 2017 was $80,500 and nil respectively. As of December 31, 2018, the Company had no unrecognized compensation cost related to stock options.

Stock-based employee compensation charges in operating expenses in the Company's financial statements for the three and six months ended December 31, 2018 and 2017 are as follows:

| | Three months ended December 31, 2018 | Three months ended December 31, 2017 | Six months ended December 31, 2018 | Six months ended December 31, 2017 |
|---|---|---|---|---|
| General and administrative: | | | | |
| Fair value of stock bonuses expensed | $ - | $ 3,090 | $ - | $ 7,223 |
| Change in fair value from modification of option terms | - | 243,761 | 211,185 | 243,761 |
| Change in fair value from modification of warrant terms | - | 156,865 | 118,233 | 156,865 |
| Fair value of stock options expensed | 22,500 | 97,350 | 92,125 | 99,650 |
| Total | $ 22,500 | $ 501,066 | $ 421,543 | $ 507,499 |
| | | | | |
| Research and development: | | | | |
| Fair value of stock bonus expensed | $ - | $ 8,071 | $ - | $ 15,098 |
| Change in fair value from modification of option terms | - | 105,895 | 11,115 | 105,895 |

| | | | | |
|---|---|---|---|---|
| Change in fair value from modification of warrant terms | - | 132,677 | 44,793 | 132,677 |
| Fair value of stock options expensed | - | - | 25,875 | - |
| Total | $ - | $ 246,643 | $ 81,783 | $ 253,670 |

8. COMMITMENTS AND CONTINGENCIES:

Employment and consulting agreements:

Smith has held the positions of Director, President and General Counsel of Company and its subsidiaries under various agreements and terms since March 2003. Smith has held the positions of Director, President and General Counsel of Company and its subsidiaries under various agreements (and extensions) and terms since March 2003. On October 10, 2016, the Company approved a month to month contract extension with Smith which includes provisions for i) a monthly deferred salary of $18,000 effective October 1, 2016 until the Board of Directors re-instates cash payments to all employees and consultants who are deferring compensation, ii) the right to convert up to $125,000 of his deferred compensation, at his sole election, at $0.75 per share, until March 15, 2018 (which was expanded on April 27, 2017 to the right to convert up to $300,000 of his deferred compensation, at his sole election, at $0.75 per share, and subsequently extended until December 31, 2019), and iii) the right to convert his deferred compensation in whole or in part, at his sole election, at any time in any amount at "market" or into securities sold in the Company's current/most recent private offering at the price of such offering to third parties. Smith agreed effective July 29, 2018 to continue to serve the Company under these terms.

Since March 31, 2005, the Company has had various agreements with Brightcap and/or Bassani, through which the services of Bassani are provided (any reference to Brightcap or Bassani for all purposes are the same individual). The Board appointed Bassani as the Company's CEO effective May 13, 2011. On February 10, 2015, the Company executed an Extension Agreement with Bassani pursuant to which Bassani extended the term of his service to the Company to December 31, 2017, (with the Company having an option to extend the term an additional six months.) Pursuant to the Extension Agreement, Bassani continued to defer his cash compensation ($31,000 per month) until the Board of Directors re-instates cash payments to all employees and consultants who are deferring their compensation. During October 2016 Bassani was granted the right to convert up to $125,000 of his deferred compensation, at his sole election, at $0.75 per share, until March 15, 2018 (which was expanded on April 27, 2017 to the right to convert up to $300,000 of his deferred compensation, at his sole election, at $0.75 per share, and subsequently extended until December 31, 2019). During February 2018, the Company agreed to the material terms for a binding two-year extension agreement for Bassani's services as CEO, while a detailed, fully executed agreement is still being negotiated and will be finalized in the future. Bassani's salary will remain $372,000 per year, which will continue to be accrued until there is adequate cash available while negotiations proceed toward the re-instatement of a least a partial cash payment. Additionally, the Company has agreed to pay him $2,000 per month to be applied to life insurance premiums. On August 1, 2018, in the context of extending his agreement to provide services to the Company on a full time basis through December 31, 2022) plus 2 years after that on a part-time basis, the Company received an interest bearing secured promissory note for $300,000 from Bassani as consideration to purchase warrants to purchase 3,000,000 shares of the Company's restricted common stock, which warrants are exercisable at $0.60 and have expiry dates of June 30, 2025. The promissory note is secured by Bassani's $300,000 of January 2015 Convertible Note (Notes 6 and 7).

Execution/exercise bonuses:

As part of agreements the Company entered into with Bassani and Smith effective May 15, 2013, they were each granted the following: a) a 50% execution/exercise bonus which shall be applied upon the effective date of the notice of intent to exercise (for options and warrants) or issuance event, as applicable, of any currently outstanding and/or subsequently acquired options, warrants and/or contingent stock bonuses owned by each (and/or their donees) as follows: i) in the case of exercise by payment of cash, the bonus shall take the form of reduction of the exercise price; ii) in the case of cashless exercise, the bonus shall be applied to reduce the exercise price prior to the cashless exercise calculations; and iii) with regard to contingent stock bonuses, issuance shall be triggered upon the Company's common stock reaching a closing price equal to 50% of currently specified price; and b) the right to extend the exercise period of all or part of the applicable options and warrants for up to five years (one year at a time) by annual payments of $.05 per option or warrant to the Company on or before a date during the three months prior to expiration of the exercise period at least three business days before the end of the expiration period. Effective January 1, 2016 such annual payments to extend warrant exercise periods have been reduced to $.01 per option or warrant.

During the year ended June 30, 2014, the Company extended 50% execution/exercise bonuses with the same terms as described above to Schafer and to Jon Northrop (“Northrop”), the Company’s other board member.

During the year ended June 30, 2018, the Company extended 50% execution/exercise bonuses with the same terms as described above to all options and warrants issued prior to November 7, 2017, to an employee and two former employees who are now consultants.

During the year ended June 30, 2018, the Company increased the above 50% execution/exercise bonus on all outstanding options and warrants owned or acquired in the future by Bassani, Smith and Schafer to 75% (to the extent such existing exercise bonus is less than 75%).

As of December 31, 2018, the execution/exercise bonuses ranging from 50-90% were applicable to 6,959,600 of the Company’s outstanding options and 12,032,095 of the Company’s outstanding warrants.

Litigation:

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and has demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the ‘technology guaranty’ standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1. No litigation has commenced related to this matter but such litigation is likely if negotiations do not produce a resolution (Notes 1 and Note 5).

The Company currently is not involved in any other material litigation.

9. RELATED PARTY TRANSACTIONS:

The Coalition for Affordable Bay Solutions (“CABS”), a not-for-profit organization that engages in political and legislative lobbying and educational activities regarding the competitive bidding procurement and nutrient credit trading program in Pennsylvania (and elsewhere), shares certain key management members with the Company.

During the year ended June 30, 2017 the Company recorded expenses of $165,650 for consulting costs incurred on behalf of CABS (the Company contributed $68,900 to CABS and issued 129,000 shares of its restricted common stock valued at $96,750 to pay third party consultants for services to CABS) and during the year ended June 30, 2018, the Company received reimbursements from CABS for the prior year expenses of $41,000 incurred by the Company in providing support for CABS.

During the three and six months ended December 31, 2018, the Company received nil and $30,000 for expense reimbursements from CABS, respectively. The Company received no expense reimbursements for the three and six months ended December 31, 2017. The Company also issued 16,000 shares of its restricted common stock valued at $8,000 for third party consulting expenses on behalf of CABS during the six months ended December 31, 2018, while there were no such expenses for the six months ended December 31, 2017.

During the six months ended December 31, 2018, the Company determined that it had made omissions in not disclosing certain related party transactions with CABS during the years ended June 30, 2018 and 2017. The Company determined the omissions are immaterial and prior year financial statements and reports previously filed, would not have to be amended. The Company will disclose comparative prior period disclosures in future filings.

10. SUBSEQUENT EVENTS:

The Company has evaluated events that occurred subsequent to December 31, 2018 for recognition and disclosure in the financial statements and notes to the financial statements.

From January 1, 2019 through February 6, 2019, the Company has issued 2,918 shares of the Company’s common shares to an employee for services valued at approximately $2,000.

From January 1, 2019 through February 6, 2019, the Company has sold 400,000 Units of its securities at $0.50 per Unit for aggregate consideration of $200,000. Each Unit consists of one share of common stock and a callable warrant to purchase ½ share of the Company’s common shares at $0.75 per share until December 31, 2020.

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

Statements made in this Form 10-Q that are not historical or current facts, which represent the Company's expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition, business strategies, and other information, involve substantial risks and uncertainties. The Company's actual results of operations, most of which are beyond the Company's control, could differ materially. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," anticipate," "estimate," or "continue" or the negative thereof. We wish to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made. Any forward looking statements represent management's best judgment as to what may occur in the future. However, forward looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected.

These factors include adverse economic conditions, entry of new and stronger competitors, inadequate capital, unexpected costs, failure (or delay) to gain product or regulatory approvals in the United States (or particular states) or foreign countries and failure to capitalize upon access to new markets. Additional risks and uncertainties that may affect forward looking statements about Bion's business and prospects include the possibility that markets for nutrient reduction credits (discussed below) and/or other ways to monetize nutrient reductions will be slow to develop (or not develop at all), the existing default by PA1 on its loan secured by the Kreider 1 system, the possibility that a competitor will develop a more comprehensive or less expensive environmental solution, delays in market awareness of Bion and our Systems, uncertainties and costs related to research and development efforts to update and improve Bion’s technologies and applications thereof, and/or delays in Bion's development of Projects and failure of marketing strategies, each of which could have both immediate and long term material adverse effects by placing us behind our competitors and requiring expenditures of our limited resources. Bion disclaims any obligation subsequently to revise any forward looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements filed herein with the Company’s Form 10-K for the year ended June 30, 2018.

BUSINESS OVERVIEW

From 2014 through the current 2019 fiscal year, the Company has focused its research and development activities toward development of our 3G Tech, augmenting the basic ‘separate and aggregate’ approach of its technology platform to provide additional flexibility and to increase recovery of nutrient co-products (in organic and non-organic forms) and renewable energy production (either/both biogas and/or renewable electricity and related credits), thereby increasing potential related revenue streams and reducing dependence of its future projects on the monetization of nutrient reductions (which still remain an important part of project revenue streams). This research and development effort also involves ongoing review of potential “add-ons” and applications to our technology platform for use in different regulatory and/or climate environments. These research and development activities continued through the 2018 fiscal year and into the current 2019 fiscal year with increased focus on recovery of marketable ‘coproducts’ (including nutrients and renewable natural gas) and completion of development of Bion’s 3G Tech and technology platform. We believe such activities will continue at least through the 2019 calendar year (and likely longer), subject to availability of adequate financing for the Company’s operations, of which there is no assurance. Such activities may include the design and construction of an initial, commercial-scale module utilizing our 3G Tech to assist in optimization efforts before construction of the full Kreider 2 project (see below).
Bion’s 3G Tech and technology platform are designed to capture four revenue streams under one umbrella and provide the basis for joint ventures between the Company and larger livestock producers seeking to produce

environmental/sustainable product lines. The revenue streams are: a) renewable energy and associated greenhouse gas credits (including US Renewable Fuel Standard (RFS) and/or Low Carbon Fuel Standard (LCFS) credits), b) verified nutrient reductions (primarily nitrogen) that can be used as qualified offsets to the federal Chesapeake Bay mandate and US EPA TMDL ('total maximum daily limit') requirements, c) co-products consisting of high value fertilizer that Bion believes will achieve certification for use in organic food production for human consumption during 2019, and d) an environmentally sustainable USDA certification that will be incorporated into a "brand" that can address the consumer concerns regarding food safety and sustainability (based on incorporation of all of the third party verified data for greenhouse gas reductions, nutrient reductions and fertilizer products into a digital register). The "branding" opportunity will offer large scale producer / processor / distributors of livestock products the opportunity to differentiate and identify their products in the marketplace and, thereby creates the opportunity to achieve "premium pricing" by addressing consumer concerns related to safety and sustainability in a manner similar to the premiums achieved by organic producers.

Operational results from the initial commercial system (utilizing our 2G Tech) confirmed the ability of Bion's technologies to meet nutrient reduction goals at commercial scale for an extended period of operation. Bion's 2G Tech platform (and the new variations under development) center on its patented and proprietary processes that separate and aggregate the various assets in the CAFO waste stream so they become benign, stable and/or transportable. Bion systems can: a) remove up to 95% of the nutrients (primarily nitrogen and phosphorus) in the effluent, b) reduce greenhouse gases by 90% (or more) including elimination of virtually all ammonia emissions, c) while materially reducing pathogens, antibiotics and hormones in the livestock waste stream. In addition to capturing a portion of valuable nutrients for reuse (in organic and/or non-organic forms), Bion's 2nd generation technology platform also recovers cellulosic biomass which can be used to generate renewable energy from the waste stream in a process more efficient than other technologies that seek to exploit this CAFO waste stream. Our core technology and its primary CAFO applications are now proven in commercial operations. It has been accepted by the Environmental Protection Agency ("EPA") and other regulatory agencies and it is protected by Bion's portfolio of U.S. and international patents (both issued and applied for).

Currently, our research and development activities are underway to improve, update and commercialization of our 3G Tech systems (which is ready to be implemented) during the current fiscal year to meet the needs of CAFOs in various geographic and climate areas with nutrient release constraints and to increase the recovery and generation of valuable by-products while adding the capability to treat dry (poultry) waste streams in addition to wet manure streams at lower capital costs and operating costs

Bion is focused on using applications of its patented and proprietary waste management technologies and technology platform to pursue three main business opportunities: 1) installation of Bion systems ( some of which may generate verified nutrient reduction credits and revenues from the production of renewable energy and coproducts) to retrofit and environmentally remediate existing CAFOs ("Retrofits") in selected markets where: a) government policy supports such efforts (such as the Chesapeake Bay watershed, some Great Lakes Basin states, and/or other states and watersheds facing EPA 'total maximum daily load' ("TMDL") issues, and/or b) where CAFO's need our technology to obtain permits to expand or develop without negative environmental consequences; 2) development of new state-of-the-art large-scale waste treatment facilities in joint ventures with large CAFO's in strategic locations ("Projects") ( some of these may be Integrated Projects) with multiple revenue streams, and 3) licensing and/or joint venturing of Bion's technology and applications (primarily) outside North America. The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion's efforts are focused on such political and regulatory matters. Bion intends to pursue international opportunities primarily through the use of consultants with existing relationships in target locations. The most intense focus is currently on the requirements for the clean-up of the Chesapeake Bay faced by the Commonwealth of Pennsylvania and the potential use of Bion's technology and technology platform on CAFOs to remediate ammonia release (and re-deposition to the ground and water) and as an alternative to what the Company believes is far more expensive nutrient removal downstream in storm water and other projects.

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms ("KF"), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority ("Pennvest") approved a $7.75 million loan to Bion PA 1, LLC ("PA1"), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project ("Kreider 1 System"). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 System. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system 'operational shakedown' during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the PADEP re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider 1 System was 'placed in service'. As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider

1 System to test improvements and add-ons. However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 project and Bion's other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 System. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018. Due to the failure of the Pennsylvania nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of $1,750,000 and $2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, PA1 and the Company recorded an impairment of $1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company's books to zero. This impairment reflects management's judgment that the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 System, including expenses related to decommissioning of the Kreider 1 System, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments. See "Impairment loss on property and equipment" below.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. As of the date of this report, no formal proposals are currently under consideration and only sporadic communication has taken place regarding the matters involved over the last 48 months. It is not possible at this date to predict the outcome of this matter, but the Company believes that a loan modification agreement (coupled with an agreement regarding an update and re-start of full operations of KF1) may be reached in the future if/when a more robust market for nutrient reductions develops in Pennsylvania, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. See below for further discussion.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System met the 'technology guaranty' standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan has been (and is now) solely an obligation of PA1 since that date.

The Company is currently operating the Kreider 1 System in a limited manner pending development of a more robust market for its nutrient reductions.

Bion continues its pre-development work related to a waste treatment/renewable energy production facility to treat the waste from KF's approximately 6+ million chickens (planned to expand to approximately 9-10 million)(and potentially other poultry operations and/or other waste streams)('Kreider Renewable Energy Facility' or ' Kreider 2 Project'). On May 5, 2016, the Company executed a stand-alone joint venture agreement with Kreider Farms covering all matters related to development and operation of Kreider 2 system to treat the waste streams from Kreider's poultry facilities in Bion PA2 LLC ("PA2"). During May 2011 the PADEP certified a smaller version of the Kreider 2 Project for 559,457 nutrient credits under the old EPA's Chesapeake Bay model. The Company anticipates that when designs are finalized, the Kreider 2 Project will be re-certified for between 1.5-2 million (or more) nutrient reduction credits (for treatment of the waste stream from Kreider's poultry) pursuant to the Company's subsequent amended application during the 2019 fiscal year pursuant to the amended EPA Chesapeake Bay model and agreements between the EPA and PA. Note that this Project may be expanded in the future to treat wastes from other local and regional CAFOs (poultry and/or dairy---including the Kreider Dairy) and/or additional Kreider poultry expansion (some of which may not qualify for nutrient reduction credits). The review process to clarify certain issues related to credit calculation and verification commenced during 2014 based on Bion's 2G Tech but has been placed on hold while certain matters are resolved between the EPA and Pennsylvania and pending development of a robust market for nutrient reductions in Pennsylvania. The Company anticipates it will submit an amended application based on our 3G Technology once these matters are clear. Site specific design and engineering work for this facility, which will probably be the first full-scale project to utilize Bion's 3G Tech, have not commenced, and the Company does not yet have financing in place for the Kreider 2 Project. This opportunity is being pursued through PA2. If there are positive developments related to the market for nutrient reductions in Pennsylvania, of which there is no assurance, the Company intends to pursue development, design and construction of the Kreider 2 Project with a goal of achieving operational status for its initial modules during the 2019 calendar year, and hopes to enter into agreements related to sales of the nutrient reduction credits for future delivery (under long term contracts) during the current 2019 fiscal year subject to verification by the PADEP based on operating data from the Kreider 2 Project. The economics (potential revenues and profitability) of the Kreider 2 Project, despite its use of Bion's 3G Tech for increased recovery of marketable by-products, are based in material part the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. However, liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which lack of liquidity has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reduction credits generated by PA1's existing Kreider 1 project and will most likely delay PA2's Kreider 2 Project and other proposed projects in

Pennsylvania.

Note that while Bion believes that the Kreider 1 System, the Kreider 2 Project and/or subsequent Bion Projects will eventually generate revenue from the sale of: a) nutrient reductions (credits or in other form), b) renewable energy (and related credits), c) sales of fertilizer products, and/or d) potentially, in time, credits for the reduction of greenhouse gas emissions, plus e) license fees related to a ‘sustainable brand’.  We believe that the potential market is very large, but it is not possible to predict the exact timing and/or magnitude of these potential markets at this time.

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A substantial portion of our activities involve public policy initiatives (by the Company and other stakeholders) to encourage the establishment of appropriate public policies and regulations (at federal, regional, state and local levels) to facilitate cost effective environmental clean-up and, thereby, support our business activities. Bion has been joined by National Milk Producers Federation, Land O'Lakes, JBS and other national livestock interests to support changes to our nation's clean water strategy that will allow states to acquire low-cost nutrient reductions through a competitive procurement process, in a similar manner to how government entities now acquire many other goods and services on behalf of the taxpayer. As developing markets for nutrient reductions become fully-established, Bion anticipates a robust business opportunity to retrofit existing CAFOs and develop Projects, based primarily on the sale of nutrient credits that provide cost-effective alternatives to today's high-cost and failing clean water strategy.

To date the market for long-term nutrient reduction credits in Pennsylvania ('PA') has been very slow to develop and the Company's activities have been negatively affected by such lack of development. However, Bion is confident that once these markets are established, the credits it produces will be competitive in the credit trading markets, based on its cost to remove nitrogen from the livestock waste stream, compared to the cost to remove nitrogen through various other treatment activities.

Several independent studies have calculated the average cost to remove nitrogen through various sector practices. Reports prepared for the PA Senate (2008), Chesapeake Bay Commission (2012) and PA legislature (2013; described below), as well as the Maryland Chesapeake Bay Financing Strategy Report (2015), demonstrate that the cost to remove nitrogen (per pound on average) from agriculture is $44 to $54, municipal wastewater: $28 to $43, and storm water: $386 to $633. Pursuant to the PA legislative Report, by replacing sector allocation (for all sectors) with competitive bidding, up to 80 percent savings could be achieved in PA's Chesapeake Bay compliance costs ($1.5 billion annually) by 2025. If the legislative study had focused on the cost differentials of competitive bidding compared only with storm water, the relative savings would be substantially greater.

Since these studies were completed, most of the larger (Tier 1) municipal wastewater treatment plants in PA have been upgraded, at a cost of approximately $2.5 billion (vs initial 2004 PA DEP cost estimates of $376 million). US EPA is now focused on PA's storm water allocation (3.5 million pounds (per last published data)) and has this sector on 'backstop level actions', the highest level of EPA-oversight and the final step before sanctions. In the same 2004 PA DEP cost estimate that led to the more than a $2 billion underestimate/miscalculation in municipal wastewater plant upgrade costs, the estimate for storm water cost was $5.6 billion. In April 2017, US EPA sent a Letter of Expectation to PA DEP, expressing the agency's support for the use of nutrient credit trading and competitive bidding to engage the private-sector to lower costs. The letter specifically encouraged the use of credit trading to offset the state's looming storm water obligations.

The Company believes that: i) the April 2015 release of a report from the Pennsylvania Auditor General titled "Special Report on the Importance of Meeting Pennsylvania's Chesapeake Bay Nutrient Reduction Targets" which highlighted the economic consequences of EPA-imposed sanctions if the state fails to meet the 2017 TMDL targets, as well as the need to support using low-cost solutions and technologies as alternatives to higher-cost public infrastructure projects, where possible, and ii) Senate Bill 799 (successor to prior SB 924 and SB 724) which, if adopted, will establish a program that will allow the Pennsylvania's tax- and rate-payers to meet significant portions of their EPA-mandated Chesapeake Bay pollution reductions at significantly lower cost by purchasing verified reductions (by competitive bidding) from all sources, including those that Bion can produce through livestock waste treatment, represent visible evidence of progress being made on these matters in Pennsylvania. During late January 2018, SB 799 was passed by a 47-2 vote in the PA Senate and has been forwarded to the PA House where it is expected to be considered during upcoming legislative sessions. Such legislation, if passed and signed into law (of which there is no assurance), will potentially enable Bion (and others) to compete for public funding on an equal basis with subsidized agricultural 'best management practices' and public works and storm water authorities. Note, however, that there has been opposition to SB 799 (and its predecessors) from threatened stakeholders committed to the existing status quo approaches--- a significant portion of which was focused on attacking (in often inaccurate and/or vilifying ways) Bion in/through social media and internet articles, blogs, press releases, twitter posts and re-tweets, rather than engaging the substantive issues. If legislation similar to SB 799 is passed (on a stand-alone basis or as part of a larger piece of legislation) and implemented (in a form which maintains its core provisions), Bion expects that the policies and strategies being developed in PA will not only benefit the Company's existing and proposed PA projects, but will also subsequently provide the basis for a larger Chesapeake Bay watershed strategy and, thereafter, a national clean water strategy.

The Company believes that Pennsylvania is 'ground zero' in the long-standing clean water battle between agriculture and the further regulation of agriculture relative to nutrient impacts. The ability of Bion and other technology providers to achieve verified reductions from agricultural non-point sources can resolve the current stalemate and enable implementation of constructive solutions that benefit all stakeholders, providing a mechanism that ensures that taxpayer funds will be used to achieve the most beneficial result at the lowest cost, regardless of source. All sources, point and non-point, rural and urban, will be able to compete for tax payer-funded nitrogen reductions in a fair and transparent process; and since payment from the tax and rate payers would now be performance-based, these providers will be held financially accountable.

We believe that the overwhelming environmental, economic, quality of life and public health benefits to all stakeholders in the watershed, both within and outside of Pennsylvania, make the case for adoption of the strategies outlined in the Report less an issue of ‘if’, but of ‘when and how’. The adoption of a competitive procurement program will have significant positive impact on technology providers that can deliver verified nitrogen reductions such as Bion, by allocating existing tax- and rate-payer clean water funding to low cost solutions based upon a voluntary and transparent procurement process. The Company believes that implementation of a competitively-bid nutrient reduction program to achieve the goals for the Chesapeake Bay watershed can also provide a working policy model and platform for other states to adopt that will enhance their efforts to comply with both current and future requirements for local and federal estuarine watersheds, including the Mississippi River/Gulf of Mexico, the Great Lakes Basin and other nutrient-impaired watersheds.

Bion will also pursue the opportunities related to development of Projects, including Integrated Projects which are likely to involve joint ventures with large livestock producers who can utilized the benefits of the ‘sustainable branding’ that Bion intends to enable for products produced utilizing its technology). Integrated Projects will include large CAFOs (such as large poultry facilities, dairy complexes, beef cattle feed lots and/or hog farms) with Bion waste treatment/resource recovery system modules processing the aggregate CAFO waste stream from the equivalent of 20,000 to 80,000 (or more) beef or dairy cows (or the waste stream equivalent of other species), while recovering renewable energy and value-added fertilizer/soil amendment products, integrated with CAFO end product users/processing facilities, and/or potentially in some locations, a biofuel/ethanol plant.. Such Integrated Projects will involve large CAFOs with Bion waste treatment/resource recovery modules on a single site and/or on sites within an approximately 30-mile radius. Bion believes its 3G technology platform will allow integration of large-scale CAFO's with end product processors (and/or potentially biofuel production), together with renewable energy production and co-product recovery from the waste streams, and on-site energy utilization in a relatively 'closed loop' manner that will reduce the capital expenditures, operating costs and carbon footprint for the entire Integrated Project and each component facility. Some Integrated Projects may be developed from scratch while others may be developed in geographic proximity to (and in coordination with) existing participating CAFOs, end product processors and/or biofuel plants. Each Integrated Project is likely to have different degrees of integration, especially in the early development phases.

The Company currently anticipates that the Kreider 2 poultry waste treatment facility in PA will be its initial full-scale 3G Project. Bion anticipates that it will finalize site selection for the Kreider 2 Project and/or its initial Integrated Project (and possibly additional Projects) during the current fiscal year. Bion hopes to commence development of its initial Project by optioning land and beginning the site-specific design and permitting process during fiscal year 2019, but further delays are possible. It is not possible at this time to firmly predict where the initial Project will be developed or the order in which Projects will be developed. All potential Projects are in very early discussion and pre-development stages and may never progress to actual development or may be developed after other Projects not yet under active consideration.

Bion also hopes to be able to move forward on additional Projects through 2019-22 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2023) of approximately 10 or more Projects pursuant to joint ventures (or similar agreements). Management hopes to have identified and begun development work related to 3-5 Projects over the next 2 years. At the end of the 5-year period, Bion projects that 3-8 of these Projects will be in full operation in 3-6 states (and possibly one or more foreign countries), and the balance would be in various stages ranging from partial operation to early development stage. It is possible that one or more Projects will be developed in joint ventures specifically targeted to meet the growing animal protein demand outside of the United States (including without limitation Asia, Europe and/or the Middle East). No Projects (including Integrated Projects) have been developed to date.

The Company’s audited financial statements for the years ended June 30, 2018 and 2017 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately $3,018,000 and $2,463,000 during the years ended June 30, 2018 and 2017, respectively. The Report of the Independent Registered Public Accounting Firm on the Company's consolidated financial statements as of and for the year ended June 30, 2018 includes a "going concern" explanatory paragraph which means that the accounting firm has expressed substantial doubt about the Company's ability to continue as a going concern. The Company has incurred net losses of approximately $1,442,000 and $1,041,000 for the six months ended December 31, 2018 and 2017, respectively. At December 31, 2018, the Company had a working capital deficit and a stockholders' deficit of approximately $10,490,000 and $14,127,000, respectively. Management's plans with respect to these matters are described in this section and in our consolidated financial statements (and notes thereto), and this material does not include any adjustments that might result from the outcome of this uncertainty. However, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition
The Company currently does not generate revenue and if and when the Company begins to generate revenue the Company will comply with the provisions of Accounting Standards Codification ("ASC") 606 "Revenue from Contracts with Customers".
Stock-based compensation

The Company follows the provisions of ASC 718, which generally requires that share-based compensation transactions be accounted and recognized in the statement of income based upon their grant date fair values.

Derivative Financial Instruments:

Pursuant to ASC Topic 815 "Derivatives and Hedging" ("Topic 815"), the Company reviews all financial instruments for the existence of features which may require fair value accounting and a related mark-to-market adjustment at each reporting period end. Once determined, the Company assesses these instruments as derivative liabilities. The fair value of these instruments is adjusted to reflect the fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Warrants:

The Company has issued warrants to purchase common shares of the Company. Warrants are valued using a fair value based method, whereby the fair value of the warrant is determined at the warrant issue date using a market-based option valuation model based on factors including an evaluation of the Company's value as of the date of the issuance, consideration of the Company's limited liquid resources and business prospects, the market price of the Company's stock in its mostly inactive public market and the historical valuations and purchases of the Company's warrants. When warrants are issued in combination with debt or equity securities, the warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined.

Recent Accounting Pronouncements:
In May 2017, the FASB issued ASU No. 2017-09 "Scope of Modification Accounting" which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. ASU No. 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods beginning December 15, 2017, with early adoption permitted. The Company does not anticipate any material impact on the Company's financial statements upon adoption.
THREE MONTHS ENDED DECEMBER 31, 2018 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2017
Revenue
Total revenues were nil for both the three months ended December 31, 2018 and 2017, respectively.
General and Administrative
Total general and administrative expenses were $290,000 and $809,000 for the three months ended December 31, 2018 and 2017, respectively.
General and administrative expenses, excluding stock-based compensation charges of $23,000 and $501,000, were $267,000 and $308,000 for the three months ended December 31, 2018 and 2017, respectively, representing a $41,000 decrease. Salaries and related payroll tax expenses decreased slightly from $73,000 for the three months ended December 31, 2017 to $64,000 for the three months ended December 31, 2018 due to one less employee during the three months ended December 31, 2018. Consulting costs were $119,000 and $158,000 for the three months ended

December 31, 2018 and 2017, respectively, representing a $39,000 decrease. Consulting costs were higher during the three months ended December 31, 2017 due to warrants for services issued to two individuals. Insurance related costs were $22,000 and $12,000 for the three months ended December 31, 2018 and 2017, respectively, and the increase is attributable to increased coverages during the fiscal year 2019.

General and administrative stock-based employee compensation for the three months ended December 31, 2018 and 2017 consists of the following:

| | Three months ended December 31, 2018 | Three months ended December 31, 2017 |
|---|---|---|
| General and administrative: | | |
| Fair value of stock/warrant bonus expensed | $ - | $ 3,000 |
| Change in fair value from modification of option terms | - | 244,000 |
| Change in fair value from modification of warrant terms | - | 157,000 |
| Fair value of stock options expensed under ASC 718 | 23,000 | 97,000 |
| Total | $ 23,000 | $ 501,000 |

Stock-based compensation charges were $23,000 and $501,000 for the three months ended December 31, 2018 and 2017, respectively. Compensation expense relating to stock/warrant bonuses expensed for the three months ended December 31, 2018 and 2017 of nil and $3,000, respectively, primarily related to 100,000 shares in stock bonuses granted to an employee and a consultant with vesting periods ranging from April 2017 through January 2020 (a portion of which were allocated to research and development) which were cancelled in fiscal year 2018. Compensation expense relating to the change in fair value from the modification of option terms was nil and $244,000 for the three months ended December 31, 2018 and 2017, respectively, as the Company granted extensions of option expiration dates for seven employees and consultants during the three months ended December 31, 2017. During the three months ended December 31, 2017, the Company extended expiration dates of warrants for certain employees and consultants which resulted in the recognition of $157,000 in non-cash compensation, while no warrants were modified during the three months ended December 31, 2018. The fair value of stock options expensed for the three months ended December 31, 2018 and 2017 was $23,000 and $97,000 respectively. The Company granted nil and 295,000 options during the three months ended December 31, 2018 and 2017, respectively.

Depreciation

Total depreciation expense was $259 and $436 for the three months ended December 31, 2018 and 2017, respectively.

Research and Development

Total research and development expenses were $114,000 and $339,000 for the three months ended December 31, 2018 and 2017, respectively.

Research and development expenses, excluding stock-based compensation expenses of nil and $247,000 were $114,000 and $92,000 for the three months ended December 31, 2018 and 2017, respectively, representing a $22,000 increase. Salaries and related payroll tax expenses were $20,000 and $18,000 for the three months ended December 31, 2018 and 2017, respectively. Consulting costs were $66,000 and $49,000 for the three months ended December 31, 2018 and 2017, respectively, and the increase is attributable to cost incurred to determine how to proceed with a future pilot program.

Research and development stock-based employee compensation for the three months ended December 31, 2018 and 2017 consists of the following:

| | Three months ended December 31, 2018 | Three months ended December 31, 2017 |
|---|---|---|
| Research and development: | | |
| Fair value of stock bonuses expensed | $ - | $ 8,000 |
| Change in fair value from modification of option terms | - | 106,000 |
| Change in fair value from modification of warrant terms | - | 133,000 |
| Total | $ - | $ 247,000 |

Stock-based compensation expenses were nil and $247,000 for the three months ended December 31, 2018 and 2017, respectively. Compensation expense relating to stock bonuses expensed for the three months ended December 31, 2017 of $8,000, related to 70,000 shares in stock bonuses granted to an employee, whose time is partially allocated to research and development, with vesting periods ranging from April 2017 through January 2020 until they were cancelled during the year ended June 30, 2018. The compensation expense of $106,000 attributed to the change in fair value from modification of options terms for the three months ended December 31, 2017 is due to an employee's maturity dates on his options being extended and a portion of his non-cash compensation is allocated to research and development, while no options were modified during the three months ended December 31, 2018. During the three months ended December 31, 2017, the Company extended expiration dates of warrants for a research and development employee and consultants which resulted in the recognition of $133,000 in non-cash compensation. No warrants were modified during the three months ended December 31, 2018.

Loss from Operations

As a result of the factors described above, the loss from operations was $404,000 and $1,148,000 for the three months ended December 31, 2018 and 2017, respectively.

Other Expense (Income)

Other expense (income) was $97,000 and $(625,000) for the three months ended December 31, 2018 and 2017, respectively. During the three months ended December 31, 2017, the Company recognized other income of $719,000 due to the extinguishment of liabilities related to deferred compensation of non-related parties. Interest expense was $97,000 and $94,000 for the three months ended December 31, 2018 and 2017, respectively. The increase of $3,000 is primarily due to higher interest on the Pennvest loan for the three months ended December 31, 2018.

Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was $523 and $507 for the three months ended December 31, 2018 and 2017, respectively.

Net Loss Attributable to Bion's Common Stockholders

As a result of the factors described above, the net loss attributable to Bion's common stockholders was $501,000 and $522,000 for the three months ended December 31, 2018 and 2017, respectively, and the net loss per basic common share was $0.02 for both the three months ended December 31, 2018 and 2017, respectively.

SIX MONTHS ENDED DECEMBER 31, 2018 COMPARED TO THE SIX MONTHS ENDED DECEMBER 31, 2017

Revenue

Total revenues were nil for both the six months ended December 31, 2018 and 2017, respectively.

General and Administrative

Total general and administrative expenses were $967,000 and $1,121,000 for the six months ended December 31, 2018 and 2017, respectively.

General and administrative expenses, excluding stock-based compensation charges of $421,000 and $507,000, were $546,000 and $614,000 for the six months ended December 31, 2018 and 2017, respectively, representing a $68,000 decrease.  Salaries and related payroll tax expenses were $131,000 and $146,000 for the six months ended December 31, 2018 and 2017, respectively, representing a $15,000 decrease due to one less employee during the six months ended December 31, 2018.  Consulting costs were $203,000 and $261,000 for the six months ended December 31, 2018 and 2017, respectively.  The reduction in consulting costs is due to costs related to one consultant being allocated to research and development that was previously general and administrative and other reduced utilization of consultants during the six months ended December 31, 2018.  Insurance related expenses were $43,000 and $29,000 for the six months ended December 31, 2018 and 2017, respectively, as the Company economized by changing some of its insurance coverage during the six months ended December 31, 2017 but then increased coverage again during the six months ended December 31, 2018.

General and administrative stock-based employee compensation for the six months ended December 31, 2018 and 2017 consists of the following:

| | Six months ended December 31, 2018 | Six months ended December 31, 2017 |
|---|---|---|
| General and administrative: | | |
| Fair value of stock bonus expensed | $- | $7,000 |
| Change in fair value from modification of option terms | 211,000 | 244,000 |
| Change in fair value from modification of warrant terms | 118,000 | 157,000 |
| Fair value of stock options expensed under ASC 718 | 92,000 | 99,000 |
| Total | $421,000 | $507,000 |

Stock-based compensation charges were $421,000 and $507,000 for the six months ended December 31, 2018 and 2017, respectively.  Compensation expense relating to stock bonuses expensed for the six months ended December 31, 2017 of $7,000, related to 100,000 shares in stock bonuses granted to an employee and a consultant with vesting periods ranging from April 2017 through January 2020 (a portion of which were allocated to research and development).  Compensation expense relating to the change in fair value from the modification of option terms was $211,000 and $244,000 for the six months ended December 31, 2018 and 2017, respectively, as the Company granted a reduction in certain exercise prices and an extension of certain option expiration dates for an employee during the six months ended December 31, 2018 and the Company extended certain option expiration dates for seven employees and consultants during the six months ended December 31, 2017.  During the six months ended December 31, 2018 and 2017, respectively, the Company extended expiration dates of warrants for certain employees and consultants which resulted in the recognition of $118,000 and $157,000, respectively, in non-cash compensation.  The fair value of stock options expensed for the six months ended December 31, 2018 and 2017 was $92,000 and $99,000 respectively.

Depreciation

Total depreciation expense was $695 and $872 for the six months ended December 31, 2018 and 2017, respectively.

Research and Development

Total research and development expenses were $284,000 and $446,000 for the six months ended December 31, 2018 and 2017, respectively.

Research and development expenses, excluding stock-based compensation expenses of $82,000 and $254,000 were $202,000 and $192,000 for the six months ended December 31, 2018 and 2017, respectively.  Salaries and related payroll tax expenses were $40,000 and $36,000 for the six months ended December 31, 2018 and 2017, respectively. Consulting costs were $115,000 and $105,000 for the six months ended December 31, 2018 and 2017, respectively.

Research and development stock-based employee compensation for the six months ended December 31, 2018 and 2017 consists of the following:

| | Six Months ended December 31, 2018 | Six Months ended December 31, 2017 |
|---|---|---|
| Research and development: | | |
| Fair value of stock bonuses expensed | $ - | $ 15,000 |
| Change in fair value from modification of option terms | 11,000 | 106,000 |
| Change in fair value from modification of warrant terms | 45,000 | 133,000 |
| Fair value of stock options expensed under ASC 718 | 26,000 | - |
| Total | $ 82,000 | $ 254,000 |

Stock-based compensation expenses were $82,000 and $254,000 and for the six months ended December 31, 2018 and 2017, respectively. Compensation expense relating to stock bonuses expensed for the six months ended December 31, 2017 of $15,000 related to 70,000 shares in stock bonuses granted to an employee, whose time is partially allocated to research and development, with vesting periods ranging from April 2017 through January 2020. The compensation expense of $11,000 and $106,000 for the six months ended December 31, 2018 and 2017, respectively, for the change in fair value from modification of options terms is due to a research and development employee and consultant having certain option exercise prices reduced during those periods. During both the six months ended December 31, 2018 and 2017, the Company extended expiration dates of warrants for certain research and development employees and consultants which resulted in the recognition of $45,000 and $133,000, respectively, in non-cash compensation. The Company expensed $26,000 for the fair value of stock options that vested during the six months ended December 31, 2018.

Loss from Operations

As a result of the factors described above, the loss from operations was $1,252,000 and $1,567,000 for the six months ended December 31, 2018 and 2017, respectively.

Other Expense (Income)

Other expense (income) was $190,000 and $(526,000) for the six months ended December 31, 2018 and 2017, respectively. During the six months ended December 31, 2017, the Company recognized other income of $719,000 due to the extinguishment of liabilities related to deferred compensation of non-related parties. Interest expense was $190,000 and $192,000 for the six months ended December 31, 2018 and 2017, respectively.

Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was $4,000 and $1,000 for the six months ended December 31, 2018 and 2017, respectively.

Net Loss Attributable to Bion's Common Stockholders

As a result of the factors described above, the net loss attributable to Bion's stockholders was $1,438,000 and $1,040,000 for the six months ended December 31, 2018 and 2017, respectively, and the net loss per basic common share was $0.06 and $0.04 for the six months ended December 31, 2018 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated financial statements for the six months ended December 31, 2018 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Report of our Independent Registered Public Accounting Firm on the Company's consolidated financial statements as of and for the year ended June 30, 2018 includes a "going concern" explanatory paragraph which means that the auditors stated that conditions exist that raise substantial doubt about the Company's ability to continue as a going concern.

Operating Activities

As of December 31, 2018, the Company had cash of approximately $42,000. During the six months ended December 31, 2018, net cash used in operating activities was $412,000, primarily consisting of cash operating expenses related to salaries and benefits, and other general and administrative costs such as insurance and legal and accounting expenses. As previously noted, the Company is currently not generating significant revenue and accordingly has not generated cash flows from operations. The Company does not anticipate generating sufficient revenues to offset operating and capital costs for a minimum of two to five years. While there are no assurances that the Company will be successful in its efforts to develop and construct its Projects and market its Systems, it is certain that the Company will require substantial funding from external sources. Given the unsettled state of the current credit and capital markets for companies such as Bion, there is no assurance the Company will be able to raise the funds it needs on reasonable terms.

Investing Activities

During the six months ended December 31, 2018, the Company had investing activities of $1,000 for the purchase of property and equipment.

Financing Activities

During the six months ended December 31, 2018, the Company received cash proceeds of $477,000 from the sale of 954,733 units which consists of one share of the Company’s restricted common stock and one warrant to purchase one half of a share of the Company’s restricted common stock for $0.75 per share through June 30, 2019.  The Company paid cash commissions related to the sale of units of $44,000.

As of December 31, 2018 the Company has debt obligations consisting of: a) deferred compensation of $699,000, b) convertible notes payable – affiliates of $3,588,000, and, c) a loan payable and accrued interest of $9,160,000 (owed by PA1).

Plan of Operations and Outlook

As of December 31, 2018, the Company had cash of approximately $42,000.

The Company continues to explore sources of additional financing to satisfy its current operating requirements as it is not currently generating any significant revenues. During the past five years (fiscal years 2014 through 2018), the Company experienced greater difficulty in raising equity and debt funding than in the prior years (which is not mitigated by the relative increase in equity funding during the six months ended December 31, 2018). As a result, the Company faced, and continues to face, significant cash flow management challenges due to material working capital constraints. These difficulties, challenges and constraints have continued during fiscal years 2017 and 2018 and the Company anticipates that they may continue for the next twelve (12) months or longer. To partially mitigate these working capital constraints, the Company's core senior management and some key employees and consultants have been deferring all or part of their cash compensation and/or are accepting compensation in the form of securities of the Company (Notes 4 and 6 to Financial Statements) and members of the Company's senior management have made loans to the Company which have been converted into convertible promissory notes as of December 31, 2018. During the year ended June 30, 2018 senior management and certain core employees and consultants agreed to a one-time extinguishment of liabilities owed by the Company which in aggregate totaled $2,404,000.  As of December 31, 2018, such deferrals totaled approximately $4,287,000 (including accrued interest and deferred compensation converted into promissory notes but excluding conversions of deferred compensation into the Company's common stock by officers, employees and consultants that have already been completed). The extended constraints on available resources have had, and continue to have, negative effects on the pace and scope of the Company's effort to develop its business. The Company made reductions in its personnel during the years ended June 30, 2014 and 2015 and again in 2018. The Company has had to delay payments of trade obligations and economize in many ways that have potentially negative consequences. If the Company does not have greater success in its efforts to raise needed funds during the current year (and subsequent periods), we will need to consider deeper cuts (including additional personnel cuts) and curtailments of operations (including possibly Kreider 1 operations). The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects (including Integrated Projects) and CAFO Retrofit waste remediation systems (including the Kreider 2 facility) and to continue to operate the Kreider 1 facility (subject to agreements being reached with Pennvest as discussed above). The Company anticipates that it will seek to raise from $2,500,000 to $50,000,000 or more (debt and equity) during the next twelve months. However, as discussed above, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.

The Company is not currently generating any significant revenues. Further, the Company’s anticipated revenues, if any, from existing projects and proposed projects will not be sufficient to meet the Company’s anticipated operational and capital expenditure needs for many years. During the six months ended December 31, 2018 the Company raised gross proceeds of approximately $477,000 through the sale of its securities (Note 7 to the annual Financial Statements in the Form 10-Q) and paid commissions of approximately $44,000, and anticipates raising additional funds from such sales and transactions. However, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.

Because the Company is not currently generating significant revenues, the Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects and to sustain operations at the KF 1 facility.

The first commercial activity in the Retrofit segment is represented by our agreement with Kreider Farms ("KF"), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority ("Pennvest") approved a $7.75 million loan to Bion PA 1, LLC ("PA1"), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project ("Kreider 1 System"). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system 'operational shakedown' during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the PADEP re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider System was 'placed in service'. As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 system to test improvements and add-ons. However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 project and Bion's other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 system. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018. Due to the failure of the PA nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of $1,750,000 and $2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, PA1 and the Company recorded an impairment of $1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company's books to zero. This impairment reflects management's judgment that the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 system, including expenses related to decommissioning of the Kreider 1 system, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments. See "Impairment loss on property and equipment" above.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24,

2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. As of the date of this report, no formal proposals are currently under consideration and only sporadic communication has taken place regarding the matters involved over the last 48 months. It is not possible at this date to predict the outcome of this matter, but the Company believes that a loan modification agreement (coupled with an agreement regarding an update and restart of full operations of KF1) may be reached in the future if/when a more robust market for nutrient reductions develops in PA, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. See below for further discussion.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the 'technology guaranty' standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1.

The Company is currently operating the Kreider 1 System in a limited manner pending development of a more robust market for its nutrient reductions.

As indicated above, the Company anticipates that it will seek to raise from $2,500,000 to $50,000,000 or more (from debt, equity, joint venture, strategic partnering, etc.) during the next twelve months, some of which may be in the context of joint ventures for the development of one or more large scale projects. We reiterate that there is no assurance, especially in the extremely unsettled capital markets that presently exist for companies such as Bion, that the Company will be able to obtain the funds that it needs to stay in business, finance its Projects and other activities, continue its technology development and/or to successfully develop its business.

There is extremely limited likelihood that funds required during the next twelve months or in the periods immediately thereafter will be generated from operations and there is no assurance that those funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations and/or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Further, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders. All of these factors have been exacerbated by the extremely limited and unsettled credit and capital markets presently existing for companies such as Bion.
Currently, Bion is focused on using applications of its patented and proprietary waste management technologies and technology platform to pursue three main business opportunities: 1) installation of Bion systems ( some of which may generate verified nutrient reduction credits and revenues from the production of renewable energy and byproducts) to retrofit and environmentally remediate existing CAFOs ("Retrofits") in selected markets where: a) government policy supports such efforts (such as the Chesapeake Bay watershed, Great Lakes Basin states, and/or other states and watersheds facing EPA 'total maximum daily load' ("TMDL") issues, and/or b) where CAFO's need our technology to obtain permits to expand or develop without negative environmental consequences; 2) development of new state-of-the-art large scale waste treatment facilities in joint ventures with large CAFO's in strategic locations ("Projects") ( some of these may be Integrated Projects as described below) with multiple revenue streams, and 3) licensing and/or joint venturing of Bion's technology and applications (primarily) outside North America commencing during the 2019 calendar year. The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion's efforts are focused on such political and regulatory matters. Bion is currently pursuing the international opportunities primarily through the use of consultants with existing relationships in target countries. The most intense focus is currently on the requirements for the clean-up of the Chesapeake Bay faced by the Commonwealth of Pennsylvania and the potential use of Bion's technology and technology platform on CAFOs to remediate ammonia release (and re-deposition to the ground and water) and as an alternative to what the Company believes is far more expensive nutrient removal downstream in storm water and other projects.
Additionally, the Kreider agreements provide for Bion to develop a waste treatment/renewable energy production facility to treat the waste from Kreider's approximately 6+ million chickens (planned to expand to approximately 9-10 million)(and potentially other poultry operations and/or other waste streams)('Kreider Renewable Energy Facility' or ' Kreider 2 Project'). On May 5, 2016, the Company executed a stand-alone joint venture agreement with Kreider

Farms covering all matters related to development and operation of a system to treat the waste streams from Kreider's poultry facilities in Bion PA2 LLC ("PA2"). The Company continues its development work related to the details of the Kreider 2 Project. During May 2011 the PADEP certified Kreider 2 Project for 559,457 nutrient credits under the old EPA's Chesapeake Bay model. The Company anticipates that the Kreider 2 Project will be re-certified for between 1.5-2 million (or more) nutrient reduction credits (for treatment of the waste stream from Kreider's poultry) pursuant to the Company's pending reapplication (or subsequent amended application) during 2018 pursuant to the amended EPA Chesapeake Bay model and agreements between the EPA and PA. Note that this Project may be expanded in the future to treat wastes from other local and regional CAFOs (poultry and/or dairy – including the Kreider Dairy) and/or Kreider poultry expansion (some of which may not qualify for nutrient reduction credits). The review process to clarify certain issues related to credit calculation and verification commenced during 2014 based on Bion’s 2G Tech but has been largely placed on hold while certain matters are resolved between the EPA and PA and pending development of a robust market for nutrient reductions in PA. The Company anticipates it will submit an amended application based on our 3G Technology once these matters are clear. Site specific design and engineering work for this facility, which will probably be the first full-scale project to utilize Bion's 3G Tech, have not commenced, and the Company does not yet have financing in place for the Kreider 2 Project. This opportunity is being pursued through PA2. If there are positive developments related to the market for nutrient reductions in PA, of which there is no assurance, the Company intends to pursue development, design and construction of the Kreider 2 Project with a goal of achieving operational status of its initial modules during the 2019 calendar year, and hopes to enter into agreements related to sales of the nutrient reduction credits for future delivery (under long term contracts) during the 2019 fiscal year subject to verification by the PADEP based on operating data from the Kreider 2 Project. The economics (potential revenues and profitability) of the Kreider 2 Project, despite its use of Bion's 3G Tech for increased recovery of marketable by-products, are based in material part the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. However, liquidity in the PA nutrient credit market has been slow to develop significant breadth and depth, which lack of liquidity has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reduction credits generated by PA1's existing Kreider 1 project and will most likely delay PA2's Kreider 2 Project and other proposed projects in PA.

Note that while Bion believes that the Kreider 1 System, the Kreider 2 Project and/or subsequent Bion Projects will eventually generate revenue from the sale of: a) nutrient reductions (credits or in other form), b) renewable energy (and related credits), c) sales of fertilizer products, and/or d) potentially, in time, credits for the reduction of greenhouse gas emissions, plus e) license fees related to a ‘sustainable brand’. We believe that the potential market is very large, but it is not possible to predict the exact timing and/or magnitude of these potential markets at this time.

The Company anticipates that the Kreider 2 poultry waste treatment facility in PA will be its initial Project. Bion anticipates that it will select a site for the Kreider 2 Project and/or its initial Integrated Project (and possibly additional Projects) during the current fiscal year. Bion hopes to commence development of its initial Project by optioning land and beginning the site specific design and permitting process during 2019, but delays are possible. It is not possible at this time to firmly predict where the initial Project will be developed or the order in which Projects will be developed. All potential Projects are in very early pre-development stages and may never progress to actual development or may be developed after other Projects not yet under active consideration.

Bion also hopes to be able to move forward on additional Projects through 2019-22 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2023) of approximately 10 or more Projects. Management hopes to have identified and begun development work related to 3-5 Projects over the next 2 years. At the end of the 5-year period, Bion projects that 3-8 of these Projects will be in full operation in 3-6 states (and possibly one or more foreign countries), and the balance would be in various stages ranging from partial operation to early development stage. It is possible that one or more Projects will be developed in joint ventures specifically targeted to meet the growing animal protein demand outside of the United States (including without limitation Asia, Europe and/or the Middle East). No Projects (including Integrated Projects) has been developed to date.

CONTRACTUAL OBLIGATIONS

We have the following material contractual obligations (in addition to employment and consulting agreements with management and employees):

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms ("KF"), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority ("Pennvest") approved a $7.75 million loan to Bion PA 1, LLC ("PA1"), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project ("Kreider 1 System"). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system 'operational shakedown' during May 2011. The Kreider 1System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the PADEP re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider System was 'placed in service'. As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 system to test improvements and add-ons. However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 project and Bion's other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 system. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018. Due to the failure of the PA nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of $1,750,000 and $2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, PA1 and the Company recorded an impairment of $1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company's books to zero. This impairment reflects management's judgment that the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 system, including expenses related to decommissioning of the Kreider 1 system, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments. See "Impairment loss on property and equipment" above.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. As of the date of this report, no formal proposals are currently under consideration and only sporadic communication has taken place regarding the matters involved over the last 48 months. It is not possible at this date to predict the outcome of this matter, but the Company believes that a loan modification agreement (coupled with an agreement regarding an update and restart of full operations of KF1) may be reached in the future if/when a more robust market for nutrient reductions develops in PA, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the 'technology guaranty' standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1.

The Company is currently operating the Kreider 1 System in a limited manner pending development of a more robust market for its nutrient reductions.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. Our Chief Executive Officer and Principal Financial Officer has evaluated the effectiveness of the design and operations of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and has concluded that, as of that date, our disclosure controls and procedures were not effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act, as a result of the material weakness in internal control over financial reporting discussed in Item 9(A) of our Form 10-K for the year ended June 30, 2018.

(b) Changes in Internal Control over Financial Reporting.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and has demanded that our wholly-owned subsidiary Bion PA-1 LLC ('PA-1') pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. The Company anticipates that discussions and negotiations will take place between PA-1 and Pennvest concerning this matter over the next 90-180 days. No proposals are currently under consideration to resolve this matter. It is not possible at this date to predict the outcome of such negotiations, but the Company believes that it remains possible that negotiations will lead to a commercially reasonable loan modification agreement be reached between PA-1 and Pennvest. Subject to the results of the negotiations with Pennvest and pending development of a more robust market for nutrient reductions in Pennsylvania, PA-1 and Bion anticipate that it will be necessary for the Company to evaluate various options with regard to Kreider 1 over the coming months. Litigation has not commenced in this matter but has been threatened by Pennvest.

The Company currently is not involved in any other material litigation.

### Item 1A. Risk Factors.

Not applicable.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended December 31, 2018 the Company sold the following restricted securities: a) 4,489 shares issued pursuant to our 2006 Consolidated Incentive Plan ('Plan'), valued at $2,952 in aggregate, to an employee for services. During the quarter ended December 31, 2018, the company sold 86,734 units at $0.50 per unit consisting of one share of the Company's restricted common stock and one warrant to purchase half a share of the Company's restricted common stock at $0.75 until June 30, 2019 and received gross proceeds of $43,366 and net proceeds of $41,529 at a private offering that closed on October 25, 2018. The Company also sold 34,000 units at $0.50 per unit consisting of one share of the Company's restricted common stock and one warrant to purchase half a share of the Company's restricted common stock at $0.75 until June 30, 2019 and received gross proceeds of $17,000 and net proceeds of $13,300 at a private offering that closed on December 15, 2018. During the quarter ended December 31, 2018, the Company issued 50,000 warrants valued at $0.05 per warrant to a Consultant for services; which warrants are exercisable at $1.20 and have an expiry date of October 27, 2020. Additionally, the Company issued 96,996 warrants as commission which warrants are exercisable at $0.75 and have an expiry date of June 30, 2020. In all of these transactions the Company relied on the exemptions in Section 4(2) of the Securities Act of 1933, as amended, and/or under Rule 506 of Regulation D under the Securities Act of 1933, as amended. See Notes to Financial Statements (included herein) for additional details.

The proceeds were utilized for general corporate purposes.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

Not applicable.

Item 6. Exhibits.
(a) Exhibits required by Item 601 of Regulation S-K.

| Exhibit | Description |
|---|---|
| 31.1 | Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) - Filed herewith electronically |
| 31.2 | Certification of Executive Chairman, President and CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) - Filed herewith electronically |
| 32.1 | Certification of CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically |
| 32.2 | Certification of Executive Chairman, President and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically |
| 101 | XBRL Exhibits |

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.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

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| Date: February 7, 2019 | By: /s/ Mark A. Smith |
| | Mark A. Smith, President and Chief Financial Officer (Principal Financial and Accounting Officer) |
| Date: February 7, 2019 | By: /s/ Dominic Bassani |
| | Dominic Bassani, Chief Executive Officer |