

BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10-Q
February 04, 2016

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

- 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.

L a r g e
a c c e l e r a t e d
f i l e r

A c c e l e r a t e d
f i l e r

N o n - a c c e l e r a t e d
f i l e r

(D o n o t c h e c k i f
a s m a l l e r
r e p o r t i n g
c o m p a n y)

S m a l l e r
r e p o r t i n g
c o m p a n y

SEC 1296 (03-10) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On February 1, 2016, there were 22,967,245 Common Shares issued and 22,262,936 Common Shares outstanding.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

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

PART I FINANCIAL INFORMATION

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,

June 30,

2015

2015

(Unaudited)

ASSETS

Current assets:

Cash

\$

178,451

\$

339,286

Promissory note
receivable
(Note 4)

35,000

-

Prepaid
expenses

12,350

18,503

Subscription
receivable
(Note 9)

-

13,125

Deposits and
other
receivables

7,108

7,108

Total current
assets

232,909

378,022

Property and
equipment, net
(Note 3)

1,829,508

1,977,219

Total assets

\$

2,062,417

\$

2,355,241

**LIABILITIES
AND EQUITY
(DEFICIT)**

**Current
liabilities:**

Accounts payable and accrued expenses

\$

1,479,267

\$

1,353,168

Series B Redeemable Convertible Preferred stock, \$0.01 par value,

50,000 shares authorized; 200 shares issued and outstanding,

liquidation
preference of
\$29,000 and
\$28,000,
respectively

26,400

25,400

Notes payable
affiliates, net of
discount (Note
5)

-

472,230

Deferred
compensation
(Note 6)

1,170,731

839,288

Loan payable
(Note 7)

7,754,000

7,754,000

Total current
liabilities

10,430,398

10,444,086

Convertible
notes payable
affiliates, net of
current portion
(Note 8)

3,218,648

2,654,708

Total liabilities

13,649,046

13,098,794

Deficit:

Bion's
stockholders'
equity (deficit):

Series A
Preferred stock,
\$0.01 par value,
10,000 shares
authorized,

no shares
issued and
outstanding

-

-

Series C
Convertible
Preferred stock,
\$0.01 par value,

60,000 shares
authorized; no
shares issued
and outstanding

-

-

Common stock,
no par value,
100,000,000
shares
authorized,
22,855,964

and
22,089,650
shares issued,
respectively;
22,151,655 and

21,385,341
shares
outstanding,
respectively

-

-

Promissory note
receivable for
shares (Notes 4
and 9)

(71,878)

-

Additional
paid-in capital

101,747,327

100,889,127

Accumulated
deficit

(113,322,889)

(111,696,060)

Total Bion s
stockholders
deficit

(11,647,440)

(10,806,933)

Noncontrolling
interest

60,811

63,380

Total deficit

(11,586,629)

(10,743,553)

Total liabilities
and deficit

\$

2,062,417

\$

2,355,241

See notes to consolidated financial statements.

**BION
ENVIRONMENTAL
TECHNOLOGIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
OPERATIONS**

**THREE AND SIX
MONTHS ENDED
DECEMBER 31,**

2015 AND 2014

(UNAUDITED)

Three Months Ended

December 31,

Six Months Ended

December 31,

2015

2014

2015

2014

Revenue

\$

-

\$

-

\$

-

\$

-

Operating expenses:

General and
administrative
(including stock-

based compensation
(Note 9))

550,095

333,196

1,058,000

690,537

Depreciation

76,083

127,159

151,962

312,043

Research and
development
(including stock-

based compensation
(Note 9))

84,286

104,237

218,775

170,823

Total operating
expenses

710,464

564,592

1,428,737

1,173,403

Loss from operations

(710,464)

(564,592)

(1,428,737)

(1,173,403)

Other expense:

Interest expense, net

86,405

100,356

200,661

197,303

86,405

100,356

200,661

197,303

Net loss

(796,869)

(664,948)

(1,629,398)

(1,370,706)

Net loss attributable to
the noncontrolling
interest

1,274

1,028

2,569

2,099

Net loss attributable to
Bion

(795,595)

(663,920)

(1,626,829)

(1,368,607)

Dividends on preferred
stock

(500)

(500)

(1,000)

(1,000)

Net loss applicable to
Bion's common

stockholders

\$

(796,095)

\$

(664,420)

\$

(1,627,829)

\$

(1,369,607)

Net loss applicable to
Bion's common

stockholders per basic
and diluted common

share

\$

(0.03)

\$

(0.03)

\$

(0.07)

\$

(0.07)

Weighted-average
number of common
shares

outstanding:

Basic and diluted

22,585,001

19,965,459

22,437,039

19,891,267

See notes to consolidated financial statements.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
SIX MONTHS ENDED DECEMBER 31, 2015
(UNAUDITED)

**Bion s
Shareholders**

**Series C
Preferred
Stock**

**Common
Stock**

Shares

Amount

Shares

Amount

Additional

**Paid-in
Capital**

**Promissory
Note**

**Receivable
for
Shares**

**Accumulated
Deficit**

**Non-
controlling
Interest**

**Total
Equity/
(Deficit)**

Balances, July
1, 2015

-

\$

-

22,089,650

\$

-
\$
100,889,127
\$ -
\$
(111,696,060)
\$ 63,380
\$
(10,743,553)

Issuance of
common stock
for services

-

-

36,296

-

100,904

-

-

-

100,904

Vesting of
options for
services

-

-

-

-

89,640

-

-

-

89,640

Modification
of options

-

-

-

-

42,550

-

-

-

42,550

Sale of units

-

-

228,750

-

183,000

-

-

-

183,000

Commissions
on sale of units

-

-

-

-

(18,300)

-

-

-

(18,300)

Warrants
exercised for
common stock

-

-

292,394

-

289,689

(71,878)

-

-

217,811

Dividend on
Series B
preferred stock

-

-

-

-

(1,000)

-

-

-

(1,000)

Conversion of
debt

-

-

208,874

-

171,717

-

-

-

171,717

Net loss

-

-

-

-

-

-

(1,626,829)

(2,569)

(1,629,398)

Balances,
December 31,
2015

-

\$
-
22,855,964
\$
-
\$
101,747,327
\$ (71,878)
\$
(113,322,889)
\$ 60,811
\$
(11,586,629)

See notes to consolidated financial statements.

**BION
ENVIRONMENTAL
TECHNOLOGIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

**SIX MONTHS
ENDED
DECEMBER 31,
2015 AND 2014
(UNAUDITED)**

2015

2014

**CASH FLOWS FROM
OPERATING
ACTIVITIES**

Net loss

\$

(1,629,398)

\$

(1,370,706)

Adjustments to
reconcile net loss to net
cash used in operating

activities:

Depreciation
expense

151,962

312,043

Accrued interest on
deferred compensation
and other

200,940

189,573

Stock-based
compensation

233,094

31,043

Decrease in prepaid
expenses

6,153

5,341

Increase in accounts payable and accrued expenses

27,351

225,779

Increase in deferred compensation and convertible notes

490,800

312,000

Net cash used in
operating activities

(519,098)

(294,927)

CASH FLOWS FROM
INVESTING
ACTIVITIES

Purchase of property
and equipment

(4,251)

-

Net cash used in
investing activities

(4,251)

-

CASH FLOWS FROM
FINANCING
ACTIVITIES

Decrease in
subscription receivable

13,125

30,000

Proceeds from sale of
common stock

-

26,250

Proceeds from sale of
units

183,000

67,500

Commissions on sale
of units

(18,300)

-

Payment from
exercise of warrants

184,689

-

Net cash provided
by financing activities

362,514

123,750

Net decrease in cash

(160,835)

(171,177)

Cash at beginning of
period

339,286

186,148

Cash at end of period

\$

178,451

\$

14,971

Supplemental
disclosure of cash flow
information:

Cash paid for interest

\$

-

\$

-

Non-cash investing and
financing transactions:

Series B preferred
stock dividends
accrued

\$

1,000

\$

1,000

Issuance of common
stock to satisfy
deferred compensation

\$

171,717

\$

-

Exercise of warrants
for promissory note
receivable for shares

\$

105,000

\$

-

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 Confined Animal Feeding Operations ("CAFO's"). 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). 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, recovers nutrients for potential use as fertilizer and feed additives.

During the 2014 and 2015 fiscal years, the Company increased its research and development activities with focus on 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 nutrient reduction credits (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 balance of the 2015 fiscal year, and we believe such activities will continue at least through the 2016 fiscal year, subject to availability of adequate financing for the Company's operations, of which there is no assurance.

Bion is actively pursuing business opportunities in three broad areas 1) installation of Bion systems to retrofit and environmentally remediate existing CAFO's to reduce nutrient (primarily nitrogen and phosphorus) releases, gaseous emissions (ammonia, greenhouse gases, volatile organic compounds, etc.), and pathogens, hormones and other compounds in order to clean the air and water in the surrounding areas (as described below) to ensure compliance with existing (and future) regulations and to permit herd expansion; 2) development of Integrated Projects opportunities within the United States and internationally; and 3) licensing and/or joint venturing of Bion's technology and applications outside North America. The opportunities described at 1) and 2) above (and below) 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. 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 as an alternative to what the Company believes is far more expensive nutrient removal downstream in storm water projects.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SIX MONTHS ENDED DECEMBER 31, 2015**

Management believes that Bion's technology platform (including utilization of various third party technologies to supplement the Company's proprietary technologies), in addition to utilization for remediation of the waste streams of existing CAFOs, can enable the integration of large-scale CAFO's and their end-product users, renewable energy production from the CAFO waste stream, on site utilization of the renewable energy generated and biofuel/ethanol production in an environmentally and economically sustainable manner while reducing the aggregate capital expense and operating costs for the entire integrated complex ("Integrated Projects" or "Projects"). In the context of Integrated Projects, Bion's waste treatment process, in addition to mitigating polluting releases, enables generation of renewable energy from cellulosic portions of the CAFO waste stream, which renewable energy can be utilized by integrated facilities including ethanol plants, CAFO end-product processors (including cheese, ice cream and/or bottling plants in the case of dairy CAFO's and/or slaughter and/or processing facilities in the context of beef CAFO's) and/or other users as a fossil fuel replacement. The nutrients (primarily nitrogen and phosphorus) can be harvested from the solids and liquid streams recovered from the livestock waste stream and can be utilized as either high value fertilizer and/or the basis for high protein animal feed and the nutrient rich effluent can potentially be utilized in integrated hydroponic agriculture and/or field applied as fertilizer. Bion believes that its Integrated Projects will produce high quality, traceable animal protein which can address consumer food safety/security concerns at a lower cost than current industry practices while also maintaining a far lower net environmental footprint per unit of protein produced due to water recycling (possible due to the removal of nutrients, etc. from the water by Bion's technology applications), production of renewable energy from the waste stream (reducing the use of fossil fuels), and multiple levels of economies of scale, co-location and integration savings in transportation and other logistics. Some projects may involve only partial integration which will limit the benefits described herein.

On September 27, 2008, the Company executed an agreement with Kreider Farms (and its affiliated entities) (collectively "Kreider") to design, construct and operate (through its wholly-owned subsidiaries, Bion Services Group, Inc. (Bion Services) and Bion PA-1 LLC (PA-1) a Bion system to treat the waste of 1,200 milking dairy cows (milkers, dry cows and heifers) at the Kreider Dairy, located in Manheim, Pennsylvania. In addition, the agreement (as amended and supplemented) provides for a second phase which will treat the wastes from the rest of Kreider's herd and includes renewable energy production from the cellulosic solid wastes from the Phase 1 system (referred to as Kreider 1) together with the waste stream from Kreider's poultry facilities for use at the facilities and/or for market sales. The Kreider projects are owned and operated by Bion through 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 of Kreider 1 until sufficient revenues can be generated, of which there is no assurance. The Company anticipates that the Kreider 1 project will generate revenue primarily from the sale of nutrient reduction (and/or other) environmental credits while the Kreider Phase 2 poultry waste treatment system (Kreider 2)(not yet constructed) and other future projects will supplement its revenue from nutrient reductions with proceeds from multiple byproduct streams including i) feed additives and/or fertilizer (organic and non-organic) and ii) renewable energy (and related credits), which sales are projected to generate, in aggregate, revenue streams that, in certain circumstances, may approach 50% of total revenues. 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. A portion of Bion's research and development activities is currently taking place at the Kreider 1 facility.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SIX MONTHS ENDED DECEMBER 31, 2015**

The Company's subsidiary PA-1 financed Kreider 1 through a \$7.8 million loan (Pennvest Loan) from Pennsylvania Infrastructure Investment Authority (Pennvest) secured by Kreider 1 (and its revenue streams, if any) plus advances from the Company. The economics (potential revenues and profitability) of Kreider 1 are based largely on the long-term sale of nutrient reduction credits (nitrogen and/or phosphorus) to meet the requirements of the Chesapeake Bay environmental clean-up. The Pennsylvania Department of Environmental Protection (PADEP) issued final permits for Kreider 1 (including the credit verification plan) on August 1, 2012 on which date the Company deemed that Kreider 1 was placed in service . However, liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth and has prevented Bion from monetizing the nutrient reduction credits created by PA-1's Kreider 1 project and Bion's other proposed projects. These challenges and difficulties raise significant questions as to when PA-1 will be able to generate such revenues from Kreider 1. PA-1 has elected not to make interest or principal payments on the Pennvest Loan since January 2013 and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2015. The Company recorded a \$1,750,000 impairment of the Kreider 1 assets for the year ended June 30, 2015 (following a \$2,000,000 impairment during the year ended June 30, 2014).

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA-1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report. It is not possible at this date to predict the outcome of such negotiations, 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, PA-1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

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

Development work and technology evaluation, including amended credit certification and discussions with potential joint venture partners, continues related to the details of Kreider 2, which 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 during calendar year 2017. 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 (the Environmental Protection Agency (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 throughout the next 12 months and in various additional states thereafter.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 \$5,640,000 and \$5,762,000 during the years ended June 30, 2015 and 2014, respectively, and a net loss of approximately \$1,629,000 during the six months ended December 31, 2015. At December 31, 2015, the Company has a working capital deficit and a stockholders' deficit of approximately \$10,197,000 and \$11,647,000, 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 to satisfy its current operating requirements as it is not currently generating any significant revenues.

During the years ended June 30, 2015 and 2014, the Company received total proceeds of \$1,000,940 and \$944,400, respectively, from the sale of its equity securities. Proceeds during the 2015 and 2014 fiscal years have been lower than in earlier years which reduction has negatively impacted the Company's business development efforts.

During the six months ended December 31, 2015, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from June 30, 2015 through July 15, 2015. Pursuant to the offering, 265,894 warrants were exercised and 265,894 shares of the Company's restricted common stock were issued during the six months ended December 31, 2015, resulting in cash proceeds of \$174,189 and receipt of a \$105,000 interest bearing, collateralized promissory note receivable for shares. In January 2016, the Company received \$35,000 of the promissory note receivable for shares.

During the six months ended December 31, 2015, the Company sold units of the Company's restricted securities for \$0.80 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 \$1.10 per share until June 30, 2017. During the six months ended December 31, 2015, the Company had sold a total of 228,750 units for gross proceeds of \$183,000, and net proceeds of \$164,700 after commissions of \$18,300.

During fiscal years 2015 and 2014 and through the six months ended December 31, 2015, 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 6 and 8) and members of the Company's senior management have made loans to the Company. Additionally, the Company made reductions in its personnel during the year ended June 30, 2014. 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.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 balance of the 2016 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 Integrated Projects and CAFO waste remediation systems (including the Kreider 2 facility) 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 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 small companies), that the Company will be able to obtain the funds that it needs to stay in business, complete its technology development or to successfully develop its business and projects.

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

2.

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bion Integrated Projects Group, Inc. (Projects Group), Bion Technologies, Inc., BionSoil, Inc., Bion Services, PA-1, and

Bion PA 2 LLC; and its 58.9% owned subsidiary, Centerpoint Corporation (Centerpoint). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The consolidated financial statements reflect all adjustments (consisting of only normal recurring entries) that, in the opinion of management, are necessary to present fairly the financial position at December 31, 2015, and the results of operations and cash flows of the Company for the three and six months ended December 31, 2015 and 2014. Operating results for the three and six months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 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.

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, promissory note receivable and accounts payable approximates their carrying amounts due to their short-term maturities. The fair value of the loan payable approximates its carrying amount as it bears interest at rates commensurate with market rates. 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 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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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. During the six months ended December 31, 2015 and 2014, 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 diluted loss per share:

December 31,

2015

December 31,

2014

Warrants

8,396,364

7,757,653

Options

4,513,870

3,911,370

Convertible debt

7,562,213

5,583,740

Convertible
preferred stock

14,500

13,500

The following is a reconciliation of the denominators of the basic loss per share computations for the three and six months ended December 31, 2015 and 2014:

Three months

ended

December 31,
2015

Three months
ended

December 31,
2014

Six months
ended

December 31,
2015

Six months
ended

December 31,
2014

Shares issued
beginning of
period

22,606,852

19,787,068

22,089,650

19,576,619

Shares held by
subsidiaries
(Note 9)

(704,309)

(704,309)

(704,309)

(704,309)

S h a r e s
outstanding
beginning of
period

21,902,543

19,082,759

21,385,341

18,872,310

W e i g h t e d
average shares
for fully

vested stock
bonuses (Note 9)

652,989

840,000

626,495

840,000

W e i g h t e d
average shares
issued

during the
period

29,469

42,700

425,203

178,957

Basic weighted
average shares

end of period

22,585,001

19,965,459

22,437,039

19,891,267

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 early adoption is not permitted. The Company is currently evaluating the new standard and assessing the potential impact on its operations and financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 Company believes that the adoption of ASU No. 2014-15 will not have a material impact on its financial statements.

3.

PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	December 31,
	2015
	June 30,
	2015
Machinery and equipment	
	\$2,923,577
	\$2,923,577
Buildings and structures	
	1,385,125

	1,385,125
Computers and office equipment	
	177,931
	175,248
	4,486,633
	4,483,950
Less accumulated depreciation	
	(2,657,125)
	(2,506,731)
	\$1,829,508
	\$1,977,219

Management reviewed property and equipment for impairment as of June 30, 2015 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. Kreider 1 was measured at estimated fair value on a non-recurring basis using level 3 inputs, which resulted in an impairment of \$1,750,000 of the property and equipment for the year ended June 30, 2015. As of December 31, 2015, management believes that no additional impairment exists.

Depreciation expense was \$76,083 and \$127,159 for the three months ended December 31, 2015 and 2014, respectively, and \$151,962 and \$312,043 for the six months ended December 31, 2015 and 2014, respectively.

4.

PROMISSORY NOTE RECEIVABLE:

During the six months ended December 31, 2015, the Company received an interest bearing, secured promissory note for \$105,000. The promissory note bears interest at 4% per annum, is collateralized, and was payable on January 31, 2016. The promissory note receivable was issued as consideration for an unaffiliated investor's subscription agreement to exercise warrants into 100,000 restricted common shares of the Company's common stock at \$1.05 per share. During January 2016, the Company received a \$35,000 principal payment and entered into a new agreement with the borrowers which extended the maturity date of the remaining principal and interest until June 15, 2016. All the other terms of the original agreement remain unchanged. As of December 31, 2015, the Company has recorded the \$35,000 as a promissory note receivable and the remaining unpaid principal and interest totaling \$71,878, as a promissory note receivable for shares. The Company recorded interest income of \$1,878 for the six months ended December 31, 2015.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

5.

NOTES PAYABLE - AFFILIATES:

During the year ended June 30, 2015, the Company entered into promissory notes (FY2015 Promissory Notes), with effective dates of January 1, 2015, for initial principal amounts of \$395,277, \$15,956 and \$80,764, with Dominic Bassani (Bassani), the Company's Chief Executive Officer (CEO), Edward Schafer (Schafer), the Company's Chairman, and a major shareholder, (Shareholder), respectively. The FY2015 Promissory Notes accrued interest at 4% per annum and were payable on December 31, 2015. Effective September 8, 2015, the Company entered into new convertible promissory notes (September 2015 Convertible Notes) with Bassani, Schafer and Shareholder which replaced the FY2015 Promissory Notes. The initial principal balances of the September 2015 Convertible Notes were \$405,831, \$16,382 and \$82,921, respectively. The new convertible promissory notes bear interest at 4% per annum, have 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 (Note 8).

6.

DEFERRED COMPENSATION:

The Company owes deferred compensation to various employees, former employees and consultants totaling \$1,170,731 as of December 31, 2015. Included in the deferred compensation balances as of December 31, 2015, are

\$378,852, \$54,632 and \$183,316 owed Bassani, Smith and Schafer, 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. During the six months ended December 31, 2015, Smith converted \$82,861 of deferred compensation into 99,159 shares of the Company's common stock at conversion prices between \$0.76 and \$0.96 per share. Also included are sums the Company owes various consultants, pursuant to various agreements, for deferred compensation of \$312,447 as of December 31, 2015 with similar conversion terms as those described above for Bassani, Smith and Schafer, with the exception that the interest accrues at 3% per annum. The Company also owes a former employee and a current employee deferred compensation of \$168,000 and \$984, respectively, which is convertible into 226,168 and 1,131 shares, respectively, of the Company's common stock as of December 31, 2015 and, the Company owes a former employee \$72,500, which is not convertible and is non-interest bearing.

7.

LOAN PAYABLE:

As of December 31, 2015, PA-1, the Company's wholly-owned subsidiary, owes \$7,754,000 under the terms of the Pennvest Loan related to the construction of the Kreider 1 System. The terms of the Pennvest Loan provide for funding of up to \$7,754,000 which is 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% for years 1 through 5 and 3.184% for years 6 through maturity. The Pennvest Loan requires minimum annual principal payments of approximately \$574,000 in fiscal year 2013, \$704,000 in fiscal year 2014, \$723,000 in fiscal year 2015, \$741,000 in fiscal year 2016, \$760,000 in fiscal year 2017 and \$4,252,000 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 December 31, 2015 and 2014, respectively.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

The Company has incurred interest expense related to the Pennvest Loan of \$98,747 for both of the six months ended December 31, 2015 and 2014, respectively. As of December 31, 2015, the accrued interest and late charges related to the Pennvest Loan total \$693,332. Based on the limited development of the depth and breadth of the Pennsylvania nutrient reduction credit market to date, PA-1 has commenced negotiations with Pennvest related to forbearance and/or re-structuring the obligations under the Pennvest Loan. In the context of such negotiations, PA-1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2015.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA-1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report. It is not possible at this date to predict the outcome of such negotiations, 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, PA-1 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 PA-1.

8.

CONVERTIBLE NOTES PAYABLE - AFFILIATES:

January 2015 Convertible Notes

The January 2015 Convertible Notes accrue interest at 4% per annum and are due and payable on December 31, 2017. 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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

As of December 31, 2015, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were \$1,522,967, \$790,856 and \$393,380, respectively. During the three and six months ended

December 31, 2015, the Company recorded interest expense of \$26,247 and \$52,495, respectively, related to the January 2015 Convertible Notes.

September 2015 Convertible Notes

During the six months ended December 31, 2015, the Company entered into September 2015 Convertible Notes with Bassani, Schafer and Shareholder which replaced the previously issued FY2015 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, have 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 December 31, 2015 are \$410,901, \$16,587 and \$83,957, respectively. The Company recorded interest expense related to the 2015 Convertible Notes of \$5,093 and \$6,311 for the three and six months ended December 31, 2015, respectively.

9.

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 \$2.00 per share by the Company three years after issuance and accordingly was classified outside of shareholders' equity. 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, 2015 and 2014, the Company declared dividends of \$2,000 and \$2,000 respectively.

During the six months ended December 31, 2015, the Company declared dividends of \$1,000. At December 31, 2015, accrued dividends payable are \$9,000.

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. The Company accounts for these shares similar to treasury stock.

During the six months ended December 31, 2015, the Company issued 36,296 shares of the Company's common stock at prices ranging from \$0.69 to \$1.15 per share for services valued at \$100,904, in the aggregate, to consultants and employees, including \$69,000 expensed for 75,000 fully vested bonus shares to Smith that were granted but not issued.

During the six months ended December 31, 2015, the Company issued 12,500 shares of the Company's restricted common stock upon receipt of its subscription receivable of \$13,125 for the exercise of 12,500 warrants.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

During the six months ended December 31, 2015, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from June 30, 2015 through July 15, 2015. Pursuant to the offering, 265,894 warrants were exercised and 265,894 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$174,189 and receipt of a \$105,000 interest bearing, collateralized promissory note.

During January 2016, the Company received a \$35,000 principal payment and entered into a new agreement with the borrowers which extended the maturity date of the remaining principal and interest until June 15, 2016. All the other terms of the original agreement remain unchanged. As of December 31, 2015, the Company has recorded the \$35,000 as a promissory note receivable and the remaining unpaid principal and interest totaling \$71,878, as a promissory note receivable for shares.

During the six months ended December 31, 2015, the Company entered into subscription agreements to sell units for \$0.80 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 \$1.10 per share until June 30, 2017 and pursuant thereto, the Company issued 228,750 units for total proceeds of \$183,000. During the six months ended December 31, 2015, cash commissions of \$18,300 were paid to brokers related to the unit offering. The Company allocated the proceeds from the shares and the 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, \$4,603 was allocated to the warrants and \$178,397 was allocated to the shares, and both were recorded as additional paid in capital.

During the six months ended December 31, 2015, a warrant holder elected to exercise 14,000 warrants at an exercise price of \$0.75 and 14,000 shares of the Company's common stock were issued resulting in cash proceeds of \$10,500.

During the six months ended December 31, 2015, Smith and various consultants elected to convert \$82,861 and \$88,856 of deferred compensation, respectively, into 99,159 and 109,715 shares, respectively, of the Company's common stock at conversion rates ranging from \$0.76 to \$1.15 per share.

Warrants:

As of December 31, 2015, the Company had approximately 8.4 million warrants outstanding, with exercise prices from \$0.75 to \$3.00 and expiring on various dates through December 31, 2020.

The weighted-average exercise price for the outstanding warrants is \$1.24, and the weighted-average remaining contractual life as of December 31, 2015 is 4.2 years.

During the six months ended December 31, 2015, warrants to purchase 957,806 shares of common stock of the Company at prices between \$2.25 and \$3.10 per share expired.

During the six months ended December 31, 2015, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from July 1, 2015 through July 15, 2015. As a result of the offering, 265,894 warrants were exercised and 265,894 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$174,189 and receipt of a collateralized promissory note receivable for \$105,000, for the six months ended December 31, 2015.

During the six months ended December 31, 2015, a warrant holder elected to exercise 14,000 warrants at an exercise price of \$0.75 and 14,000 shares of the Company's common stock were issued resulting in cash proceeds of \$10,500.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 22,000,000 shares of the Company's common stock. Terms of exercise and expiration of options/securities granted under the 2006 Plan may be established at the discretion of the Board of Directors, but no option may be exercisable for more than ten years.

During the six months ended December 31, 2015, the Company approved the modification of existing stock options held by a board member which extended certain expiration dates and resulted in incremental non-cash compensation expense of \$42,550.

The Company recorded compensation expense related to employee stock options of \$74,320 and \$4,000 for the three months ended December 31, 2015 and 2014, respectively, and \$89,640 and \$4,000 for the six months ended December 31, 2015 and 2014, respectively. The Company granted 100,000 and zero options during the six months ended December 31, 2015 and 2014, respectively. During the six months ended December 31, 2014, 397,500 options expired.

The fair value of the options granted during the six months ended December 31, 2015 and 2014 were estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

Weighted
Average,
December 31,
2015

Range,

December 31,

2015

Weighted

Average,

December 31,

2014

Range,

December 31,

2014

Volatility

74%

74%

80%

80%

Dividend yield

-

-

-

-

Risk-free interest
rate

1.75%

1.75%

0.51%

0.51%

Expected term
(years)

5

5

2

2

A summary of option activity under the 2006 Plan for the six months ended December 31, 2015 is as follows:

Options

Weighted-

Average

Exercise

Price

Weighted-

Average

Remaining

Contractual

Life

Aggregate

Intrinsic

Value

Outstanding at
July 1, 2015

4,413,870

\$1.88

4.1

-
Granted

100,000

0.92

Exercised

-

-

Forfeited

-

-

Expired

-

-

Outstanding at
December 31,
2015

4,513,870

\$1.86

3.9

\$36,050

Exercisable at
December 31,
2015

4,413,870

\$1.89

3.7

\$22,050

The following table presents information relating to nonvested stock options as of December 31, 2015:

SIX MONTHS ENDED DECEMBER 31, 2015

Options

Weighted Average

Grant-Date Fair

Value

Nonvested at July 1,
2015

100,000

\$ 0.76

Granted

100,000

0.59

Vested

(100,000)

(0.59)

Nonvested at December
31, 2015

100,000

\$ 0.76

The total fair value of stock options that vested during the six months ended December 31, 2015 and 2014 was \$59,000 and nil, respectively. As of December 31, 2015, the Company had \$19,826 of unrecognized compensation cost related to stock options.

Stock-based employee compensation charges in operating expenses in the Company's financial statements for the three and six months ended December 31, 2015 and 2014 are as follows:

Three
months
ended
December 31,
2015
Three
months
ended
December 31,
2014
Six months
ended
December 31,
2015
Six months
ended
December 31,

2014

General and
administrative:

Fair value of
stock bonus
expensed

\$ 69,000

\$ -

\$ 69,000

\$ -

Change in fair
value from
modification of

option terms

42,550

11,783

42,550

11,783

Fair value of
stock options
expensed

62,371

4,000

64,209

4,000

Total

\$ 173,921

\$ 15,783

\$ 175,759

\$ 15,783

Research and
development:

Fair value of
stock options
expensed

\$ 11,949

\$ -

\$ 25,431

\$ -

Total

\$ 11,949

\$ -

\$ 25,431

10.

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. During September 2014, Smith agreed to continue his employment agreement through April 15, 2015 and also agreed to continue to defer his temporarily reduced salary of \$14,000 per month until such date. 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.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****SIX MONTHS ENDED DECEMBER 31, 2015**

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.

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 are to be issued January 15, 2016 and 100,000 shares are to be issued January 15, 2017. The stock grants were expensed in the years they were awarded as they are

fully vested. 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 8). 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 8). 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).

On February 10, 2015, the Company entered into an agreement with Schafer pursuant to which Schafer will continue to provide services to the Company through December 31, 2015. Additionally, pursuant to the agreement, i) the exercise period of outstanding options and warrants owned by Schafer have been extended, and ii) 25,000 contingent stock bonuses previously granted to Schafer have been cancelled by the Company. In January 2016, Schafer agreed to extend his agreement with the Company through December 31, 2016.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

Contingent stock bonuses:

The Company has declared contingent deferred stock bonuses to its key employees and consultants at various times throughout the years. The stock bonuses are contingent upon the Company's stock price exceeding a certain target price per share, and the grantees still being employed by or providing services to the Company at the time the target prices are reached.

The Company's outstanding contingent stock bonuses as of December 31, 2015 are as follows:

Target Price per
share

\$5.00

\$10.00

\$20.00

Number of shares

50,000

40,000

27,500

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 execution/exercise bonuses with the same terms as described above to Schafer and to Jon Northrop, the Company's other board member.

As of December 31, 2015, the execution/exercise bonus was applicable to 3,045,000 of the Company's outstanding options and 6,759,500 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 PA-1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 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 PA-1. No litigation has commenced related to this matter but such litigation is likely if negotiations do not produce a resolution (Note 1 and Note 7).

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

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

11.

SUBSEQUENT EVENTS:

The Company has evaluated events that occurred subsequent to December 31, 2015 for recognition and disclosure in the financial statements and notes to the financial statements.

From January 1, 2016 through February 4, 2016, the Company has issued 5,031 shares of the Company's common shares to an employee and a consultant valued at approximately \$4,500.

From January 1, 2016 through February 4, 2016, the Company has issued 75,000 shares of the Company's common shares to Smith per the terms of his extension agreement.

From January 1, 2016 through February 4, 2016, the Company has sold 31,250 units of the Company's restricted securities for \$0.80 each, 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 \$1.10 per share until June 30, 2017. The proceeds from the sale of the units totaled \$25,000.

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 PA-1 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. See our Form 10-K (period ended June 30, 2015) for more details regarding these risk factors.

The following discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements filed herein with the Company's Form 10-K for the year ended June 30, 2015.

BUSINESS OVERVIEW

During the 2004-2008 calendar years, the Company focused on completion of the development of the second generation of its technology which provides comprehensive environmental solutions to a significant source of pollution in U.S. agriculture, large scale livestock facilities known as Confined Animal Feeding Operations ("CAFO"). That re-development process was substantially completed five years ago and the initial commercial system, based on that updated technology, was constructed and placed in full commercial operation. Bion continues to focus on refining, testing and/or developing technologies which can supplement and/or upgrade our technologies and or be utilized with our technology platform. During the 2014 and 2015 fiscal years, the Company increased its research and development activities with focus on 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 nutrient reduction credits (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 balance of the 2015 fiscal year, and we believe such activities will continue at least through the 2016 calendar year and into 2017 (if the Company has sufficient funds to continue such activities).

Operational results from the initial commercial system confirmed the ability of Bion's technologies to meet its nutrient reduction goals at commercial scale for an extended period of operation. Bion's current generation technology 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 valuable nutrients for reuse (in organic and/or non-organic forms), Bion's 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). Research and development activities are underway to improve, update and move toward the next generation of Bion systems 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.

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 to retrofit and environmentally remediate existing CAFOs 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 CAFOs need our technology to obtain permits to expand or develop without negative environmental consequences; 2) development of Integrated Projects which 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 40,000 or more beef and/or dairy cows (or the waste stream equivalent of other species) while recovering cellulosic (to be potentially utilized for renewable energy production) and nutrient rich solids (that can potentially be marketed as feed and/or fertilizer), integrated with an ethanol plants capable of producing 40 million gallons (or more) of ethanol per year and/or with CAFO end product processors, 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.

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 agreements with Kreider Farms ("KF") in Pennsylvania pursuant to which a Bion system to treat KF's dairy and poultry waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and has been in full-scale operation since 2011. **(No other Bion system has been contracted for and/or constructed to date.)**

On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a \$7.75 million loan to Bion PA 1, LLC (PA-1), a wholly-owned subsidiary of the Company, for the initial stage of Bion's Kreider Farms project (Phase 1 Kreider System or Kreider 1 System). After substantial unanticipated delays, on August 12, 2010 the PA-1 received a permit for construction of the Phase 1 Kreider system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010.

PA-1 finished the construction of the Phase 1 Kreider System and entered a period of system operational shakedown during May 2011. The Phase 1 Kreider 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 economics (potential revenues and profitability) of the Phase 1 Kreider System are based largely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up, which sales have not yet materialized.** 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, PA-1 commenced generating and verifying nutrient reduction credits for potential sale while continuing to utilize the system to test improvements and add-ons. Operating results of the Phase 1 Kreider System have documented the efficacy of Bion's nutrient reduction technology and vetted potential add-ons for future installations. 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 PA-1. As a result of this extended period of operations, Bion is confident that future systems can be constructed with even higher operational efficiencies at lower capital expense and with lower operational costs. **To date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth which limited liquidity has negatively impacted Bion's business plans and has prevented Bion from monetizing the nutrient reductions created by PA-1's existing Kreider 1 project and Bion's other proposed projects. These challenges and difficulties (which continue to this date) have prevented PA-1 from generating any material revenues from the Kreider 1 project to date (PA-1's Kreider 1 operating expenses have been funded by loans from Bion) and raise significant questions as to when, if ever, PA-1 will be able to generate such material revenues from the Kreider 1 system. PA-1 has been engaged in on-and-off negotiations/discussions with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for over 36 months. In the context of such negotiations, PA-1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, PA-1 has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2015. Due to the slow development of the nutrient reduction credit market, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 System and 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, recorded a \$2,000,000 impairment of the Kreider 1 during the year ended of June 30, 2014. An additional impairment of \$1,750,000 was recorded for the year ended June 30, 2015.**

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA-1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report.

It is not possible at this date to predict the outcome of such negotiations, but the Company believes it is possible that an agreement may yet be reached that will result in a commercially viable loan modification. Subject to the results of negotiations with Pennvest and pending development of a more robust market for nutrient

reductions in Pennsylvania, PA-1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

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

The Company is currently conducting a portion of its research and development activities at the Kreider 1 system while PA1 is maintaining the Kreider 1 System.

The Company continues its development work related to the second phase of the Kreider project (Phase 2 Kreider Project) which involves production of renewable energy from the waste of KF s poultry operations (and potentially other poultry operations and/or other waste streams) and the cellulosic solids recovered by the Kreider 1 system. During May 2011 the PADEP certified the Phase 2 Kreider Project for 559,457 nutrient credits under the old EPA s Chesapeake Bay model. The Company anticipates that the Phase 2 Kreider Project will be re-certified for between 1.5-2 million nutrient reduction credits pursuant to the amended EPA Chesapeake Bay model which was published subsequent to the original certification. Various announcements related to negotiations/discussions between the EPA and PADEP regarding Pennsylvania s Chesapeake Bay nutrient reduction non-compliance suggest that a resolution of certain matters is likely during the balance of this calendar year which may allow the Phase 2 Kreider Project to move forward with re-certification and proceed toward design, permitting construction and eventual operation during the 2017 calendar year. Assuming there are also positive developments related to the market for nutrient reductions in Pennsylvania, of which there is no assurance, the Company intends to pursue development, design and construction of the Kreider poultry waste/renewable energy project with a goal of achieving operational status during the 2017 calendar year. While the Company believes that substantial revenues may be generated from the sale of by-products (organic and inorganic fertilizer, renewable energy and/or renewable energy credits) of its operation, **the economics (potential revenues and profitability) of the Phase 2 Kreider Project are based, in large part, on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. However, liquidity in the Pennsylvania nutrient reduction market has been slow to develop significant breadth and depth which lack of liquidity to date has negatively impacted Bion s business plans and has resulted in challenges to monetizing the nutrient reduction credits created by PA-1 s existing Kreider 1 project and will delay the Company s Phase 2 Kreider Project and other proposed projects in Pennsylvania.**

A significant portion of Bion s current activities concern efforts with private and public stakeholders (at local and state level) in Pennsylvania, (and other Chesapeake Bay, Midwest and Great Lakes states) and at the federal level (EPA 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, technology-based environmental solutions that Bion (and others) can provide through clean-up of agricultural waste streams. In January 2013, the Pennsylvania Legislative Budget and Finance Committee issued a report stating that targeting upstream livestock would save Pennsylvania s taxpayers up to 80% of previously estimated costs (potential savings for Pennsylvania in excess of a billion dollars per year over the next 20 years) which would be available for other needs (notably aging drinking water and sewer infrastructure) while creating large local benefits of an upstream treatment strategy including reduced freshwater compliance costs, future cost avoidance of treating drinking water from contaminated local aquifers and increased economic activity for agriculture, tourism and recreation. The Coalition for an Affordable Bay Solution (Coalition) was formed to support the creation of a competitively-bid nitrogen trading program in Pennsylvania that will enable Pennsylvania to capture the economic benefits outlined in the legislative study.

The Coalition supports legislation to establish a competitively-bid RFP program for nitrogen reductions, where bids will also be scored to reflect the value of the benefits to Pennsylvania's interior waterways and communities. Founding members of the Coalition represent both Chesapeake Bay and national industry participants, and include Bion, JBS, SA, Kreider Farms, and Fair Oaks Farms. The head of the Coalition is Ed Schafer, Bion's Vice Chairman. 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) the April 2015 introduction of Senate Bill 724 (successor to prior SB 924) "The Watershed Improvement Act", which, if adopted, will establish a program that will allow the Pennsylvania's tax- and rate-payers to meet 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. This legislation, if passed and signed into law, 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. **Bion's activity related to such legislation has intensified with increased stakeholder support (and increasing attacks on the Company by those opposed to the legislation) and Bion believes such primary provisions of such legislation may be passed (in some version) by the Pennsylvania Legislature during 2016, but cannot predict the exact final content of such legislation or guarantee such passage.** Note, however, that there has been vocal opposition to SB 724 from threatened stakeholders committed to the existing status quo approaches--- a significant portion of which has been 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. The Company has responded in a press release and postings on its website. As a result, Bion is now exploring the use of social media including Facebook, twitter and other approaches to accurately communicate about the Company's business and positions and expending funds for that purpose. If SB 724 is passed and implemented (in something close to its current form), Bion expects that the policies and strategies being developed in Pennsylvania will not only benefit the Company's existing and proposed Pennsylvania projects, but will also subsequently provide the basis for a larger Chesapeake Bay watershed strategy and, thereafter, a national clean water strategy. Legislation in Wisconsin, which became effective during April 2014, represents a significant step forward towards opening business opportunities in that state.

The Company believes that Pennsylvania (and the entire Chesapeake Bay watershed), to be followed by the Great Lakes Basin and Midwest/Mississippi Watershed/Gulf of Mexico states, represent "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 nutrient (primarily nitrogen and phosphorus) reductions in a fair and transparent process; and since payment from the tax and rate payers will 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 watersheds, both within and outside of Pennsylvania/Chesapeake Bay watershed, make the case for adoption of the strategies outlined in the Pennsylvania legislative study 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 and phosphorus 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 and/or the phosphorus reduction needs of Wisconsin can also provide a working policy models and platforms 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.

Additionally, we believe that Bion's technology platform (including utilization of various third party technologies to supplement the Company's proprietary technologies) will allow the integration of large-scale CAFOs and their end-product users, renewable energy production from the CAFO waste stream, and on site utilization of the renewable energy generated and biofuel/ethanol production in an environmentally and economically sustainable manner while reducing the aggregate capital expense and operating costs and increasing revenue and profitability for the entire integrated complex ("Integrated Projects" or "Projects"). In the context of Integrated Projects, Bion's waste treatment processes, in addition to mitigating polluting releases, will generate renewable energy from cellulosic portions of the CAFO waste stream which renewable energy can be utilized by integrated facilities including ethanol plants, CAFO end-product processors (including cheese, ice cream and/or bottling plants in the case of dairy CAFOs, and/or slaughter and/or processing facilities in the context of beef CAFOs) and/or other users as a replacement for fossil fuel usage. In addition an integrated ethanol plant's main by-product, called distillers grain, can be added to the feed of the animals in wet form, thereby lowering the capital expenditures, operating, marketing and shipping costs and energy usage of the ethanol production process. In such cases, the ethanol plant would act as a feed mill for the integrated CAFO, thereby reducing the CAFO's feeding costs as well as generating revenue to the ethanol plant, and would also provide a market for the renewable energy that Bion's System produces from the CAFO waste stream. And, in some cases the nutrient rich liquid effluent from the Bion system modules may be directly utilized for greenhouse and/or hydroponic agriculture. Accordingly, such Bion Integrated Projects can be denominated "closed loop". Bion anticipates that many projects may initially include only partial integration. Based on the degree of integration in a Project, greater or lesser amounts of benefits will be realized. Bion, as developer of, and participant in, Integrated Projects, anticipates that it will share in the cost savings and the revenues generated from these activities.

Bion has worked with local, state and federal officials with regard to regulatory and legislative initiatives, and with such parties and potential industry participants to evaluate projects and/or sites in multiple states. The Company believes that its initial Integrated Project will most likely be located and developed (probably in stages) in Pennsylvania. Note, however, that locations and/or projects in other states are also under review and the initial Integrated Project could be developed elsewhere. It is possible that the Company will develop one or more Integrated Projects as 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). Bion intends to choose sites for additional Projects during the calendar years 2017-2019 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2023) of approximately 10-24 Integrated Projects. At the end of that period, Bion projects that 5 or more of these Integrated Projects will be in full operation in 3-5 states (or other locations), and the balance would be in various stages ranging from partial operation to early permitting stage. **No Integrated Project has been developed to date.**

The Company's audited financial statements for the years ended June 30, 2015 and 2014 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately \$5,640,000 and \$5,762,000 during the years ended June 30, 2015 and 2014, 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, 2015 includes a "going concern" explanatory paragraph which means that the accounting firm has expressed

substantial doubt about the Company's ability to continue as a going concern. The Company has incurred net losses of approximately \$1,629,000 and \$1,371,000 for the six months ended December 31, 2015 and 2014, respectively. At December 31, 2015, the Company had a working capital deficit and a stockholders' deficit of approximately \$10,197,000 and \$11,647,000, 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

Management has identified the following policies below as critical to our business and results of operations. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the paragraphs below.

Revenue Recognition

While the Company has not recognized any significant operating revenues for the past two fiscal years, the Company has commenced generation of revenues during the year ended June 30, 2013. Revenues are generated from the sale of nutrient reduction credits, product sales, technology license fees, annual waste treatment fees and/or direct ownership interests in Integrated Projects. 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.

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 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 early adoption is not permitted. The Company is currently evaluating the new standard and assessing the potential 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 Company believes the adoption of ASU No. 2014-15 will not have a material impact on its financial statements.

THREE MONTHS ENDED DECEMBER 31, 2015 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2014

Revenue

Total revenues were nil for both the three months ended December 31, 2015 and 2014, respectively.

General and Administrative

Total general and administrative expenses were \$550,000 and \$333,000 for the three months ended December 31, 2015 and 2014, respectively.

General and administrative expenses, excluding stock-based compensation charges of \$174,000 and \$16,000, were \$376,000 and \$317,000 for the three months ended December 31, 2015 and 2014, respectively, representing a \$59,000 increase. Salaries and related payroll tax expenses decreased to \$74,000 for the three months ended December 31, 2015 from \$102,000 for the three months ended December 31, 2014, primarily due to the fact that during the three months ended December 31, 2015 one employee became a consultant on an as-needed consulting basis receiving compensation in the Company's securities and/or deferring their compensation which reduced recurring salary and payroll tax costs. Consulting costs were \$198,000 and \$107,000 for the three months ended December 31, 2015 and 2014, respectively, representing a \$91,000 increase primarily due to increases in the costs of services provided by Schafer and Bassani effective January 1, 2015 and other consultants providing services for Kreider Farms related projects.

General and administrative stock-based employee compensation for the three months ended December 31, 2015 and 2014 consists of the following:

Three months
ended
December 31,
2015

Three months
ended
December 31,
2014

General and
administrative:

Fair value of
stock bonus
expensed

\$ 69,000

\$ -

Change in fair
value from
modification of
option terms

43,000

12,000

Fair value of
stock options
expensed under
ASC 718

62,000

4,000

Total

\$ 174,000

\$ 16,000

Stock-based compensation charges were \$174,000 and \$16,000 for the three months ended December 31, 2015 and 2014, respectively. Compensation expense relating to stock bonus expensed for the three months ended December 31, 2015 related to Mark Smith's employment agreement extension for which he was granted 75,000 shares of fully vested stock which was issued in January 2016. Compensation expense relating to the change in fair value from the modification of option terms was \$43,000 and \$12,000 for the three months ended December 31, 2015 and 2014, respectively, as the Company granted an extension of option expiration dates for a director during both of the three months ended December 31, 2015 and 2014. Compensation expense relating to stock options were \$62,000 and \$4,000 for the three months ended December 31, 2015 and 2014, respectively. During the three months ended December 31, 2015 and 2014, respectively, the Company issued 100,000 and nil stock options to an employee, respectively.

Depreciation

Total depreciation expense was \$76,000 and \$127,000 for the three months ended December 31, 2015 and 2014, respectively. Depreciation expense is lower for the three months ended December 31, 2015 due to the fiscal year 2015 \$1,750,000 impairment of the Kreider 1 assets which reduced the depreciation base.

Research and Development

Total research and development expenses were \$84,000 and \$104,000 for the three months ended December 31, 2015 and 2014, respectively.

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Research and development expenses, excluding stock-based compensation charges of \$12,000 and nil were \$72,000 and \$104,000 for the three months ended December 31, 2015 and 2014, respectively. The primary reason for the decrease is due to a reduction in expenses related to the pilot program testing to enhance the Company's technology for the three months ended December 31, 2015.

Research and development stock-based employee compensation for the three months ended December 31, 2015 and 2014 consists of the following:

Three months
ended
December 31,
2015

Three months
ended
December 31,
2014

Research and
development:

Fair value of stock
options expensed
under ASC 718

\$ 12,000

\$ -

Total

\$ 12,000

\$ -

Stock-based compensation expenses increased to \$12,000 for the three months ended December 31, 2015 from nil for the three months ended December 31, 2014 due to the allocation of stock compensation expense for previously issued options for an employee working on research and development.

Loss from Operations

As a result of the factors described above, the loss from operations was \$710,000 and \$565,000 for the three months ended December 31, 2015 and 2014, respectively.

Other Expense

Other expense consisting of interest expense was \$86,000 and \$100,000 for the three months ended December 31, 2015 and 2014, respectively. The interest related convertible notes payable affiliates decreased during the three months ended December 31, 2015 as various convertible notes were restructured effective January 1, 2015 which resulted in a reduction of interest rates from 8% to 4%. Interest expense related to warrants was nil and \$4,000 for the three months ended December 31, 2015 and 2014, respectively.

Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was \$1,000 for both of the three months ended December 31, 2015 and 2014, 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 \$796,000 and \$664,000 for the three months ended December 31, 2015 and 2014, respectively, and the net loss per basic and diluted common share was \$0.03 for both periods.

SIX MONTHS ENDED DECEMBER 31, 2015 COMPARED TO THE SIX MONTHS ENDED DECEMBER 31, 2014

Revenue

Total revenues were nil for both the six months ended December 31, 2015 and 2014, respectively.

General and Administrative

Total general and administrative expenses were \$1,058,000 and \$691,000 for the six months ended December 31, 2015 and 2014, respectively.

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General and administrative expenses, excluding stock-based compensation charges of \$176,000 and \$16,000, were \$882,000 and \$675,000 for the six months ended December 31, 2015 and 2014, respectively, representing a \$207,000 increase. Salaries and related payroll tax expenses decreased to \$151,000 for the six months ended December 31, 2015 from \$195,000 for the six months ended December 31, 2014, primarily due to the fact that during the six months ended December 31, 2015 one employee became a consultant on an as-needed consulting basis receiving compensation in the Company's securities and/or deferring their compensation which reduced recurring salary and payroll tax costs. Consulting costs were \$446,000 and \$221,000 for the six months ended December 31, 2015 and 2014, respectively, representing a \$225,000 increase primarily due to increases in the costs of services provided by Schafer and Bassani effective January 1, 2015 and other consultants providing services for Kreider Farms related projects. Investor relation costs increased from \$16,000 for the six months ended December 31, 2014 to \$57,000 for the six months ended December 31, 2015 due to the Company's presence at multiple investor conferences and the hiring of an investor relations development firm during the six months ended December 31, 2015.

General and administrative stock-based employee compensation for the six months ended December 31, 2015 and 2014 consists of the following:

Six months
ended
December 31,
2015

Six months
ended
December 31,
2014

General and
administrative:

Fair value of
stock bonus
expensed

\$ 69,000

\$ -

Change in fair
value from
modification of
option terms

43,000

12,000

Fair value of
stock options
expensed under
ASC 718

64,000

4,000

Total

\$ 176,000

\$ 16,000

Stock-based compensation charges were \$176,000 and \$16,000 for the six months ended December 31, 2015 and 2014, respectively. Compensation expense relating to stock bonus expensed for the six months ended December 31, 2015 related to Mark Smith's employment agreement extension for which he was granted 75,000 shares of fully vested stock which was issued in January 2016. Compensation expense relating to the change in fair value from the modification of option terms was \$43,000 and \$12,000 for the six months ended December 31, 2015 and 2014, respectively, as the Company granted an extension of option expiration dates for a director during both of the six

months ended December 31, 2015 and 2014. Compensation expense relating to stock options were \$64,000 and \$4,000 for the six months ended December 31, 2015 and 2014, respectively. During the six months ended December 31, 2015 and 2014, respectively, the Company issued 100,000 and nil stock options to an employee, respectively.

Depreciation

Total depreciation expense was \$152,000 and \$312,000 for the six months ended December 31, 2015 and 2014, respectively. Depreciation expense is lower for the six months ended December 31, 2015 due to the fiscal year 2015 \$1,750,000 impairment of the Kreider 1 assets which reduced the depreciation base.

Research and Development

Total research and development expenses were \$219,000 and \$171,000 for the six months ended December 31, 2015 and 2014, respectively.

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Research and development expenses, excluding stock-based compensation expenses of \$25,000 and nil were \$194,000 and \$171,000 for the six months ended December 31, 2015 and 2014, respectively. The primary reason for the increase is due to consulting costs and expenses related to the pilot program testing to enhance the Company's technology.

Research and development stock-based employee compensation for the six months ended December 31, 2015 and 2014 consists of the following:

Six Months
ended
December 31,
2015

Six Months
ended
December 31,
2014

Research and
development:

Fair value of stock
options expensed
under ASC 718

\$ 25,000

\$ -

Total

\$ 25,000

\$ -

Stock-based compensation expenses were \$25,000 and nil for the six months ended December 31, 2015 and 2014, respectively. The increase resulted from the vesting of options to an employee performing research and development during the six months ended December 31, 2015.

Loss from Operations

As a result of the factors described above, the loss from operations was \$1,429,000 and \$1,173,000 for the six months ended December 31, 2015 and 2014, respectively.

Other Expense

Other expense was \$201,000 and \$197,000 for the six months ended December 31, 2015 and 2014, respectively. Interest expense increased slightly due to higher interest bearing deferred compensation as of December 31, 2015 compared to December 31, 2014. Interest expense related to the Pennvest loan was \$99,000 for both periods.

Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was \$3,000 and \$2,000 for the six months ended December 31, 2015 and 2014, 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 \$1,628,000 and \$1,370,000 for the six months ended December 31, 2015 and 2014, respectively, and the net loss per basic and diluted common share was \$0.07 for both periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated financial statements for the six months ended December 31, 2015 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, 2015 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.

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Operating Activities

As of December 31, 2015, the Company had cash of approximately \$178,000. During the six months ended December 31, 2015, net cash used in operating activities was \$519,000, primarily consisting of cash operating expenses related to salaries and benefits, and other general and administrative costs such as insurance and legal and accounting expenses. **As previously noted, the Company is currently not generating significant revenue and accordingly has not generated cash flows from operations. The Company does not anticipate generating sufficient revenues to offset operating and capital costs for a minimum of two to five years. While there are no assurances that the Company will be successful in its efforts to develop and construct its Projects and market its Systems, it is certain that the Company will require substantial funding from external sources. Given the unsettled state of the current credit and capital markets for companies such as Bion, there is no assurance the Company will be able to raise the funds it needs on reasonable terms.**

Investing Activities

During the six months ended December 31, 2015, the Company invested \$4,000 for the purchase of new property and equipment.

Financing Activities

During the six months ended December 31, 2015, the Company received cash proceeds of \$13,000 due to the receipt of a subscription receivable for the exercise of 12,500 warrants. The Company also received cash proceeds of \$174,000 due to the exercise of 165,894 warrants pursuant to subscription agreements which reduced the exercise price to \$1.05 per warrant for certain warrants with expiry dates before December 31, 2015. An additional \$11,000 was received upon the election of a warrant holder to exercise 14,000 warrants into common stock of the Company. The Company also received gross proceeds of \$183,000 from the sale of units during the six months ended December 31, 2015, less commissions of \$18,000.

As of December 31, 2015 the Company has debt obligations consisting of: a) deferred compensation of \$1,171,000, b) convertible notes payable affiliates of \$3,219,000, and, c) a loan payable of \$7,754,000 (owed by PA-1) (plus accrued interest of \$693,000).

Plan of Operations and Outlook

As of December 31, 2015, the Company had cash of approximately \$178,000.

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 and 2015 the Company experienced greater difficulty in raising equity and debt funding than in the prior years. During the years

ended June 30, 2014 and 2015, the Company had the greatest difficulty raising funds to date. 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 2016 to date 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 6 and 8 to Financial Statements) and members of the Company's senior management have made loans to the Company which have been converted into convertible promissory notes. As of December 31, 2015, such deferrals totaled approximately \$4,389,000 (including accrued interest and deferred compensation converted into promissory notes). **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.**

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The Company made reductions in its personnel during the year ended June 30, 2014. 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 Integrated Projects and CAFO waste remediation systems (including the Kreider 2 facility) and to continue to operate the Kreider 1 facility (subject to agreements being reached with Pennvest as discussed above). The Company anticipates that it will seek to raise from \$2,500,000 to \$50,000,000 or more (debt and equity) during the next twelve months. **However, as discussed above, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.**

The Company is not currently generating any significant revenues. Further, the Company's anticipated revenues, if any, from existing projects and proposed projects will not be sufficient to meet the Company's anticipated operational and capital expenditure needs for many years. During the six months ended December 31, 2015 the Company raised proceeds of approximately \$183,000 through the sale of its securities and an additional \$185,000 through the exercise of warrants (Note 9 to Financial Statements) 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.

On January 26, 2009, the Board of the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a \$7.75 million loan to Bion PA 1, LLC (PA-1), a wholly-owned subsidiary of the Company, for the initial stage of Bion's Kreider Farms project (Phase 1 Kreider System). After substantial unanticipated delays, on August 12, 2010 the PA-1 received a permit for construction of the Phase 1 Kreider system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA-1 finished the construction of the Phase 1 Kreider System and entered a period of system operational shakedown during May 2011. The Phase 1 Kreider 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 economics (potential revenues and profitability) of the Kreider 1 System are based largely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. The PADEP issued final permits for the Kreider 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, PA-1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the system to test improvements and add-ons. Operating results of the Phase 1 Kreider system have documented the efficacy of Bion's nutrient reduction technology and vetted potential add-ons for future installations. 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 PA-1. As a result of this extended period of operations, Bion is confident that future systems can be constructed with even higher operational efficiencies at lower capital expense and with lower operational costs.

To date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth which limited liquidity has negatively impacted Bion's business plans and has prevented Bion from monetizing the nutrient reductions created by PA-1's existing Kreider 1 project and Bion's other proposed projects. These challenges and difficulties (which continue to this date) have prevented PA-1 from generating any material revenues from the Kreider 1 project to date (PA-1's Kreider 1 operating expenses have been funded by loans from Bion) and raise significant questions as to when, if ever, PA-1 will be able to generate material revenues from the Kreider 1 system. Additionally, PA-1 has not made any interest or principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2015. Due to the slow development of the nutrient reduction credit market, 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, recorded a \$2,000,000 impairment of the Kreider 1 assets during the year ended June 30, 2014. An additional impairment of \$1,750,000 was recorded for the year ended June 30, 2015.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA-1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter, but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report. It is not possible at this date to predict the outcome of such negotiations, but the Company believes it is possible that an agreement may yet be reached that will result in a commercially 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, PA-1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

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

The Company is currently conducting a portion of its research and development activities at Kreider 1 while continuing commercial operations.

As indicated 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, some of which may be in the context of joint ventures for the development of one or more Integrated 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.

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Currently, Bion is focused on using applications of its patented waste management technology and its technology platform to pursue three main business opportunities: 1) development of Integrated Projects which will include large CAFOs, such as large dairies, beef cattle feed lots and hog farms, with Bion waste treatment System modules processing the aggregate CAFO waste stream from the equivalent of 40,000 or more beef and/or dairy cows (or the waste stream equivalent of other species) while producing solids to be utilized for renewable energy production (and potentially to be marketed as feed and/or fertilizer), integrated with an ethanol plant capable of producing 40 million gallons (or more) of ethanol per year, and/or integrated with CAFO end product processors, 2) installation of Bion systems to retrofit and environmentally remediate existing CAFOs in selected markets where: a) government policy supports such efforts (such as the Chesapeake Bay watershed and Wisconsin or, potentially, other areas seeking to meet EPA TMDL requirements) and/or b) where CAFO s need our technology to obtain permits to expand or develop without negative environmental consequences, and 3) licensing and/or joint venturing its technology for use outside of North America.

While the Company has commenced activities related to marketing and potential use of its technology in relation to expansion and/or development of CAFO s in the Northeast and Midwest (and elsewhere), we have met with extremely limited success to date. Bion considers these to be a large potential markets for the Company s growth over the next 36 months (and thereafter). Assuming that the Company can be successful in raising necessary funding and the development of a more robust market for nutrient reductions in Pennsylvania (and elsewhere), neither of which are assured at this date, the Company believes it will be able to succeed at such activities based on the operating results of its technologies and systems.

The Company continues its development work related to the second phase of the Kreider project (Phase 2 Kreider Project) which involves production of renewable energy from the waste of KF s poultry operations and the cellulosic solids recovered by the Kreider 1 system. During May 2011 the PADEP certified the Phase 2 Kreider Project for 559,457 nutrient credits under the old EPA s Chesapeake Bay model. The Company anticipates that the Phase 2 Kreider Project will be re-certified for between 1.5-2 million (or more) nutrient reduction credits pursuant to the amended EPA Chesapeake Bay model which was published subsequent to the original certification. Announcements related to negotiations between the EPA and PADEP regarding Pennsylvania s Chesapeake Bay nutrient reduction non-compliance suggest that a resolution of certain matters is likely during the balance of this calendar year which may allow the Phase 2 Kreider Project to move forward with re-certification and proceed toward design, permitting, construction and eventual operation during the 2017 calendar year. Assuming there are also positive developments related to the market for nutrient reductions in Pennsylvania, the Company intends to pursue development, design and construction of the Kreider poultry waste/renewable energy project with a goal of achieving operational status during

the 2017 calendar year. While the Company believes that substantial revenues may be generated from the sale of by-products (organic and inorganic fertilizer, renewable energy and/or renewable energy credits) of its operation, **the economics (potential revenues and profitability) of the Phase 2 Kreider Project are based, in large part, on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. However, liquidity in the Pennsylvania nutrient reduction market has been slow to develop significant breadth and depth, which lack of liquidity to date has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA-1's existing Kreider 1 project and will delay the Company's Phase 2 Kreider Project and other proposed projects in Pennsylvania.**

Bion is currently working with local, state and federal officials with regard to regulatory and legislative initiatives, and with such parties and potential industry participants to evaluate sites in multiple states. The Company believes that its initial Integrated Project will most likely be located and developed (possibly in stages) in Pennsylvania. Note that locations in other states are also under review and the initial Integrated Project could be developed elsewhere. It is possible that the Company will develop one or more Integrated Projects as 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). Bion intends to choose sites for additional Projects during the calendar years 2017-2019 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2023) of approximately 10-24 Integrated Projects. At the end of that period, Bion projects that 5 or more of these Integrated Projects will be in full operation in 3-5 states (or other locations), and the balance would be in various stages ranging from partial operation to early permitting stage. **No Integrated Project 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):

On September 27, 2008, the Company executed an agreement with Kreider Farms (and its affiliated entities) (collectively "Kreider") to design, construct and operate, through its wholly-owned subsidiary PA-1, a Bion system to treat the waste of the dairy cows (milkers, dry cows and heifers) at the Kreider Dairy, located in Mannheim, Pennsylvania. In addition, this agreement (as amended and extended) provides for a second phase which will include treatment of the cellulosic solid wastes from the Kreider 1 together with the waste stream from Kreider's poultry facilities to produce renewable energy for Bion's waste treatment facility and/or for market sales. The Kreider 1 system is owned and operated by PA-1, in which Kreider has the option to purchase a minority interest. Funds were expended over the last year to complete the construction of the Kreider 1 System and substantial capital and operating funds (equity and/or debt) has been and will continue to be expended. The Company anticipates that PA-1 will receive revenue from the sale of nutrient (and other) environmental credits related to the Kreider 1 system, and through sales of renewable energy generated in connection with the second phase (largely poultry manure) of the Kreider project. The \$7.75 million loan from the Pennsylvania Infrastructure Investment Authority to PA-1 (Pennvest Loan), together with funds provided by the Company, has provided the funds for construction of the Kreider 1 system. The Pennvest loan is to be repaid by interest only payments for the first three years, followed by an additional ten-year amortization of principal, and matures in November 2023. The Kreider 1 system reached full, stabilized operation by the end of the 2012 fiscal year and received final permits during August 2012. The Pennsylvania Department of Environmental Protection re-certified the nutrient credits for this project. As a result, PA-1 can now commence generating and verifying nutrient reduction credits for sale while continuing to utilize the system to test improvements and add-ons. Operating results of the Phase 1 Kreider system have documented the efficacy of Bion's nutrient

reduction technology and vetted potential add-ons for future installations. As a result of this extended period of operations, Bion is confident that future systems can be constructed with even higher operational efficiencies at lower capital expense and with lower operational costs. **To date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth which limited liquidity has negatively impacted Bion's business plans and has prevented Bion from monetizing the nutrient reductions created by PA-1's existing Kreider 1 project and Bion's other proposed projects. These challenges and difficulties (which continue to this date) have prevented PA-1 from generating any material revenues from the Kreider 1 project to date (PA-1's Kreider 1 operating expenses have been funded by loans from Bion) and raise significant questions as to when, if ever, PA-1 will be able to generate material revenues from the Kreider 1 system.**

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PA-1 has been engaged in on-and-off negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for over 36 months. In the context of such negotiations, PA-1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, PA-1 has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2015. Due to the slow development of the nutrient reduction credit market, 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, recorded a \$2,000,000 impairment of the Kreider 1 assets which reduced the value of the Kreider 1 System during the year ended June 30, 2014. An additional impairment of \$1,750,000 was recorded for the year ended June 30, 2015

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA-1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report. It is not possible at this date to predict the outcome of such negotiations, but the Company believes it is possible that an agreement may yet be reached that will result in a commercially 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, PA-1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

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

The Company is currently conducting a portion of its research and development activities at Kreider 1 while PA1 maintains the Kreider 1 System.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation SK) 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, 2015.

(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 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, 2015, the Company sold the following restricted securities: a) 6,362 shares issued pursuant to our 2006 Consolidated Incentive Plan (Plan), valued at \$5,952, in aggregate, to an employee and consultants for services, and b) 228,750 units at \$0.80 per unit, and received proceeds of \$183,000 (\$164,700 net of commissions) (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 \$1.10 per share until June 30, 2017. Additionally, warrant holders exercised warrants at \$.75 per warrant and received 14,000 shares of the Company s common stock and the Company received cash proceeds of \$10,500. 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

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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: February 4, 2016

By:

/s/ Mark A. Smith

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

Date: February 4, 2016

By:

/s/ Dominic Bassani

Dominic Bassani, Chief Executive Officer