

BION ENVIRONMENTAL TECHNOLOGIES INC  
Form 10-Q  
May 10, 2018

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 March 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.

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Large accelerated filer  
Non-accelerated filer  
(Do not check if a smaller reporting company)  
Emerging growth company

Accelerated filer  
Smaller reporting 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

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**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 May 1, 2018, there were 25,511,871 Common Shares issued and 24,807,562 Common Shares outstanding.

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## 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

|  | March 31,<br>2018<br>(unaudited) | June 30,<br>2017 |
|--|----------------------------------|------------------|
| <b>ASSETS</b>  |                                  |                  |
| Current assets:  |                                  |                  |
| Cash   | \$40,403                         | \$72,932         |
| Prepaid expenses   | 4,105                            | 6,426            |
| Deposits and other receivables   | 1,000                            | 1,980            |
| Total current assets   | 45,508                           | 81,338           |
| Property and equipment, net (Note 3)   | 1,884                            | 3,192            |
| Total assets   | \$47,392                         | \$84,530         |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>  |                                  |                  |
| Current liabilities:   |                                  |                  |
| Accounts payable and accrued expenses  | \$946,590                        | \$865,841        |
| Series B Redeemable Convertible Preferred stock, \$0.01 par value,<br>50,000 shares authorized; 200 shares issued and outstanding,<br>liquidation preference of \$33,500 and \$32,000, respectively (Note 8) | 30,900                           | 29,400           |
| Loans payable - affiliates (Note 4)  | 18,000                           | -                |
| Deferred compensation (Note 5)   | 345,929                          | 2,107,262        |
| Convertible notes payable - affiliates (Note 7)  | -                                | 88,927           |
| Loan payable and accrued interest (Note 6)   | 8,970,818                        | 8,796,322        |
| Total current liabilities  | 10,312,237                       | 11,887,752       |
| Convertible notes payable - affiliates (Note 7)  | 3,498,901                        | 3,316,060        |
|  | 13,811,138                       | 15,203,812       |
| Deficit:   |                                  |                  |
| Bion's stockholders' equity (deficit):   |                                  |                  |
| Series A Preferred stock, \$0.01 par value, 50,000 shares authorized,<br>no shares issued and outstanding  | -                                | -                |
| Series C Convertible Preferred stock, \$0.01 par value,<br>60,000 shares authorized; no shares issued and outstanding  | -                                | -                |
| Common stock, no par value, 100,000,000 shares authorized, 25,327,394<br>and 24,748,213 shares issued, respectively; 24,623,085<br>and 24,043,904 shares outstanding, respectively                           | -                                | -                |
| Additional paid-in capital   | 107,801,537                      | 103,540,352      |

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|   |               |               |
|---|---------------|---------------|
| Subscription receivable - affiliates (Note 8) | (174,650 )    | (40,000 )     |
| Accumulated deficit                           | (121,445,479) | (118,676,966) |
|   | (13,818,592 ) | (15,176,614 ) |
| Noncontrolling interest                       | 54,846        | 57,332        |
| Total deficit                                 | (13,763,746 ) | (15,119,282 ) |
| Total liabilities and deficit                 | \$47,392      | \$84,530      |

See notes to consolidated financial statements

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

|  | Three months ended<br>March 31, |              | Nine months ended<br>March 31, |                |
|--|---------------------------------|--------------|--------------------------------|----------------|
|  | 2018                            | 2017         | 2018                           | 2017           |
| Revenue  | \$-                             | \$-          | \$-                            | \$-            |
| Operating expenses:  |                                 |              |                                |                |
| General and administrative (including stock-based compensation (Note 8))             | 956,826                         | 401,346      | 2,077,519                      | 1,352,734      |
| Depreciation   | 436                             | 502          | 1,308                          | 1,507          |
| Research and development (including stock-based compensation (Note 8))               | 680,436                         | 85,802       | 1,125,937                      | 324,127        |
| Total operating expenses   | 1,637,698                       | 487,650      | 3,204,764                      | 1,678,368      |
| Loss from operations   | (1,637,698 )                    | (487,650 )   | (3,204,764 )                   | (1,678,368 )   |
| Other expense (income):  |                                 |              |                                |                |
| Gain on extinguishment of liabilities (Note 5)                                       | -                               | -            | (718,580 )                     | -              |
| Conversion inducement (Note 8)   | 8,000                           | -            | 8,000                          | -              |
| Interest expense, net  | 84,714                          | 94,640       | 276,815                        | 281,969        |
| Total other expense (income)   | 92,714                          | 94,640       | (433,765 )                     | 281,969        |
| Net loss   | (1,730,412 )                    | (582,290 )   | (2,770,999 )                   | (1,960,337 )   |
| Net loss attributable to the noncontrolling interest                                 | 1,472                           | 508          | 2,486                          | 1,904          |
| Net loss applicable to Bion's common stockholders                                    | \$(1,728,940 )                  | \$(581,782 ) | \$(2,768,513 )                 | \$(1,958,433 ) |
| Net loss applicable to Bion's common stockholders per basic and diluted common share | \$(0.07 )                       | \$(0.02 )    | \$(0.11 )                      | \$(0.08 )      |
| Weighted-average number of common shares outstanding:<br>Basic and diluted           | 24,465,814                      | 23,348,981   | 24,253,807                     | 23,407,626     |

See notes to consolidated financial statements

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

|  | Bion's Shareholders'<br>Series<br>C<br>Preferred<br>Stock |        |            | Common Stock | Additional<br>paid-in<br>capital | Subscription<br>Receivables<br>for Shares | Accumulated<br>deficit | Noncontrolling<br>interest | Total<br>equity/<br>(deficit) |
|--|---|--------|------------|--------------|----------------------------------|---|------------------------|----------------------------|-------------------------------|
|  | Shares  | Amount | Shares     | Amount       |                                  |   |                        |                            |                               |
| Balances, July<br>1, 2017  | -   | \$ -   | 24,748,213 | \$ -         | \$ 103,540,352                   | \$(40,000 )                               | \$(118,676,966)        | \$ 57,332                  | \$(15,119,282)                |
| Issuance of<br>common stock<br>for services                        | -   | -      | 18,849     | -            | 14,631                           | -   | -                      | -                          | 14,631                        |
| Vesting of<br>options and<br>stock bonuses<br>for services         | -   | -      | -          | -            | 1,391,671                        | -   | -                      | -                          | 1,391,671                     |
| Modification of<br>options   | -   | -      | -          | -            | 349,656                          | -   | -                      | -                          | 349,656                       |
| Sale of units  | -   | -      | 480,331    | -            | 306,997                          | -   | -                      | -                          | 306,997                       |
| Commissions on<br>sale of units                                    | -   | -      | -          | -            | (14,875 )                        | -   | -                      | -                          | (14,875 )                     |
| Warrants<br>exercised for<br>common stock                          | -   | -      | 80,001     | -            | 48,001                           | -   | -                      | -                          | 48,001                        |
| Modification of<br>warrants  | -   | -      | -          | -            | 296,852                          | -   | -                      | -                          | 296,852                       |
| Issuance of<br>warrants  | -   | -      | -          | -            | 183,000                          | (134,650 )                                | -                      | -                          | 48,350                        |
| Extinguishment<br>of deferred<br>compensation -<br>related parties | -   | -      | -          | -            | 1,685,252                        | -   | -                      | -                          | 1,685,252                     |
| Net loss   | -   | -      | -          | -            | -                                | -   | (2,768,513 )           | (2,486 )                   | (2,770,999 )                  |
| Balances, March<br>31, 2018  | -   | \$ -   | 25,327,394 | \$ -         | \$ 107,801,537                   | \$(174,650 )                              | \$(121,445,479)        | \$ 54,846                  | \$(13,763,746)                |

See notes to consolidated financial statements





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

|  | 2018          | 2017          |
|--|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |               |               |
| Net loss   | \$(2,770,999) | \$(1,960,337) |
| Adjustments to reconcile net loss to net cash used in operating activities:    |               |               |
| Depreciation expense   | 1,308         | 1,507         |
| Accrued interest on loan payable, deferred compensation and other              | 303,189       | 308,347       |
| Stock-based compensation   | 2,101,160     | 481,565       |
| Gain on extinguishment of liabilities  | (718,580 )    | -             |
| Conversion inducement  | 8,000         | -             |
| Decrease in prepaid expenses   | 2,321         | 8,504         |
| Increase in accounts payable and accrued expenses                              | 80,749        | 133,171       |
| Increase in deferred compensation  | 610,200       | 627,200       |
| Net cash used in operating activities  | (382,652 )    | (400,043 )    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |               |               |
| Decrease in subscription receivable  | \$-           | \$7,500       |
| Proceeds from sale of common stock   | -             | 22,850        |
| Proceeds from sale of units  | 306,997       | 249,628       |
| Commissions on sale of units   | (14,875 )     | (14,212 )     |
| Proceeds from exercise of warrants   | 40,001        | -             |
| Repayment of loans payable - affiliates  | (12,500 )     | -             |
| Proceeds from loans payable - affiliates                                       | 30,500        | -             |
| Net cash provided by financing activities                                      | 350,123       | 265,766       |
| Net decrease in cash   | (32,529 )     | (134,277 )    |
| Cash at beginning of period  | 72,932        | 170,194       |
| Cash at end of period  | \$40,403      | \$35,917      |
| Supplemental disclosure of cash flow information:                              |               |               |
| Cash paid for interest   | \$-           | \$-           |
| Non-cash investing and financing transactions:                                 |               |               |
| Issuance of common stock to satisfy deferred compensation and accounts payable | \$-           | \$140,502     |
| Purchase of warrants for subscription receivable - affiliates                  | \$134,650     | \$40,000      |
| 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 NINE MONTHS ENDED MARCH 31, 2018 AND 2017  
(UNAUDITED)

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 to address concerns re 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 2018 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 a very 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), and c) while 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 2018 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).

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 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, some Great Lakes Basin states, and/or other states and watersheds facing Environmental Protection Agency ("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 conjunction 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. 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.

Management believes that Bion's technology also creates the opportunity to develop Integrated Projects that profitably integrate large-scale CAFO's production with their downstream food processing facility, and in certain applications, biofuel/ethanol production. The Bion platform will provide treatment of, as well as renewable energy and by-product recovery from, both the CAFO and food processing waste streams, on-site utilization of some or all of the renewable energy generated, and potentially, biofuel/ethanol production, in an environmentally and economically sustainable manner that reduces the aggregate capital expense and operating costs for the entire integrated complex. Projects may involve various degrees of integration which will limit the benefits described herein.

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 March 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 36 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.

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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 all 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 2 (not yet constructed) (and most future Projects) will be developed using variations on Bion's 3G Tech to recover substantial marketable nutrients and renewable energy to supplement its revenue from nutrient reductions. The Company believes that the proceeds from multiple byproduct streams including i) fertilizer (organic and non-organic) and/or feed additives and ii) renewable energy (and related credits) can be reasonably projected to generate, in aggregate, revenue streams that, in certain circumstances, may exceed two-thirds of total revenues from such Project(s) when aggregated with license fees related to a 'sustainable brand' resulting from implementation of Bion's technology. To date the market for long-term nutrient reduction credits in Pennsylvania has been very slow to develop and the Company's activities have been negatively affected by the lack of such development.

Kreider 2 pre-development work and technology evaluation, including execution of a stand-alone joint venture agreement, amended credit certification and discussions with potential joint venture partners, continues. The Kreider 2 Project primarily relates to treatment of the wastes from Kreider's poultry operations. 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 fiscal year 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.

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 \$2,463,000 and \$4,522,000 during the years ended June 30, 2017 and 2016, respectively and net loss of approximately \$2,771,000 during the nine months ended March 31, 2018. At March 31, 2018, the Company has a working capital deficit and a stockholders' deficit of approximately \$10,267,000 and \$13,819,000, 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, 2017 and 2016, the Company received total proceeds of approximately \$452,000 and \$761,000 from the sale of its debt and equity securities. Proceeds during the 2017 and 2016 fiscal years have been lower than in earlier years which reduction has negatively impacted the Company's business development efforts. During the nine months ended March 31, 2018, the Company received approximately \$307,000 from the sale of its debt and equity securities, which is lower than previous years.

During fiscal years 2017 and 2016 and through the nine months ended March 31, 2018, the Company experienced 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 5 and 7) and members of the Company's senior management have made loans to the Company (Note 4). During the nine months ended March 31, 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. 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) (including 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.

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## 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 March 31, 2018, and the results of operations and cash flows of the Company for the three and nine months ended March 31, 2018 and 2017. Operating results for the three and nine months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018.

### 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.

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 loan payable – affiliates, deferred compensation and convertible notes payable - affiliates are not practicable to estimate due to the related party nature of the underlying transactions.

Revenue Recognition:

Revenues are generated from the sale of nutrient reduction credits. The Company recognizes revenue from the sale of nutrient credits when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and collection is reasonably assured.

The Company expects that technology license fees will be generated from the licensing of Bion's integrated system. The Company anticipates that it will charge its customers a non-refundable up-front technology license fee, which will be recognized over the estimated life of the customer relationship. In addition, any on-going technology license fees will be recognized as earned based upon the performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company's interest in Integrated Projects will be recognized when the entity in which the Integrated Project has been developed recognizes such revenue.

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 nine months ended March 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:

|                             | March 31,<br>2018 | March 31,<br>2017 |
|-----------------------------|-------------------|-------------------|
| Warrants                    | 12,176,269        | 8,382,831         |
| Options                     | 6,827,225         | 4,520,037         |
| Convertible debt            | 7,337,805         | 8,517,079         |
| Convertible preferred stock | 16,750            | 15,750            |

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

|  | Three<br>months<br>ended<br>March 31,<br>2018 | Three<br>months<br>ended<br>March 31,<br>2017 | Nine<br>months<br>ended<br>March 31,<br>2018 | Nine<br>months<br>ended<br>March 31,<br>2017 |
|--|---|---|--|--|
| Shares issued – beginning of period                    | 25,011,939                                    | 23,784,363                                    | 24,748,213                                   | 23,573,057                                   |
| Shares held by subsidiaries (Note 7)                   | (704,309 )                                    | (704,309 )                                    | (704,309 )                                   | (704,309 )                                   |
| Shares outstanding – beginning of period               | 24,307,630                                    | 23,080,054                                    | 24,043,904                                   | 22,868,748                                   |
| Weighted average shares for fully vested stock bonuses | -   | -   | -  | 289,051                                      |
| Weighted average shares issued during the period       | 158,184                                       | 268,927                                       | 209,903                                      | 249,827                                      |
| Basic weighted average shares – end of period          | 24,465,814                                    | 23,348,981                                    | 24,253,807                                   | 23,407,626                                   |

**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 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 "Revenue from Contracts from Customers," which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Once the Company begins to generate revenue, the Company does not anticipate any material impact on its operations and financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, early application is permitted. The adoption of ASU No. 2014-15 did not have a material impact on the Company's financial statements.

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 Company does not anticipate any material impact on the Company's financial statements upon adoption.

**3. PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following:

|                                | March 31,<br>2017 | June 30,<br>2017 |
|--------------------------------|-------------------|------------------|
| Machinery and equipment        | \$2,222,670       | \$2,222,670      |
| Buildings and structures       | 401,470           | 401,470          |
| Computers and office equipment | 171,613           | 171,613          |
|                                | 2,795,753         | 2,795,753        |
| Less accumulated depreciation  | (2,793,869)       | (2,792,561)      |
|                                | \$ 1,884          | \$ 3,192         |

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 March 31, 2018, management believes that no additional impairment exists.

Depreciation expense was \$436 and \$502 for the three months ended March 31, 2018 and 2017, respectively, and \$1,308 and \$1,507 for the nine months ended March 31, 2018 and 2017, respectively.



**4. LOANS PAYABLE - AFFILIATES:**

As of March 31, 2018, Mark A. Smith (“Smith”), the Company’s President, had loaned the Company \$18,000 for working capital needs. During the nine months ended March 31, 2018, Dominic Bassani (“Bassani”), the Company’s Chief Executive Officer was repaid \$12,500 for loans he had previously made to the Company. The loans are non-interest bearing, are non-collateralized and will be repaid when the Board of Directors determines there is adequate cash available.

**5. DEFERRED COMPENSATION:**

The Company owes deferred compensation to various employees, former employees and consultants totaling \$345,929 and \$1,962,885 as of March 31, 2018 and 2017, respectively. Included in the deferred compensation balances as of March 31, 2018, are \$124,612 and \$72,355 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, Smith and Edward Schafer (“Schafer”), the Company’s Vice Chairman, as of March 31, 2017 was \$873,273, \$338,480 and \$118,376, respectively. The Company also owes various consultants, pursuant to various agreements, for deferred compensation of \$75,478 and \$391,272 as of March 31, 2018 and 2017, respectively, with similar conversion terms as those described above for Bassani, Smith and Schafer, 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, 2018 (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 1,893 shares of the Company’s common stock as of March 31, 2018 and, a former employee \$72,500, which is not convertible and is non-interest bearing. During the nine months ended March 31, 2018, Bassani, Smith and Schafer agreed to cancel deferred compensation owed them as of November 30, 2017 of \$1,147,210, \$416,656 and \$121,386, respectively (\$1,685,252 in aggregate). Various consultants also agreed to cancel deferred compensation as of November 30, 2017 totaling \$718,580. The total deferred compensation that was cancelled during the nine months ended March 31, 2018 was \$2,403,832, of which, the \$1,685,252 owed related parties was recorded as an increase in additional paid in capital, while \$718,580 was recorded as a gain from the extinguishment of liabilities. All deferred compensation agreements remain in effect and the Company accrued deferred compensation anew beginning December 1, 2017.

The Company recorded interest expense of \$32,299 (\$26,084 with related parties) and \$39,592 (\$30,937 with related parties) for the nine months ended March 31, 2018 and 2017, respectively.

**6. LOAN PAYABLE:**

PA1, the Company’s wholly-owned subsidiary, owes \$8,970,818 as of March 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 \$1,216,818 as of March 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 \$2,742,000 in fiscal years 2013 through 2017, and \$760,000 in fiscal year 2018, \$771,000 in fiscal year 2019, \$794,000 in fiscal year 2020, \$819,000 in fiscal year 2021, \$846,000 in fiscal year 2022 and \$1,022,000 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 \$49,373 for both of the three months ended March 31, 2018 and 2017, respectively. The Company has incurred interest expense related to the Pennvest Loan of \$148,121 and for both of the nine months ended March 31, 2018 and 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 March 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.

#### 7. 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. 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 quarter 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 March 31, 2018, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were \$1,654,736, \$859,282 and \$427,416, respectively. As of March 31, 2017, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were \$1,596,155, \$828,861 and \$412,284, respectively. The Company recorded interest expense of \$25,677 for both of the three months ended March 31, 2018 and 2017, respectively. The Company recorded \$78,172 for both of the nine months ended March 31, 2018 and 2017, respectively.

##### 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. The balances of the September 2015 Convertible Notes as of March 31, 2018, including accrued interest, are \$447,989, \$18,061 and \$91,417, respectively. The balances of the September 2015 Convertible Notes as of March 31, 2017, including accrued interest, were \$431,181, \$17,405 and \$88,101, respectively. During the nine months ended March 31, 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 (Note 8).

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 nine months ended March 31, 2018, the maturity date of the note due a Shareholder was extended until July 1, 2019.

The Company recorded interest expense of \$5,341 and \$4,983 for the three months ended March 31, 2018 and 2017, respectively. The Company recorded interest expense of \$15,743 and \$15,168 for the nine months ended March 31, 2018 and 2017, respectively.

## 8. 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, 2017 and 2016, the Company declared dividends of \$2,000 and \$2,000 respectively. During the three and nine months ended March 31, 2018, the Company declared dividends of \$500 and \$1,500, respectively. At March 31, 2018, accrued dividends payable are \$13,500. 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 nine months ended March 31, 2018, the Company issued 18,849 shares of the Company's common stock at prices ranging from \$0.66 to \$0.91 per share for services valued at \$14,631, in the aggregate, to a consultant and an employee.

During the nine months ended March 31, 2018, the Company entered into subscription agreements to sell units for \$0.75 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 \$1.00 per share with expiry dates of June 30, 2018 and pursuant thereto, the Company issued 267,331 units for total proceeds of \$200,497, net proceeds of \$185,622 after commissions. The Company allocated the proceeds from the 267,331 shares and the 133,666 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, \$6,152 was allocated to the warrants and \$194,345 was allocated to the shares, and both were recorded as additional paid in capital.

During the nine months ended March 31, 2018, the Company entered into subscription agreements 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 September 30, 2018 and pursuant thereto, the Company issued 213,000 units for total proceeds of \$106,500. The Company allocated the proceeds from the 213,000 shares and the 106,500 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, \$3,140 was allocated to the warrants and \$103,360 was allocated to the shares, and both were recorded as additional paid in capital.

During the nine months ended March 31, 2018, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before March 31, 2018 and June 30, 2018, into restricted shares of the Company's common stock at a reduced exercise price of \$0.50 for the period from March 1, 2018 to March 31, 2018. At March 31, 2018 the Company exercised its right to extend the offering an additional 15 days to April 15, 2018 and therefore any warrants which would have expired on March 31, 2018 were automatically extended to April 15, 2018. As the \$0.50 exercise price was a reduction from the original exercise price of \$0.75, and due to the limited time in which the warrant holders had to subscribe, the reduction in the offering price was accounted for as an inducement and a conversion inducement of \$8,000 was recorded. As a result of the offering, 80,001 warrants were exercised and 80,001 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$40,001 for the nine months ended March 31, 2018.



Warrants:

As of March 31, 2018, the Company had approximately 12.2 million warrants outstanding, with exercise prices from \$0.75 to \$3.00 and expiring on various dates through December 31, 2022.

The weighted-average exercise price for the outstanding warrants is \$1.07, and the weighted-average remaining contractual life as of March 31, 2018 is 3.6 years.

During the nine months ended March 31, 2018, warrants to purchase 322,110 shares of common stock of the Company at prices between \$1.00 and \$2.50 per share expired.

During the nine months ended March 31, 2018, the Company entered into subscription agreements to sell units for \$0.75 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 \$1.00 per share with expiry dates of June 30, 2018 and pursuant thereto, the Company issued 267,331 units for total proceeds of \$200,497, net proceeds of \$185,622 after commissions. The Company allocated the proceeds from the 267,331 shares and the 133,666 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, \$6,152 was allocated to the warrants and \$194,345 was allocated to the shares, and both were recorded as additional paid in capital. The Company also issued 89,485 warrants to purchase 89,485 shares of the Company's restricted common shares with an exercise price of \$1.00 per share exercisable until June 30, 2019 as commissions related to the above sale of Units.

During the nine months ended March 31, 2018, the Company entered into subscription agreements 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 September 30, 2018 and pursuant thereto, the Company issued 213,000 units for total proceeds of \$106,500. The Company allocated the proceeds from the 213,000 shares and the 106,500 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, \$3,140 was allocated to the warrants and \$103,360 was allocated to the shares, and both were recorded as additional paid in capital.

During the year ended June 30, 2017, the Company received an interest bearing, secured promissory note for \$40,000 from Bassani as consideration to purchase warrants to purchase 800,000 shares of the Company's restricted common stock, which warrants are exercisable at \$1.00 and have expiry dates of December 31, 2021 ("Bassani Warrant"). The promissory note bears interest at 4% per annum, was secured by a perfected security interest in the Bassani Warrant, and was payable on November 15, 2017. Effective November 7, 2017 an addendum to the promissory note changed the principal of the note to \$41,513 (the original principal of \$40,000 plus accrued interest of \$1,513), changed the maturity date of the note to July 1, 2019 and the collateral was changed to Replacement Note 1 of Bassani's 2015 Convertible Note (Note 7) with a balance at November 7, 2017 of \$130,000 which will be held by the Company.

During the nine months ended March 31, 2018, the Company received an interest bearing, secured promissory note for \$88,250 from Bassani as consideration to purchase warrants to purchase 1,765,000 shares of the Company's restricted common stock, which warrants are exercisable at \$0.75 and have expiry dates of December 31, 2020. The warrants have a 90% exercise bonus (Note 9). The promissory note bears interest at 4% per annum, is secured by Bassani's Replacement Note 1 of Bassani's 2015 Convertible Note (Note 7) with a balance at November 7, 2017 of \$130,000, which will be held by the Company. The secured promissory note is payable on July 1, 2020.

During the nine months ended March 31, 2018, the Company received two interest bearing, secured promissory notes with an aggregate principal amount of \$46,400 from two former employees as consideration to purchase warrants to purchase 928,000 shares of the Company's restricted common stock, which warrants are exercisable at \$0.75 and have expiry dates of December 31, 2020. These warrants have a 90% exercise bonus (Note 9). The promissory notes bear interest at 4% per annum, are secured by a perfected security interest in the warrants, and are payable on July 1, 2020.

During the nine months ended March 31, 2018, the Company issued 670,000 warrants to Smith and 247,000 warrants to a former employee and a consultant to purchase in aggregate 917,000 shares of the Company's restricted common stock, which warrants are exercisable at \$0.75 per share and have expiry dates of December 31, 2020. The warrants were in exchange for services expensed at \$45,850, in aggregate (\$33,500 to Smith). These warrants have a 90% exercise bonus (Note 9). The Company also issued 50,000 warrants to two consultants for services valued at \$2,500, exercisable at \$0.75 per share which expiry dates ranging from October 1, 2020 to December 31, 2023.

During the nine months ended March 31, 2018, the Company agreed to extend the expiration dates of 5,773,706 warrants owned by certain individuals (including 5,329,869 owned by Bassani, 91,371 owned by Smith and 23,934 owned by Schafer) which were scheduled to expire at various dates ranging from December 31, 2017 through December 31, 2021. The Company recorded non-cash compensation expense related to the modification of the warrants of \$296,852 (\$265,353, \$7,310 and \$1,197 for Bassani, Smith and Schafer, respectively).

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## 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 year ended June 30, 2017, the Company approved the issuance of 100,000 shares in stock bonuses to an employee and a consultant with various vesting dates from January 15, 2018 through January 15, 2020. In February 2018, the Board of Directors cancelled the stock bonuses previously approved. The Company recorded \$22,321 and \$14,784 of non-cash compensation related to the stock bonuses for the nine months ended March 31, 2018 and 2017, respectively.

During the nine months ended March 31, 2018, the Company approved the modification of existing stock options held by certain employees and consultants, which extended certain expiration dates. The modifications resulted in incremental non-cash compensation of \$349,656 (including \$119,350 and \$68,000 for Bassani and Schafer, respectively).

The Company recorded compensation expense related to employee stock options of \$1,269,700 and \$6,134 for the three months ended March 31, 2018 and 2017, respectively, and \$1,369,350 and \$135,950 for the nine months ended March 31, 2018 and 2017, respectively. The Company granted 2,647,500 and 294,500 options during the nine months ended March 31, 2018 and 2017, respectively.

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

|                         | Weighted<br>Average, Range,<br>March 31, March 31,<br>2018 2018 |             | Weighted<br>Average, Range,<br>March 31, March 31,<br>2017 2017 |              |
|-------------------------|---|-------------|---|--------------|
| Volatility              | 74%   | 68%-75%     | 79%   | 78%-86%      |
| Dividend yield          | -   | -           | -   | -            |
| Risk-free interest rate | 2.44%   | 1.75%-2.64% | 1.14%   | 0.82% -1.17% |
| Expected term (years)   | 5   | 3-6         | 4   | 3-4          |

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 nine months ended March 31, 2018 is as follows:

|                               | Options    | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|------------|---|--|---------------------------------|
| Outstanding at July 1, 2017   | 4,545,037  | \$1.42                                    | 2.9  | \$ 176,575                      |
| Granted                       | 2,647,500  | 0.76                                      |  |                                 |
| Exercised                     | -          | -   |  |                                 |
| Forfeited                     | -          | -   |  |                                 |
| Expired                       | (365,312 ) | -   |  |                                 |
| Outstanding at March 31, 2018 | 6,827,225  | \$1.11                                    | 4.0  | \$ -                            |
| Exercisable at March 31, 2018 | 6,827,225  | \$1.11                                    | 4.0  | \$ -                            |





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

|                             | Options     | Weighted<br>Average<br>Grant-Date<br>Fair<br>Value |
|-----------------------------|-------------|--|
| Nonvested at July 1, 2017   | 25,000      | \$ 0.46  |
| Granted                     | 2,647,500   | 0.52   |
| Vested                      | (2,672,500) | 0.51   |
| Nonvested at March 31, 2018 | -           | \$ -   |

The total fair value of stock options that vested during the nine months ended March 31, 2018 and 2017 was \$1,376,250 and \$151,770 respectively. As of March 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 nine months ended March 31, 2018 and 2017 are as follows:

|   | Three<br>months<br>ended<br>March<br>31,<br>2018 | Three<br>months<br>ended<br>March<br>31,<br>2017 | Nine<br>months<br>ended<br>March<br>31,<br>2018 | Nine<br>months<br>ended<br>March<br>31,<br>2017 |
|---|--|--|---|---|
| General and administrative:                             |  |  |   |   |
| Fair value of stock/warrant bonuses expensed            | \$ 1,500   | \$-  | \$ 8,723  | \$ 6,830  |
| Change in fair value from modification of option terms  | -  | -  | 243,761   | 166,031   |
| Change in fair value from modification of warrant terms | 7,091  | -  | 163,956   | -   |
| Fair value of stock options expensed                    | 682,485  | 6,134  | 782,135   | 112,699   |
| Total   | \$ 691,076                                       | \$ 6,134   | \$ 1,198,575                                    | \$ 285,560                                      |
| Research and development:                               |  |  |   |   |
| Fair value of stock bonus expensed                      | \$-  | \$-  | \$ 15,098                                       | \$ 7,954  |
| Change in fair value from modification of option terms  | -  | -  | 105,895   | 11,440  |
| Change in fair value from modification of warrant terms | 219  | -  | 132,896   | -   |
| Fair value of stock options expensed                    | 587,215  | -  | 587,215   | 23,251  |
| Total   | \$ 587,434                                       | \$-  | \$ 841,104                                      | \$ 42,645                                       |

## 9. 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. On February 10, 2015, the Company executed an Extension Agreement with Smith pursuant to which Smith extended his employment with the Company to December 31, 2015 (with the Company having an option to extend his employment an additional six months). As part of the Extension Agreement, the balance of Smith's existing convertible note payable as of December 31, 2014, adjusted for conversions subsequent to that date, was replaced with a new convertible note with an initial principal amount of \$760,520 with terms that i) materially reduce the interest rate by 50% (from 8% to 4%), ii) increases the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further reductions, iv) reduces the number of warrants received on conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the maturity date to December 31, 2017. Additionally, pursuant to the Extension Agreement, Smith: i) will continue to defer his cash compensation (\$18,000 per month) until the Board of Directors re-instates cash payments to all employees and consultants who are deferring their compensation, ii) cancelled 150,000 contingent stock bonuses previously granted to him by the Company, iii) has been granted 150,000 new options which vested immediately and iv) outstanding options and warrants owned by Smith (and his donees) have been extended and had the exercise prices reduced to \$1.50 (if the exercise price exceeded \$1.50). In October 2015, the Company executed an Extension Agreement ("FY2016 Extension Agreement") with Smith pursuant to which Smith extended his employment with the Company to June 30, 2016 (with Company having an option to extend his employment an additional six months). As part of the FY2016 Extension Agreement, Smith: i) will continue to defer his cash compensation (\$19,000 per month) until the Board of Directors re-instates cash payments, ii) has been granted 100,000 new options which vested immediately, and iii) has been granted 75,000 shares of common stock as an extension bonus which are immediately vested and were issued on January 5, 2016. As of July 1, 2016, Smith is working under a month to month contract extension until a longer term agreement is reached. On October 10, 2016, the Company approved a month to month contract extension with Smith which includes provisions for i) issuance of 25,000 bonus shares of the Company's common shares on January 15, 2017 (which were subsequently cancelled), ii) grant of 75,000 options to purchase shares of the Company's common shares at \$0.90 per share with expiry date of December 31, 2020, which options are subject to the exercise/extension bonus, iii) a monthly deferred salary of \$18,000 effective October 1, 2016, iv) 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, until December 31, 2018), and v) 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.

Since March 31, 2005, the Company has had various agreements with Brightcap and/or Bassani, through which the services of Bassani are provided. The Board appointed Bassani as the Company's CEO effective May 13, 2011. During the fiscal years 2012 and 2013, Bassani entered into extension agreements whereby he was awarded fully vested stock grants totaling 600,000 shares, 500,000 shares of which were to be issued January 15, 2016 and 100,000 shares were to be issued January 15, 2017. The stock grants were expensed in the years they were awarded as they are fully vested. The stock grants were cancelled in October 2016. 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.) As part of the agreement, the Company's then existing loan payable, deferred compensation and convertible note payable to Bassani, were restructured into two promissory notes as follows: a) The sum of the cash loaned by Bassani to the Company of \$279,000 together with \$116,277 of unreimbursed expenses through December 31, 2014, were placed into a new promissory note with initial principal of \$395,277 which was due and payable on December 31, 2015 and now has been replaced with a September 2015 Convertible Note (Note 7). In connection with these sums and the new promissory note, Bassani was issued warrants to purchase 592,916 shares of the Company's common stock at a price of \$1.00 until December 31, 2020; and b) the remaining balances of the Company's accrued obligations to Bassani (\$1,464,545) were replaced with a new convertible promissory note with terms that compared with the largest prior convertible note obligation to Bassani: i) materially reduce the interest rate by 50% (from 8% to 4%), ii) increase the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further

reductions, iv) reduces the number of warrants received on conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the maturity date to December 31, 2017 (Note 7). Additionally, pursuant to the Extension Agreement, Bassani i) will continue 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, ii) cancelled 250,000 contingent stock bonuses previously granted to him by the Company, iii) has been granted 450,000 new options which vested immediately and iv) outstanding options and warrants owned by Bassani (and his donees) have been extended and had the exercise prices reduced to \$1.50 (if the exercise price exceeded \$1.50). 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, until December 31, 2018).

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 nine months ended March 31, 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 nine months ended March 31, 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%).

During the nine months ended March 31, 2017, the Company issued 3,460,000 warrants (1,765,000 and 670,000 to Bassani and Smith, respectively) and 190,000 options to Schafer that have a 90% execution/exercise bonus attached.

As of March 31, 2018, the execution/exercise bonuses ranging from 50-90% were applicable to 6,634,600 of the Company's outstanding options and 11,478,555 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 6).

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

10. SUBSEQUENT EVENTS:

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

From April 1, 2018 through May 8, 2018, the Company has issued 3,750 shares of the Company's common shares to an employee for services valued at approximately \$2,000.

From April 1, 2018 through May 8, 2018 the Company has entered into subscription agreements to sell 71,000 Units of its securities at \$0.50 per Unit for aggregate consideration of approximately \$36,000. 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 September 30, 2018.

From April 1, 2018 through May 8, 2018, the Company entered into subscription agreements to exercise 10,000 warrants into restricted shares of the Company's common stock at a reduced exercise price of \$0.50.

From April 1, 2018 through May 8, 2018, a consultant has elected to convert deferred compensation of approximately \$60,000 under terms similar to the current Unit offering resulting in the issuance of approximately 120,000 shares of the Company's common stock and approximately 60,000 warrants.

From April 1, 2018 through May 8, 2018, Smith has elected to convert his loan payable – affiliate balance of \$18,000, accounts payable for expenses of approximately \$65,540 and \$70,000 of deferred compensation into shares of the Company's common stock and warrants under terms similar to the current Unit offering. Smith's conversion results in the issuance of 307,080 shares of the Company's common shares stock and the issuance of 153,540 warrants.

## 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, 2017.

### BUSINESS OVERVIEW

From 2014 through the current 2018 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 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 a very 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 2017 fiscal year with increased focus on recovery of marketable 'byproducts' (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 2018 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. The revenue streams are: a)renewable energy and associated greenhouse gas credits including US Renewable Fuel Standard (RFS) and Low Carbon Fuel Standard (LCFS),b)verified nutrient credits that can be used as qualified offsets

to the federal Chesapeake Bay mandate, c)co-products consisting of high value fertilizer that Bion believes will achieve certification for use in organic production for human consumption, and d) an environmentally sustainable 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 identify their products in the marketplace and therefore creates the opportunity to achieve “premium pricing” by addressing consumer concerns related to safety and sustainability as demonstrated by 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 its 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 2<sup>d</sup> 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 move toward commercialization of our 3G Tech systems (which is ready to be implemented) 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

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, 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 conjunction 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 March 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" 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 36 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 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 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-develop work related to a waste treatment/renewable energy production facility to treat the waste from KF's approximately 5+ 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 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) 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 but has been 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 once these matters are clear. Design and engineering work for this facility, which will probably be the first 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 for its initial modules during the 2019 fiscal year, and hopes to enter into agreements related to sales of the nutrient reduction credits for future delivery (under long term contracts) during 2018 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 d) 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.

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. 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. Integrated Projects will include large CAFOs (such as large dairies, beef cattle feed lots and/or hog farms) with Bion waste treatment 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 capable of producing 40 million to 100 (or more) million gallons of ethanol per year. Such Integrated Projects will involve multiple CAFO modules of 10,000 or more beef or dairy cows (or waste stream equivalent of other species) with waste treatment modules on a single site and/or on sites within an approximately 30-mile radius. Bion believes its technology platform (2G Tech, 3G Tech and/or a hybrid in different situations) will allow integration of large-scale CAFO's with end product processors and/or potentially ethanol production, together with renewable energy production and byproducts recovered from the waste streams, and on-site energy utilization in a '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 ethanol 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 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 calendar year 2018. 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 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 2018-21 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) have been developed to date.

The Company's audited financial statements for the years ended June 30, 2017 and 2016 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately \$2,463,000 and \$4,522,000 during the years ended June 30, 2017 and 2016, 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, 2017 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. The Company has incurred net (losses of approximately \$2,763,000 and \$1,960,000 for the nine months ended March 31, 2018 and 2017, respectively. At March 31, 2018, the Company had a working capital deficit and a stockholders' deficit of approximately \$10,267,000 and \$13,819,000, 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

While the Company has not recognized any significant operating revenues for the past three fiscal years, the Company has commenced generation of revenues during the year ended June 30, 2013. Revenues have been generated from the sale of nutrient reduction credits. The Company recognizes revenue from the sale of nutrient credits and products when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and collection is reasonably assured. The Company expects that technology license fees will be generated from the licensing of Bion's systems. The Company anticipates that it will charge its customers a non-refundable up-front technology license fee, which will be recognized over the estimated life of the customer relationship. In addition, any on-going technology license fees will be recognized as earned based upon the performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company's interest in Projects will be recognized when the entity in which the Project has been developed recognizes such revenue.

##### 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.

#### 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.

#### Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts from Customers,” which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Once the Company begins to generate revenue, the Company does not anticipate any material impact on its operations and financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern: Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, early application is permitted. The adoption of ASU No. 2014-15 did not have a material impact on its financial statements.

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 MARCH 31, 2018 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2017

## Revenue

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

## General and Administrative

Total general and administrative expenses were \$957,000 and \$401,000 for the three months ended March 31, 2018 and 2017, respectively.

General and administrative expenses, excluding stock-based compensation charges of \$691,000 and \$6,000, were \$266,000 and \$395,000 for the three months ended March 31, 2018 and 2017, respectively, representing a \$129,000 decrease. Salaries and related payroll tax expenses were \$72,000 and \$74,000 for the three months ended March 31, 2018 and 2017, respectively. Consulting costs were \$103,000 and \$213,000 for the three months ended March 31, 2018 and 2017, respectively, representing an \$110,000 decrease due to the limited use of governmental affairs consultants during the three months ended March 31, 2018. Investor relations costs were \$7,000 and \$26,000 for the three months ended March 31, 2018 and 2017, respectively, the decrease due to the lower utilization of third party investor relations consultants during the fiscal 2018 period. Most other general and administrative expenses for the three months ended March 31, 2018 did not change materially compared to the three months ended March 31, 2017.

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

|   | Three<br>months<br>ended<br>March<br>31,<br>2018 | Three<br>months<br>ended<br>March<br>31,<br>2017 |
|---|--|--|
| General and administrative:                             |  |  |
| Fair value of stock options expensed under ASC 718      | \$ 682,000                                       | \$ 6,000   |
| Change in fair value from modification of warrant terms | 7,000  | -  |
| Fair value of stock/warrant bonus expensed              | 2,000  | -  |
| Total   | \$ 691,000                                       | \$ 6,000   |

Stock-based compensation charges were \$691,000 and \$6,000 for the three months ended March 31, 2018 and 2017, respectively. Compensation expense relating to stock options was \$682,000 and \$6,000 during the three months ended March 31, 2018 and 2017, respectively. The Company granted a total of 2,352,500 options that were fully vested during the three months ended March 31, 2018, while no options were awarded during the three months ended March 31, 2017. During the three months ended March 31, 2018, the Company extended expiration dates of warrants for an employee which resulted in the recognition of \$7,000 in non-cash compensation, while no warrants were modified during the same period in fiscal year 2017.

### Depreciation

Total depreciation expense was \$500 and \$500 for the three months ended March 31, 2018 and 2017, respectively.

### Research and Development

Total research and development expenses were \$680,000 and \$86,000 for the three months ended March 31, 2018 and 2017, respectively.

Research and development expenses, excluding stock-based compensation expenses of \$587,000 and nil, were \$93,000 and \$86,000 for the three months ended March 31, 2018 and 2017, respectively. Salaries and related payroll tax expenses were \$16,000 and \$18,000 for the three months ended March 31, 2018 and 2017, respectively. Consulting costs were \$3,000 and \$8,000 for the three months ended March 31, 2018 and 2017, respectively. The decrease in consulting costs was offset by \$9,000 of expenses incurred for a new pilot testing program during the three months ended March 31, 2018.

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

|  | Three<br>months<br>ended<br>March<br>31,<br>2018 | Three<br>months<br>ended<br>March<br>31,<br>2017 |
|--|--|--|
| Research and development:                          |  |  |
| Fair value of stock options expensed under ASC 718 | \$587,000  | \$ -   |
| Total  | \$587,000  | \$ -   |

The fair value of stock options expensed was \$587,000 and nil for the three months ended March 31, 2018 and 2017, respectively. The Company granted a total of 2,352,500 options that were fully vested during the three months ended March 31, 2018, a portion of which was allocated to research and development.

### Loss from Operations

As a result of the factors described above, the loss from operations was \$1,638,000 and \$488,000 for the three months ended March 31, 2018 and 2017, respectively.

### Other Expense (Income)

Other expense (income) was \$93,000 and \$95,000 for the three months ended March 31, 2018 and 2017, respectively. Interest expense, net decreased \$10,000 for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to lower balances on interest bearing deferred compensation. The Company recorded a conversion inducement expense of \$8,000 during the three months ended March 31, 2018 due to the limited time offer to reduce the exercise price of certain warrants.

### Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was \$1,000 for both the three months ended March 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 \$1,729,000 and \$582,000 for the three months ended March 31, 2018 and 2017, respectively, and the net loss per basic and diluted common share was \$0.07 and \$0.02.

## NINE MONTHS ENDED MARCH 31, 2018 COMPARED TO THE NINE MONTHS ENDED MARCH 31, 2017

## Revenue

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

## General and Administrative

Total general and administrative expenses were \$2,078,000 and \$1,353,000 for the nine months ended March 31, 2018 and 2017, respectively.

General and administrative expenses, excluding stock-based compensation charges of \$1,199,000 and \$286,000, were \$879,000 and \$1,067,000 for the nine months ended March 31, 2018 and 2017, respectively, representing an \$188,000 decrease. Salaries and related payroll tax expenses remained fairly constant at \$218,000 for the nine months ended March 31, 2018 compared to \$224,000 for the nine months ended March 31, 2017. Consulting costs were \$364,000 and \$477,000 for the nine months ended March 31, 2018 and 2017, respectively, representing an \$113,000 decrease. The decrease in consulting costs is due to reduced utilization of governmental affairs consultants during the nine months ended March 31, 2018. Investor relation costs decreased from \$69,000 for the nine months ended March 31, 2017 to \$33,000 for the nine months ended March 31, 2018 due to decreased spending on investor relations development firms during the nine months ended March 31, 2018. Insurance related expenses were \$50,000 and \$64,000 for the nine months ended March 31, 2018 and 2017, respectively, as the Company economized by changing some of its insurance coverage during the nine months ended March 31, 2018.

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

|   | Nine<br>months<br>ended<br>March<br>31,<br>2018 | Nine<br>months<br>ended<br>March<br>31,<br>2017 |
|---|---|---|
| General and administrative:                             |   |   |
| Fair value of stock/warrant bonus expensed              | \$9,000   | \$7,000   |
| Change in fair value from modification of option terms  | 244,000   | 166,000   |
| Change in fair value from modification of warrant terms | 164,000   | -   |
| Fair value of stock options expensed under ASC 718      | 782,000   | 113,000   |
| Total   | \$1,199,000                                     | \$286,000                                       |

Stock-based compensation charges were \$1,199,000 and \$286,000 for the nine months ended March 31, 2018 and 2017, respectively. Compensation expense relating to stock/warrant bonuses expensed for the nine months ended March 31, 2018 and 2017 of \$9,000 and \$7,000, 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). Compensation expense relating to the change in fair value from the modification of option terms was \$244,000 and \$166,000 for the nine months ended March 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 and two consultants during the nine months ended March 31, 2017 and the Company extended certain option expiration dates for seven employees and consultants during the nine months ended March 31, 2018. During the nine months ended March 31, 2018, the Company extended expiration dates of warrants for certain employees and consultants which resulted in the recognition of \$164,000 in non-cash compensation. The fair value of stock options expensed for the nine months ended March 31, 2018 and 2017 was \$782,000 and \$113,000 respectively. The Company granted 2,647,500 options during the nine months ended March 31, 2018 that were fully vested within that time period.

## Depreciation

Total depreciation expense was \$1,000 and \$2,000 for the nine months ended March 31, 2018 and 2017, respectively.



### Research and Development

Total research and development expenses were \$1,126,000 and \$324,000 for the nine months ended March 31, 2018 and 2017, respectively.

Research and development expenses, excluding stock-based compensation expenses of \$841,000 and \$43,000 were \$285,000 and \$281,000 for the nine months ended March 31, 2018 and 2017, respectively. Salaries and related payroll tax expenses were \$52,000 and \$54,000 for the nine months ended March 31, 2018 and 2017, respectively. Consulting costs were \$154,000 and \$166,000 for the nine months ended March 31, 2018 and 2017, respectively.

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

|   | Nine<br>Months<br>ended<br>March<br>31,<br>2018 | Nine<br>Months<br>ended<br>March<br>31,<br>2017 |
|---|---|---|
| Research and development:                               |   |   |
| Fair value of stock bonuses expensed                    | \$ 15,000                                       | \$ 8,000  |
| Change in fair value from modification of option terms  | 106,000   | 11,000  |
| Change in fair value from modification of warrant terms | 133,000   | -   |
| Fair value of stock options expensed under ASC 718      | 587,000   | 24,000  |
| Total   | \$ 841,000                                      | \$ 43,000                                       |

Stock-based compensation expenses were \$841,000 and \$43,000 and for the nine months ended March 31, 2018 and 2017, respectively. Compensation expense relating to stock bonuses expensed for the nine months ended March 31, 2018 and 2017 of \$15,000 and \$8,000, respectively, 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 attributed to the change in fair value from modification of options terms for the nine months ended March 31, 2017 is due to a research and development employee's having certain option exercise prices reduced during the period. For the nine months ended March 31, 2018 an employee and a consultant's expiration period of certain options were extended resulting in \$106,000 of expense. During the nine months ended March 31, 2018, the Company extended expiration dates of warrants for certain research and development employees and consultants which resulted in the recognition of \$133,000 in non-cash compensation. The fair value of stock options expensed for the nine months ended March 31, 2018 and 2017 was \$587,000 and \$24,000 respectively. The Company granted 2,647,500 options during the nine months ended March 31, 2018 that were fully vested within that time period and a portion of the stock compensation expense was allocated to research and development.

### Loss from Operations

As a result of the factors described above, the loss from operations was \$3,205,000 and \$1,678,000 for the nine months ended March 31, 2018 and 2017, respectively.

### Other (Income) Expense

Other (income) expense was \$(434,000) and \$282,000 for the nine months ended March 31, 2018 and 2017, respectively. During the nine months ended March 31, 2018, 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 \$277,000 and \$283,000 for the nine months ended March 31, 2018 and 2017, respectively. The decrease of \$6,000 was due to lower balances on interest bearing deferred compensation during the nine months ended March 31, 2018. Interest expense related to the Pennvest loan was \$148,000 for both periods. The Company recorded a conversion inducement expense of \$8,000 related to the limited time offering of a reduced warrant exercise price on certain warrants.

### Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was \$2,000 for both the nine months ended March 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 \$2,769,000 and \$1,958,000 for the nine months ended March 31, 2018 and 2017, respectively, and the net loss per basic common share was \$0.11 and \$0.08 for the nine months ended March 31, 2018 and 2017, respectively.



## LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated financial statements for the nine months ended March 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, 2017 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 March 31, 2018, the Company had cash of approximately \$40,000. During the nine months ended March 31, 2018, net cash used in operating activities was \$383,000, 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 nine months ended March 31, 2018, the Company had no investing activities.

### Financing Activities

During the nine months ended March 31, 2018, the Company received cash proceeds of \$200,000 from the sale of 267,331 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 \$1.00 per share through June 30, 2018. During the nine months ended March 31, 2018, the Company received cash proceeds of \$107,000 from the sale of 213,000 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 September 30, 2018. The Company paid cash commissions related to the sale of units of \$15,000. During the nine months ended March 31, 2018, the Company received \$40,000 from the exercise of 80,000 warrants for common stock of the Company. The Company also received cash proceeds of \$31,000 from loans payable from affiliates of the Company and repaid \$13,000 of loans payable from affiliates.

As of March 31, 2018 the Company has debt obligations consisting of: a) loans payable – affiliates of \$18,000, b) deferred compensation of \$346,000, b) convertible notes payable – affiliates of \$3,499,000, and, c) a loan payable and accrued interest of \$8,971,000, (owed by PA1).

## Plan of Operations and Outlook

As of March 31, 2018, the Company had cash of approximately \$40,000.

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 fiscal years 2014 through 2017 and through the nine months ended March 31, 2018, the Company experienced greater difficulty in raising equity and debt funding than in the prior years. 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 year 2017 and through the nine months ended March 31, 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 5 and 7 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 and working capital loans as of March 31, 2018. During the nine months ended March 31, 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 March 31, 2018, such deferrals totaled approximately \$3,845,000 (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 year ended June 30, 2014 and 2015. 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 year ended June 30, 2017 the Company raised proceeds of approximately \$452,000 through the sale of its securities (Note 7 to the annual Financial Statements in the Form 10-K) 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 March 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 36 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 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. 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 5+ million chickens (planned to expand to approximately 9 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 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) 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 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 once these matters are clear. Design and engineering work for this facility, which will probably be the first 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 fiscal year, and hopes to enter into agreements related to sales of the nutrient reduction credits for future delivery (under long term contracts) during 2018 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. Additionally, revenues from licensing fees related to a sustainable brand are also anticipated for many Projects. 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 calendar year 2018. 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 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 2018-20 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 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 March 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 36 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, 2017.

#### (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, 2017 the Company sold the following restricted securities: a) 5,404 shares issued pursuant to our 2006 Consolidated Incentive Plan (‘Plan’), valued at \$4,002 in aggregate, to an employee and consultant for services, and b) 196,694 units at \$0.75 per unit were sold and the Company received proceeds of \$147,521 (each unit consisted of one share of the Company’s restricted common stock and one warrant to purchase half of a share of the Company’s restricted common stock at \$1.00 per share until June 30, 2018. Additionally, in transactions effective November 7, 2017, the Company sold 3,610,00 warrants, in aggregate, (including 1,765,000 to Dominic Bassani, the Company’s CEO (“Bassani”) and 670,000 to Mark A. Smith, the Company’s President and a director (“Smith”)) valued at \$.05 per warrant for consideration totaling \$180,500 (including an \$88,250 promissory note from Bassani and \$33,500 in services from Smith), which warrants are exercisable at \$0.75 and have expiry dates of December 31, 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.

Date: May 10,  
2018

By: /s/ Mark A. Smith

Mark A. Smith, President and Chief Financial Officer (Principal Financial and Accounting Officer)

Date: May 10,  
2018

By: /s/ Dominic Bassani

Dominic Bassani, Chief Executive Officer