BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10KSB/A
February 20, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB/A

AMENDMENT NO. 2

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 2001 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 OR THE TRANSITION PERIOD FROM _________ TO _________

Commission file number: 0-19333

Bion Environmental Technologies, Inc.
(Exact name of registrant as specified in its charter)

Colorado	84-1176672
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

18 East 50th Street, 10th Floor
New York, NY 10022
(Address of principal executive offices, including zip code)

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

Securities Registered under Section 12(b) of the Exchange Act:

Common Stock, no par value
(Title of Class)

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 [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The Issuer's revenues for the fiscal year ended June 30, 2001 were $84,322.

The aggregate market value as of September 25, 2001 of voting stock held by non-affiliates of the Registrant was $8,048,000 based upon the average of the closing bid and asked prices on the OTC Electronic Bulletin Board on that date.

As of September 25, 2001, 13,153,831 shares of Registrant's Common Stock, no par value, were issued and outstanding.

Documents incorporated by reference: None

PART II

ITEM 5. MARKET FOR BION ENVIRONMENTAL TECHNOLOGIES, INC. COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Information

During the past two years, we have had only limited volumes of trading in our Common Stock in the over-the-counter market, and there is no assurance that such trading will expand or even continue.

At present, our Common Stock trades under the symbol "BION" on the OTC Bulletin Board. The following quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Quarter Ended	High Bid	Low Bid
September 30, 1999	$2.56	$1.44
December 31, 1999	$3.44	$1.38
March 31, 2000	$4.09	$2.06
June 30, 2000	$3.06	$1.75
September 30, 2000	$2.69	$1.97
December 31, 2000	$2.00	$0.85
March 31, 2001	$1.44	$0.75
June 30, 2001	$3.00	$0.88

Holders

The number of holders of record of our Common Stock at September 25, 2001 was approximately 1,500.

The transfer agent for our Common Stock is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209.

Dividends

We have never paid any cash dividends on our Common Stock. The Board of Directors does not intend to declare any cash dividends in the foreseeable future, but instead intends to retain earnings, if any, for use in our business operations. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on our future earnings, if any, our capital requirements and financial condition, and other relevant factors.

Recent Sales of Unregistered Securities

The following securities were sold in the three-month period ended June 30, 2001 without registration under the Securities Act of 1933, as amended:

Warrants

We sold 758,138 J-1B Warrants at $.05 per warrant to purchase restricted and legended Common Stock at $1.50 per share in our private placement of convertible bridge notes to accredited investors. The warrants are exercisable from June 6 2001 to December 31, 2005. We received $37,907 in cash for use in operations for these warrants. See Exhibits 10.1, 10.2 and 10.3 to our Form 8-K dated April 26, 2001.

Common Stock

We issued 5,000 shares of unrestricted Common Stock to a shareholder upon the exercise of options in exchange for legal services valued at $10,000. The value attributed to the Common Stock represented the fair market value of the services provided.

Convertible Notes

During the three months ended June 30, 2001, we received $2,527,218 from the sale of convertible bridge notes sold to 16 accredited investors. We also issued a convertible bridge note to a trust on behalf of D2 Co., LLC for $127,083 for management fees.

The securities that were issued pursuant to the transactions set forth above were issued in reliance upon the exemptions from registration afforded by Sections 3(a)(9), 3(b), 4(2), or other provisions of the Securities Act of 1933, as amended. Each of the persons to whom such securities were issued made an informed investment decision and was provided with appropriate offering documents and access to material information. We believe that such persons had knowledge and experience in financial and business matters such that they were capable of evaluating the merits and risks of the acquisition of our Common Stock in connection with these transactions. All certificates representing such common shares bear an appropriate legend restricting the transfer of such shares. Transfer instructions have been provided to our transfer agent in accordance therewith.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying notes.

Going Concern

The audited financial statements contained in this Form 10-KSB show $30,218,339 being invested in or contributed to Bion as of June 30, 2001. We have a stockholders' deficit of $9,161,762, cumulative deficit of $39,380,101, which includes non-cash charges of $10,659,214 during the year ended June 30, 2001, limited current revenues and substantial current operating losses. (Note that the related parties notes payable of $4,780,817 are approximately 52% of the negative net worth, of which $4,263,174 is convertible into our Common Stock with an effective registration statement related to the resale of such shares. Note further that all but $517,643 of our debt will be automatically converted into our Common Stock no later than April 29, 2002, with an effective resale registration statement, which would eliminate most or all of our stockholders' deficit.) The convertible debt and accrued interest will be converted into shares in the event that we issue any capital stock or securities convertible into capital stock for an aggregate purchase price of at least $5,000,000 in a public or private offering. If no such offering occurs, the convertible debt will be converted into shares on April 29, 2002.

Our operations are not currently profitable; therefore, readers are further cautioned that our continued existence is uncertain if we are not successful in obtaining outside funding in an amount sufficient for us to meet our operating expenses at our current level. Management plans to continue raising additional capital to fund operations until Bion system and BionSoil(R) sales are sufficient to fund operations.

The level of funding required to accomplish our objectives is ultimately dependent on the success of our research and development efforts which, at this time, is unknown. Currently, we estimate that no less than approximately $3,000,000 will be required during the year ending June 30, 2002. We anticipate spending $750,000 on research and development efforts and the balance on compensation and general business overhead.

In connection with their report on our Consolidated Financial Statements as of and for the year ended June 30, 2001, BDO Seidman, LLP, our independent certified public accountants, expressed substantial doubt about our ability to continue as a going concern because of recurring net losses and negative cash flow from operations.

Financial Condition and Results of Operations

Liquidity and Capital Resources

Our operating activities used $4,287,762 and $3,498,506 of cash during the years ended June 30, 2001 and 2000, respectively. The net loss of $15,553,223 for the year 2001 compared to a net loss of $8,897,385 in 2000. The loss of $15,553,223 included non-cash general and administrative expenses of $7,645,570 and non-cash interest expense of $3,013,644. Included in the non-cash general and administrative expenses of $7,645,570 are charges of $2,332,000 for warrants issued as compensation for consulting to Southview, Inc., a company owned by David Mitchell, our Chairman, CEO and President. Charges of $2,361,153 and $320,000 were taken for the cancellation of warrants issued to D2 for consulting, which is also owned by David Mitchell, and amortization of deferred consulting expenses for D2, respectively. An additional expense for management fees to D2 of $370,000 is also included in the total expense. A charge of $2,179,182 for the beneficial value of warrants exchanged for common stock was also recorded as a non-cash general and administrative expense. This amount includes $453,549 for Dublin Holdings, $53,322 for LTLK Defined Benefit Plan and $919,547 for LTLK Foundation, companies related to Mark Smith, an Officer and Director of Bion. This amount also includes $61,418 for Craig Scott, $143,988 for Jere Northrop (and parties related to him), $177,936 for Jon Northrop and $36,402 for Duane Stutzman, who were Officers of Bion. Non-cash general and administrative expense and non-cash interest expense of $3,590,191 and $2,244,028 were included in the 2000 loss of $8,897,385. During the years ended June 30, 2001 and 2000, our accounts payable and accrued expenses were increased by $118,114 and decreased by $581,696 respectively. The increase is due to the timing of our payment cycle while the decrease in the prior year is due to the payment of accounts using the proceeds from the private placement of our convertible bridge notes payable.

Our investing activities used cash of $58,829 during the year ended June 30, 2001, compared with cash provided totaling $107,371 during the year ended June 30, 2000. During the year ended June 30, 2000, we sold mortgage assets generating $202,750.

We have been successful during the past two years in raising working capital through the sale of warrants and convertible debt. During the year ended June 30, 2001 we raised $2,527,218 in a private placement in the form of convertible bridge notes. In addition, Southview, Inc., a related party, has advanced the Company funds totaling $517,643 as of June 30, 2001.

All outstanding convertible debt of the Company will be converted into shares of the Company's Common Stock based upon agreed terms on or before April 29, 2002.

We believe that beyond June 30, 2001, we will not generate sufficient operating cash flow to meet our needs without additional external financing. There is no assurance that our efforts to obtain such financing will be successful. Any failure on our part to do so will have a material adverse impact on us and may cause us to cease operations.

As of June 30, 2001, we had a negative working capital of $7,028,315. Included in our current liabilities are $5,801,721 of convertible bridge notes payable and $2,298,538 of notes payable to related parties. These amounts are offset by cash of $1,300,398 which is the remaining balance of proceeds generated from our private placement of convertible bridge notes.

Financing activities provided cash of $3,042,056 during the year ended June 30, 2001, compared with $5,940,485 during the year ended June 30, 2000. We raised $3,569,279 during the year ended June 30, 2001, compared to $6,241,564 during the year ended June 30, 2000. During the year ended June 30, 2001, we repaid $500,000 for the cancellation of warrants previously issued. $27,223 of capital lease obligations were paid during the year ended June 30,2001 compared to $49,520 during the year ended June 30, 2000.

We currently have no commitments for material capital expenditures.

Results of Operations - Comparison of Fiscal Year Ended June 30, 2001 with Fiscal Year Ended June 30, 2000

We recorded $74,322 of BionSoil(R) sales and $10,000 of system sales during the fiscal year ended June 30, 2001. This compares to total sales of $158,445 for our prior year, $135,945 BionSoil(R) sales and $22,500 system sales. The decrease of $74,123 is attributable to our concentration on research and development on our second generation system, the decision to stop actively soliciting sales of our first generation system and further BionSoil(R) testing and analysis. Cost of goods sold increased $91,512 (26%) for the soil sales and decreased $41,997 (100%) for system sales.

We incurred gross losses of $355,495 and $231,857 during the years ended June 30, 2001 and 2000, respectively. The gross losses are primarily a result of the fact that much of the soil produced was sold at below cost to help gain market acceptance. We believe that this trend will reverse as we enter the final phase of system testing and revenues will increase with new sales.

General and administrative expenses increased $4,645,370 (80%). The increase is primarily ($4,055,379) attributable to non-cash expenses as part of the issuance of stock and warrants associated with the various transactions discussed below. (See Notes 2, 3, 4 and 11 to the financial statements.)

In connection with our convertible bridge notes we have issued, during the year ended June 30, 2001, we incurred non-cash interest expenses of $443,707 and an additional $1,129,085 of amortization of debt discount. Non-cash interest of $29,458 was incurred on accrued management fees that have not been paid. Interest of $415,556 and amortization of debt discount of $806,592 was incurred as non-cash interest on promissory notes payable to a related party. We incurred an additional $171,603 of non-cash interest on notes payable to related parties. In addition, $17,643 was incurred on a promissory note to Southview, Inc., also a related party.

Non-cash and administrative expenses incurred on issuance of stock for services, compensation and interest totaled $79,175. The issuance of a note payable for management fees added $370,000 to non-cash general and administrative expenses. The beneficial value of warrants exchanged for Common Stock of $2,179,182, the amortization of deferred consulting expense of $320,591, and the adjustments for variable options of $3,469 also added to non-cash general and administrative expenses. Additional non-cash general and administrative expenses were incurred for the cancellation of warrants previously issued for services of $2,361,153 and issuance of options and warrants for consulting services of $2,332,000.

Research and development costs increased $663,706 during the year ended June 30, 2001. This increase is due to the design and testing of the second-generation system and increased BionSoil(R) research and testing expenses.

Interest expenses increased $757,013, of which $769,616 was for non-cash expenses associated with amortization of debt discount on promissory notes. Non-cash interest expense for the years ended June 30, 2001 and 2000 was $3,013,644 and $2,244,028, respectively. (See Notes 2, 3, 4 and 11 to the June 30, 2001 financial statements).

We did not record income tax expense during the years ended June 30, 2001 and 2000, as a result of our net losses. The valuation allowance of $15,390,000 at June 30, 2001, was established because we have not been able to determine that it is more likely than not that the deferred tax asset will be realized.

At June 30, 2001, we had net operating loss carryforwards of approximately $25,517,739, with expirations through 2021. The utilization of certain of the loss carryforwards may be limited under Section 382 of the Internal Revenue Code.

The net loss and comprehensive loss increased $6,655,838 (75%) during the year ended June 30, 2001. The increase primarily related to an increase of $4,055,379 of non-cash general and administrative expenses and an increase of $769,616 of non-cash interest expense incurred during the year ended June 30, 2001. There were additional increases of $663,706 for research and development and the effect of a change in accounting of $481,250. During the year ended June 30, 2001, the Company adopted Emerging Issues Task Force Issue

No. 00-27 ("EITF 00-27"), "Application of EITF Issue No. 98.5, Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments", which is effective for all such instruments. This issue clarifies the accounting for instruments with beneficial conversion features or contingently adjustable conversion ratios. As a result of this adoption, the Company modified the previous calculation of the beneficial conversion features associated with previously issued convertible bridge notes and recorded an additional warrant discount on the convertible bridge notes issued during the year ended June 30, 2000 of $1,050,000 due to the beneficial conversion feature calculated on the intrinsic value of the allocated proceeds received in the financing. Since the notes automatically convert into Common Stock one year from the date of issuance, the Company recorded $481,250 as a cumulative effect of change in accounting principle for the year ended June 30, 2001. The Company has also recorded a discount on convertible bridge notes issued during the year ended June 30, 2001 of $701,000.

Basic and diluted loss per common share increased by $.41, from $.79 to $1.20. The increase in the loss per share is attributable to the aforementioned increase in the net loss.

Seasonality

Bion's installation capability is restricted in all cold weather climates to approximately eight months per year. However, when weather conditions limit construction activity in southern market areas, projects in northern markets can proceed, and when northern area weather is inappropriate, southern projects can proceed. BionSoil(R) harvests on the existing installed base is semi-annual and is timed for spring and fall with harvested soils being available for sale during the next spring or fall. BionSoil(R) and BionSoil(R) product sales are expected to exhibit a somewhat seasonal sales pattern with emphasis on spring, summer and fall sales.

Impact of Recently Issued Accounting Pronouncements

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," required companies to record derivatives on the balance sheet as assets or liabilities, measured at fair market value. Gains or losses resulting from changes in the values of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 had no material effect on our financial statements.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"), which was effective July 1, 2000, except that certain conclusions in this Interpretation which cover specific events that occur after either December 15, 1998, or January 12, 2000, are recognized on a prospective basis from July 1, 2000. This Interpretation clarifies the application of APB Opinion 25 for certain issues related to stock issued to employees. We believe our existing stock-based compensation policies and procedures are in compliance with FIN 44 and, therefore, the adoption of FIN 44 had no material impact on our financial condition, results of operation or cash flows.

In July 2001, the FASB issued Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), which supersedes APB Opinion No. 16. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. The Company is currently reviewing the statement, but does not anticipate the new standard will have any effect on its financial statements.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets," ("SFAS 142"), which supersedes APB Opinion No. 17. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets , addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to goodwill and intangible assets arising from transactions completed before and after the statement's effective date. SFAS 142 is effective for fiscal 2002. The Company is currently reviewing the statement and has not yet determined the impact adoption of SFAS 142 will have on its financial statements.

Inflation and Changes in Prices

We are unable to predict the impact of inflation on our activities; however, at this time we believe it is minimal.

ITEM 7. FINANCIAL STATEMENTS

Financial Statements are included on Pages F-1 through F-36.

The Table of Contents to the Financial Statements is as follows:

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation

The following table shows the aggregate direct remuneration for the fiscal years ended June 30, 2001, 2000, and 1999 to each executive officer and two additional individuals:

Summary Compensation Table

		Annual Compensation			Long Term Compensatio		
					Awards(12)		Pay
Name and Principal Position	Year	Salary(1) ($)	Bonus($)	Other Annual Compen-sation($)	Restricted Stock Award(s)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)
David J. Mitchell(A)	2001	370,000(2)	0	2,230,000(4)	0	0	0
Chief Executive Officer and President	2000	120,000(3)	0	3,811,057(5)	0	0	0
Mark A. Smith(A)	2001	0	0	0	0	0	0
Chairman	2000	600,000(6)	0	0	0	0	0
Director	1999	26,667(7)	0	0	0	626,667	0
Jon Northrop(B)	2001	150,000	0	0	0	0	0
Executive V.P.	2000	150,000	0	0	0	0	0
Asst. Secretary Director	1999	150,000(8)	0	0	0	0	0
Jere Northrop	2001	150,000	0	0	0	0	0
Chief Technology	2000	150,000	0	0	0	0	0
Officer	1999	150,000(8)	0	0	0	0	0
Craig Scott	2001	33,500(9)	0	0	0	0	0
	2000	132,000	0	0	150,000	0	0
	1999	132,000	0	0	10,000	0	0
M. Duane Stutzman	2001	120,000(10)	0	0	0	0	0
	2000	120,000	0	0	75,000	0	0
	1999	120,000(11)	0	0	227,452	0	0

(A) David Mitchell replaced Mark A. Smith as Chairman of the Company on September 6, 2001.
(B) Jon Northrop resigned from the Company on August 31,2001.

(1) Includes compensation paid by Bion Technologies, Inc., our wholly owned subsidiary.
(2) Includes compensation of $120,000 that has been added to the balance of the 2000 D2 Convertible Bridge Note; compensation of $125,000 has been added to the balance of the 2000 Convertible Bridge Note for the Trust Under Deferred Compensation Plan for D2 Co., LLC; and compensation of

$125,000 has been added to the balance of the 2001 Convertible Bridge Note for the Trust Under Deferred Compensation Plan for D2 Co., LLC.
(3) Compensation for the period January 1, 2000 (inception of agreement), through June 30, 2000, which has been added to the balance of the D2 2000 Convertible Bridge Note.
(4) Represents the difference between the value of warrants to purchase 6,500,000 shares purchased by Southview, Inc., a company owned by David J. Mitchell, and the amount paid therefor.
(5) Represents the difference between the value of warrants to purchase 5,000,000 shares purchased by D2 Co., LLC, a company owned by David J. Mitchell, and the amount paid therefor.
(6) Consulting fees received according to the agreements between LoTayLingKyur,Inc., Mark A. Smith, and Bion as reported in our Forms 8-K dated December 11, 1999, (Item 10.4) and May 21, 1999, (Item 5.1).
(7) Compensation for the period May 21, 1999 (inception of agreement), through June 30, 1999.
(8) Management deferred and accrued $50,000 of fiscal year 1999 salary as a liability to conserve cash.
(9) The employment of Craig Scott was terminated on April 15, 2001.
(10) The employment of Duane Stutzman was terminated on December 31, 2000. The salary amount for 2001 includes $60,000 in severance pay through June 30, 2001.
(11) Management deferred and accrued $30,000 of fiscal year 1999 salary as a liability to conserve cash.
(12) Does not include any options or warrants received in financing transactions or otherwise purchased.

Compensation of Directors

Effective September 1, 1993, until December 31, 1999, outside directors were compensated at a rate of $75 per month for their contributions. Members of the Board of Directors do not currently receive any cash compensation for their services as Directors, but are entitled to be reimbursed for their reasonable expenses in attending meetings of the Board.

During the fiscal year ended June 30, 2001, we granted, pursuant to our 2000 Incentive Plan, the following options to our outside directors:

Name of Director	Number of Shares	Exercise Price	Expiration Date
Ronald G. Cullis*	10,000	$2.25	12/31/03
Andrew Gould	75,000	$2.25	12/31/03
Salvatore Zizza	75,000	$2.25	12/31/03
Joseph Wright	20,000	$1.50	12/31/05

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* Mr. Cullis resigned effective September 6, 2001.

Employment Contracts and Termination of Employment and Change in Control Arrangements

On December 1, 1997, we entered into separate employment agreements with Jon Northrop, Jere Northrop and M. Duane Stutzman pursuant to which Jon Northrop and Jere Northrop were each entitled to receive an annual salary of $150,000 and M. Duane Stutzman was entitled to receive an annual salary of $120,000. All of the employment agreements were for the period beginning on December 1, 1997, and ending on December 31, 2002. The employment agreement with Duane Stutzman was terminated December 31, 2000. The employment agreement with Jon Northrop was terminated August 31, 2001.

The remaining employment agreement provides that Jere Northrop's compensation will be reviewed no less than once per year with a view to making such increases in his salary or declaring such bonuses or other benefits as may be merited and warranted in light of factors considered pertinent by our Board of Directors. Mr. Northrop is entitled to receive free of cost parking for his automobile, health, hospitalization and life insurance with coverage exceeding or equal to that which was then in force through us, as well as such other benefits as our Board may deem appropriate from time to time. The subject agreement provides that in the event Mr. Northrop is terminated by us for any reason other than "for cause," he will continue to be compensated by us for the duration of the term of the agreement. The agreement also provides that in the event that we have a change in control at any time during his term, as a result of which the Board of Directors appoints any person other than Mr. Northrop to serve in the capacity for which he is entitled to receive compensation under his agreement, Mr. Northrop will nevertheless be entitled to receive all of his compensation and benefits under his agreement regardless of whether he continues to perform any services for us. In addition, the agreement provides that in the event that Jere Northrop is terminated upon death or disability, terminated without cause, or terminated upon change in management, all warrants, options or shares issued but unvested at the date of termination will become fully vested as of the date of termination.

On May 21, 1999, we also entered into a consulting agreement with Mark A. Smith and LTLK to perform consulting services for us during the period beginning on May 21, 1999, and ending on December 31, 2001. In accordance with the consulting agreement, LTLK received compensation in the form of a convertible promissory note in the amount of $626,667 and warrants to purchase 626,667 shares of our Common Stock. The terms of the promissory note and warrants were later modified when the transaction with D2 was consummated (see "Certain Relationships and Related Transactions").

On December 23, 1999, we entered into a three year management agreement with D2 pursuant to which D2 provides us with specific management and consulting services and David J. Mitchell has been appointed to serve as our Chief Executive Officer, Chairman of our Executive Committee and as one of our Directors. In accordance with this agreement, D2 received warrants to purchase 2,500,000 shares of our Common Stock at an exercise price of $2.50 per share until December 31, 2004, and receives ongoing compensation of $240,000 per year payable in shares of our Common Stock or cash. Also in accordance with this agreement, we added three members to our Board of Directors (David J. Mitchell and Salvatore J. Zizza added December 23, 1999, and Andrew G. Gould added August 10, 2000), and receive consulting services from Summerwind Restructuring, Inc., which provides the services of consultant Dominic Bassani, who is acting as Vice President of Operations of Bion Technologies, Inc. and BionSoil, Inc. at present. We amended this agreement on August 10, 2000, including (but not limited to) extending the term for one

11

additional year, issuing additional warrants to D2, and amending certain provisions of the Shareholders Agreement. See our Form 8-K dated August 3, 2000.

Effective December 1, 2000, the Company amended the D2 management and consulting agreement by extending the term of the agreement by 18 months, canceling all outstanding warrants owned by D2 by agreeing to repay to D2 $1,000,000 with $500,000 cash and cancellation of the existing $500,000 non-recourse promissory note receivable and accrued interest and increasing the annual base consideration from $240,000 as follows: calendar year 2001 - $500,000; calendar year 2002 - $600,000; and calendar year 2003 - $750,000. See our Form 8-K dated December 1, 2000.

The original agreement and amendments may be referenced in our Forms 8-K dated December 11, 1999, August 3, 2000, December 1, 2000 and September 6, 2001.

Incentive Compensation Plans

On July 9, 1993, the Board of Directors adopted the Fiscal Year 1994 Incentive Plan ("Plan"), which was ratified by our shareholders on August 30, 1993. The maximum number of shares of Common Stock that may be issued under the Plan is the greater of 250,000 shares or 20% of our outstanding Common Stock. See Item 10 of our Form 10-KSB dated June 30, 1998, for specific details of this Plan.

On June 14, 1996, the Board of Directors adopted the 1996 Nonemployee Director Stock Plan ("Director Plan"). The maximum number of shares of Common Stock that may be issued under the Director Plan is 100,000 shares. See Item 10 of our Form 10-KSB dated June 30, 1998, for specific details of this Director Plan.

On May 16, 2000, the Board of Directors adopted the 2000 Incentive Plan ("2000 Plan"), which will be submitted for ratification by our shareholders at the next meeting of the shareholders. The maximum number of shares of Common Stock, that may be issued under the 2000 Plan is 1,000,000 shares. See Exhibit 99.5 of our Form 8-K dated August 10, 2000, for specific details of this 2000 Plan.

On June 5, 2001, the Board of Directors adopted the 2001 Incentive Plan ("2001 Plan"), which will be submitted for ratification by our shareholders at the next meeting of the shareholders. The maximum number of shares of Common Stock, that may be issued under the 2001 Plan is 1,500,000 shares. See Exhibit 10.12 to our Form 8-K dated September 6, 2001.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following is a list of certain relationships and related party transactions in the previous two years:

During the period beginning July 1, 1999, we entered into numerous transactions with Mark A. Smith (our Chairman) and/or entities controlled hy him: LoTayLingKyur, Inc. ("LTLK"), LTLK Defined Benefit Plan, LoTayLingKyur Foundation, and Dublin Holding Ltd. (collectively "First Parties"), including the following:

12

i) From July 1, 1999, to December 21, 1999, we received advances from LTLK, aggregating $1,035,681, for which LTLK received convertible notes (plus one Class X Warrant for each $1.00 advanced).

ii) Effective December 20, 1999, pursuant to an agreement between First Parties and us, (see our Form 8-K dated December 11, 1999):

(a) First Parties exchanged all the convertible promissory notes for new convertible promissory notes with aggregate principal of $3,075,798 (which amount equaled the principal plus accrued interest of the prior promissory notes) due at December 31, 2002;
(b) we received the right to convert such new notes to Common Stock upon conclusion of aggregate financing of at least $10,000,000 if portions of that financing convert into Common Stock;
(c) First Parties' Class X Warrants were exchanged for 0.3 restricted shares of Common Stock plus 0.7 Class Z Warrants for each Class X (in aggregate, 1,172,426 restricted shares of Common Stock and 2,735,660 Class Z Warrants were issued and exchanged for 3,908,084 Class X Warrants); and
(d) First Parties agreed to participate in and support a future warrant exchange involving our X and Z Warrants, described below.

iii) Commencing August 3, 2000, and at various other effective dates through the month of August 2000, the First Parties (and certain related holders of our Class X Warrants and Class Z Warrants) exchanged, in aggregate, 165,198 Class X Warrants and 5,425,440 Class Z Warrants for 863,399 restricted shares of our Common Stock. This exchange occurred pursuant to an agreement we had with the warrant holders dated December 20, 1999. See our Form 8-K dated December 11, 1999, Exhibits 10.4, 10.9, and 10.13. Mark A. Smith, Chairman, (and affiliates and extended family members of Mr. Smith) participated in this warrant exchange agreement. For further details see our Form 8-K dated August 3, 2000, and Exhibit 99.4 thereto.

On December 23, 1999, we entered into the following transactions with D2 Co., LLC and Southview, Inc., which was formerly unaffiliated with us (see our Forms 8-K dated December 11, 1999 and December 1, 2000):

i) We entered into a three year Management Agreement with D2 Co., LLC ("D2") of which David Mitchell, Chairman, CEO and President of the Company, is sole member, pursuant to which D2 agreed to provide us specific management and consulting services; compensation to D2 for such services consists of: $240,000 per year payable in our Common Stock or cash; and 2,500,000 warrants exercisable at $2.50 expiring on December 31, 2004.

ii) We entered into a Warrant Purchase Agreement and other agreements with D2, pursuant to which D2 purchased 2,500,000 warrants, exercisable at $1.75 expiring on December 31, 2004, for $1,000,000 ($500,000 in cash and %500,000 in a non-recourse promissory note to us that is secured by the subject warrants).

iii) On December 23, 1999, D2, Mark A. Smith, Jere Northrop, Jon Northrop, LoTayLingKyur, Inc., and Dublin Holding, Ltd. entered into a Shareholders' Agreement which, among other things, provides that D2 will receive warrants to purchase additional shares of Common Stock, allows D2 to receive additional shares of Common Stock in lieu of cash payments for its

13

fee, and grants D2 2,500,000 warrants to purchase additional shares of Common Stock for an aggregate purchase price of $1,000,000. Effective August 31, 2001 this agreement was amended to remove Jon Northrop as a party.

iv) On August 10, 2000, we amended the Management Agreement with D2 that we entered into on December 23, 1999, which amendment (1) extended the agreement for D2's services for an additional year; and (2) issued D2 1,500,000 additional warrants (1,000,000 exercisable at $3.50 per share and 500,000 exercisable at $6.00 per share, both exercisable from January 1, 2002, until August 10, 2005). See our Form 8-K dated August 3, 2000.

v) On December 1, 2000, the Company made additional amendments to the D2 management and consulting agreement by extending the term of the agreement by 18 months, canceling all outstanding warrants owned by D2 by agreeing to repay to D2 $1,000,000 with $500,000 cash and cancellation of the existing $500,000 non-recourse promissory note receivable and accrued interest and increasing the annual base consideration from $240,000 as follows: calendar year 2001 - $500,000; calendar year 2002 - $600,000; and calendar year 2003 - $750,000. See our Form 8-K dated December 1, 2000.

vi) Effective January 1, 2001, the Company agreed to make the payments due under the consulting agreement under a deferred compensation plan to a "Rabbi Trust" (Trust Under Deferred Compensation Plan for D2 Co., LLC) for the benefit of D2. The payments to the trust for the six months ended June 30, 2001 totaling $250,000 were made in the form of 2000 and 2001 Convertible Bridge Notes. Commencing July 1, 2001, payments are to be made by the issuance to the trust of shares of Common Stock on a quarterly basis, based on the average closing price of the Common Stock during the quarter.

(vii) Effective January 8, 2001, Southview, Inc. ("Southview"), a corporation wholly owned by David J. Mitchell, Chairman, CEO and President of the Company, agreed to purchase warrants to purchase 6,500,000 shares of the Company's common stock for the sum of $500,000 cash payable on or before February 16, 2001. On February 16, 2001, Southview completed the purchase. Warrants to purchase 3,250,000 shares of common stock are exercisable at $1.00 per share and warrants to purchase another 3,250,000 shares of common stock are exercisable at varying prices between $1.00 and $2.00 per share, depending on the market price of the Company's common stock. All warrants purchased are exercisable from February 16, 2001 to February 16, 2006.

On May 21, 1999, we made agreements with five parties, including Jon Northrop, CEO, Jere Northrop, CTO, M. Duane Stutzman, CFO, the Family Trust U/A 3rd U/W Catherine Northrop and one other employee, whereby we issued long-term promissory notes to each party in exchange for payables aggregating $793,500 owed to such parties. See our Form 8-K dated May 21, 1999.

Effective December 15, 1999, we entered into agreements with eight holders of outstanding promissory notes (Jon Northrop, Jere Northrop, Northrop Family Trust, M. Duane Stutzman, Harley Northrop, Edward Hennig, William Crossetta and Craig Scott), pursuant to which each note holder agreed to exercise either outstanding options or warrants owned by the note holder by cancellation of the promissory note owned by the holder under certain specified conditions. Additionally, each note holder agreed to participate in and support a future registered warrant exchange under specified terms and conditions. See our Form 8-K dated December 11, 1999.

Effective August 29, 2001, we amended the above agreements with holders of the outstanding promissory notes, pursuant to which each note holder agreed extend the maturity date to April 30, 2002, cancel certain outstanding options

14

owned by the note holder, and change the terms of the note so that outstanding principal and interest shall be completely converted to shares of the Company's Common Stock upon the earlier of April 29, 2002 or the conversion of the Company's outstanding Convertible Bridge Notes which conversion shall take place at the lower of: i) $2.25 per share, or ii) the conversion price of the convertible bridge notes. See our Form 8-K dated September 6, 2001.

Effective August 23, 2000, certain holders of our Class X Warrants and Class Z Warrants, including without limitation, Jon Northrop, who was then a Director and President, and Jere Northrop, Director and Chief Technology Officer (and their extended families), agreed to exchange, in aggregate, 471,545 Class X Warrants and 855,696 Class Z Warrants for 269,831 restricted shares of our Common Stock. This exchange occurred pursuant to the terms of agreements dated December 20, 1999. See our Forms 8-K dated December 11, 1999, and August 10, 2000.

Andrew G. Gould joined our Board of Directors on August 10, 2000. In addition to his duties as a director, Mr. Gould, through Arthur P. Gould & Co., Inc., a company that he owns, will provide us with an average of approximately ten (10) hours per month of technology consulting services through August 31, 2002, at no cost to us. We have granted Mr. Gould options to purchase 75,000 shares of our Common Stock at a price of $2.25 per share, exercisable until December 31, 2003. See our Form 8-K dated August 3, 2000.

Beginning August 10, 2000, Salvatore J. Zizza, one of our directors, has served as our governmental affairs liaison and provide additional consulting services through September 1, 2002 for which he receives no additional compensation. We granted Mr. Zizza options to purchase 75,000 shares of our Common Stock at a price of $2.25 per share, exercisable until December 31, 2003, and issued him 100,000 Class J-2 warrants purchasing Common Stock at a price of $2.375 per share. We will provide Mr. Zizza with office space in our New York City office. See our Form 8-K dated August 3, 2000.

Effective June 6, 2001, Joseph R. Wright, Jr. was elected to our Board of Directors. Mr. Wright received options to purchase 20,000 shares of unrestricted common stock at $1.50 per share, with 10,000 shares vesting on June 6, 2002 and 10,000 shares vesting on June 6, 2003, and all shares are exercisable until December 31, 2005. See our Form 8-K dated April 26,2001.

On April 13, 2000, we completed a private placement offering of $4,156,425 consisting of $4,095,000 in long term convertible bridge debt and $61,425 for the purchase of 1,213,500 warrants exercisable at $2.375 per share until December 31, 2004. See our Form 8-K dated April 13, 2000. D2 and Salvatore Zizza participated in this offering on the same terms as unaffiliated third parties. D2 purchased four units ($100,00 convertible debt and 30,000 warrants) and Mr. Zizza purchased two units ($50,000 convertible debt and 15,000 warrants). Effective September 15, 2000, we amended certain terms of the convertible bridge notes upon approval of the holders of a majority of the notes concerning changes to the conversion procedure and amended exercise prices on the Bridge Warrants. See our Form 8-K dated August

10, 2000. Effective February 24, 2001, we further amended certain terms of the convertible bridge notes upon approval of the holders of a majority of the notes concerning changes to the conversion procedure and maturity date and amended the call price and exercise prices on the Bridge Warrants. See our Form 8-K dated February 6, 2001.

On June 8, 2001, we completed private placement offerings of $2,565,125 consisting of $2,527,218 in short term convertible debt and $37,906 for the purchase of 758,138 warrants exercisable at $1.50 per share until December 31,

15

2005. See our Form 8-K dated April 26, 2001. Salvatore Zizza, Andrew Gould and Joseph Wright each participated in this offering on the same terms as unaffiliated third parties. Messrs. Zizza and Wright each purchased convertible notes of $98,552 and 29,550 warrants. Mr. Gould purchased a convertible note of $7,882 and 2,363 warrants.

Directors and officers were issued options and warrants as disclosed in Item 10 Executive Compensation in this Form 10-KSB, above.

The following transactions occurred effective on September 6, 2001:

(a) Severance Agreements. We entered into severance agreements with Jon Northrop and the only other employee that remained in our Denver, Colorado office. As a result, we no longer have any employees in Denver and substantially all of our business operations are conducted out of our office in New York City, although we will continue to have a small office in Denver which will be used by Mr. Northrop in his capacity as our consultant.

(b) Restructuring of Notes to Related Parties and Cancellation of Options and Warrants. We have amended the terms of certain notes that we owe to certain related parties and have cancelled certain outstanding options and warrants held by them. The accrued amounts due under notes that we amended are as follows:

Holder	Amount of Accrued Debt (Accrued to November 1, 2001)
Jon Northrop	$ 337,466
Jere Northrop	$ 297,531
Harley Northrop	$ 397,865
Northrop Family Trust	$ 136,150
Edward A. Hennig	$ 159,173
M. Duane Stutzman	$ 181,106
William J. Crossetta	$ 279,000
S. Craig Scott	$ 49,804
Dublin Holding Ltd.	$3,682,944
Mark Smith Rollover IRA	$ 393,556
Kelly Smith Rollover IRA	$ 339,870
TOTAL	$6,254,465

The provisions of the agreements vary for each debt holder, with cancellations of certain options and warrants. All of the subject debt is convertible to shares of our Common Stock or before April 29, 2002, subject to certain conditions precedent.

(c) Mark Smith Agreements.

- Mark Smith and certain entities related to him which own shares of our Common Stock (the "Smith Shares") entered into a voting agreement that gives David Mitchell, our President and CEO, the power to vote all of the Smith Shares as to most matters, but Mr. Smith will still have the right to vote the Smith Shares with respect to a sale of substantially all of our assets or a merger. The voting agreement is purely contractual and is not a formal voting trust.

- In addition, Mr. Smith and certain entities that he controls entered into a separate agreement with us which imposes certain restrictions on the sale and transfer of the Smith Shares and amends the respective terms of five convertible promissory notes payable to Dublin Holding, Ltd, the Mark A. Smith Rollover IRA and the Kelly Smith Rollover IRA to provide that all five of these notes will be automatically and fully converted (with all principal and accrued interest calculated as if they had been held to maturity) into shares of our Common Stock upon the conversion of our outstanding Convertible Bridge Notes and 2001 Convertible Notes at a conversion rate equal to the lesser of (i) $1.80 per share or (ii) the conversion price of our outstanding Convertible Bridge Notes and 2001 Convertible Notes.

(d) D2 Co., LLC Agreements.

We entered into an agreement with D2 Co., LLC, Southview, Inc. and Atlantic Partners, LLC, all of which are affiliates of David Mitchell, our President and CEO (collectively, "D2") in which, among other things, we agreed to:

- provide that the compensation payable to D2 be paid in a deferred manner as set forth in an exhibit to the agreement;

- be a party to the voting agreement that gives David Mitchell the power to vote all of the Smith Shares as to most matters;

- release Jon Northrop from the restrictions related to the sale of shares of our Common Stock owned by him that are contained in the Shareholders Agreement dated December 23, 1999, as amended; and

- amend the SV1 and SV2 Warrants held by D2 so that upon earlier of (i) completion of financing or series of financings large enough to "trigger" the conversion of Bion's outstanding Bridge Notes and 2001 Convertible Notes (collectively "CV Notes") into Bion Common Stock; or (ii) conversion of the CV Notes into Bion Common Stock on April 29, 2002, the outstanding Class SV1 and SV2 Warrants owned by D2 will be adjusted ("Adjusted Warrants") so that D2 owns Adjusted Warrants to purchase a number of shares of Bion Common Stock equal to 20% of the "fully-diluted" outstanding shares, calculated by including (i) the Adjusted Warrants, (ii) the securities issued in the conversion of the CV Notes and other notes, (iii) the securities issued in connection with the subject financing, and (iv) other outstanding options, warrants and/or convertible promissory notes which are exercisable or convertible, as applicable, at a price equal to or lower than the exercise price of the Adjusted Warrants, which Adjusted Warrants will have the same expiration date as the current SV1 and SV2

Warrants and will have an exercise price equal to the lower of $1.00 per share or the conversion price of the CV Notes; provided, however, that for purposes of calculating the number of Adjusted Warrants, no securities outstanding related to any portion of a financing aggregating greater than $10,000,000 will be included in the calculation. As partial consideration for our agreeing to the adjustment to the warrants, Southview agreed to extend the term of the outstanding promissory note (with an

accrued balance of $521,040 as of July 31, 2001)so that such promissory note could be repaid from the proceeds of a new financing.

All past and future and ongoing transactions with affiliates are and will be on terms which our management believes are no less favorable than could be obtained from non-affiliated parties. All future and ongoing loans to our affiliates, officials and shareholders will be approved by the majority vote of disinterested directors.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

3.1 Articles of Incorporation previously filed and incorporated herein by reference.

3.2 Bylaws previously filed and incorporated by reference.

10.1 Management Agreement and Management Compensation Warrant dated December 23, 1999, between Bion Environmental Technologies, Inc. and D2 Co., LLC. Incorporated by reference to Exhibit 10.1 to our Form 8-K dated December 11, 1999.

10.2 Warrant Purchase Agreement dated December, 1999, between Bion Environmental Technologies, Inc. and D2 Co., LLC.; Promissory Note dated December 23, 1999; Warrant between Bion Environmental Technologies, Inc. and D2 Co., LLC.; and Pledge Agreement dated December 23, 1999, between Bion Environmental Technologies, Inc. and D2 Co., LLC. Incorporated by reference to Exhibit 10.2 to our Form 8-K dated December 11, 1999.

10.3 Shareholders' Agreement dated December 23, 1999, among D2 Co., LLC, Mark A. Smith, Jere Northrop, Jon Northrop, LoTayLingKyur, Inc., LTLK Defined Benefit Plan, and Dublin Holding, Ltd. Incorporated by reference to Exhibit 10.3 to our Form 8-K dated December 11, 1999.

10.4 Agreement dated December 15, 1999, between Bion Environmental Technologies, Inc. and First Parties. Incorporated by reference to Exhibit 10.4 to our Form 8-K dated December 11, 1999.

10.5 Agreement dated December 11, 1999, between Bion Environmental Technologies, Inc. and Jon Northrop. Incorporated by reference to Exhibit 10.5 to our Form 8-K dated December 11, 1999.

10.6 Agreement dated December 14, 1999, between Bion Environmental Technologies, Inc. and Jere Northrop. Incorporated by reference to Exhibit 10.6 to our Form 8-K dated December 11, 1999.

10.7 Agreement dated December 13, 1999, between Bion Environmental Technologies, Inc. and Northrop Family Trust. Incorporated by reference to Exhibit 10.7 to our Form 8-K dated December 11, 1999.

10.8 Agreement dated December 11, 1999, between Bion Environmental Technologies, Inc. and M. Duane Stutzman. Incorporated by reference to Exhibit 10.8 to our Form 8-K dated December 11, 1999.

10.9 Agreement dated December 14, 1999, between Bion Environmental Technologies, Inc. and Harley E. Northrop. Incorporated by reference to Exhibit 10.9 to our Form 8-K dated December 11, 1999.

10.10 Agreement dated December 11, 1999, between Bion Environmental Technologies, Inc. and Edward A. Hennig. Incorporated by reference to Exhibit 10.10 to our Form 8-K dated December 11, 1999.

10.11 Agreement dated December 14, 1999, between Bion Environmental Technologies, Inc. and William J. Crossetta, Jr. Incorporated by reference to 10.11 to our Form 8-K dated December 11, 1999.

10.12 Agreement dated December 11, 1999, between Bion Environmental Technologies, Inc. and S. Craig Scott. Incorporated by reference to Exhibit 10.12 to our Form 8-K dated December 11, 1999.

10.13 Agreement dated August 10, 2000 between Bion Environmental Technologies, Inc. and D2CO, LLC. Incorporated by reference to Exhibit 99.2 to our Form 8-K dated August 3, 2000.

10.14 Agreement dated August 16, 2000 between Bion Environmental Technologies, Inc. and Salvatore Zizza. Incorporated by reference to Exhibit 99.3 to our Form 8-K dated August 3, 2000.

10.15 Agreement dated August 17, 2000 between Bion Environmental Technologies, Inc. and James W. Morris & Associates, Inc. Incorporated by reference to Exhibit 99.4 to our Form 8-K dated August 3, 2000.

10.16 Agreement dated August 6, 2000 among Bion Environmental Technologies, Inc., Dream Maker Dairy and Chris Northrop. Incorporated by reference to Exhibit 99.7 to our Form 8-K dated August 3, 2000.

10.17 2000 Incentive Plan. Incorporated by reference to Exhibit 99.5 to our Form 8-K dated August 10, 2000.

10.18 Amendment to Management Agreement with D2CO, LLC. Incorporated by reference to Exhibit 99.1 to our Form 8-K dated December 1, 2000.

10.19 Agreement dated February 7, 2001 between Bion Technologies, Inc. and Southview, Inc. Incorporated by reference to Exhibit 99.2 to our Form 8-K dated December 1, 2000.

10.20 Agreement dated October 31, 2000 between Bion Environmental Technologies, Inc. and George Bloom. Incorporated by reference to Exhibit 99.3 to our Form 8-K dated December 1, 2000.

19

10.21 Note and Warrant Purchase Agreement. Incorporated by reference to Exhibit 10.1 to our Form 8-K dated April 26, 2001.

10.22 Convertible Bridge Note. Incorporated by reference to Exhibit 10.2 to our Form 8-K dated April 26, 2001.

10.23 Bridge Warrant. Incorporated by reference to Exhibit 10.3 to our Form 8-K dated April 26, 2001.

10.24 Severance Agreement of Jon Northrop. Incorporated by reference to Exhibit 10.1 to our Form 8-K dated September 6, 2001.

10.25 Severance Agreement of Edward Hennig. Incorporated by reference to Exhibit 10.2 to our Form 8-K dated September 6, 2001.

10.26 Agreement of Harley E. Northrop. Incorporated by reference to Exhibit 10.3 to our Form 8-K dated September 6, 2001.

10.27 Agreement of Jere Northrop. Incorporated by reference to Exhibit 10.4 to our Form 8-K dated September 6, 2001.

10.28 Agreement of William J. Crossetta, Jr. Incorporated by reference to Exhibit 10.5 to our Form 8-K dated September 6, 2001.

10.29 Agreement of S. Craig Scott. Incorporated by reference to Exhibit 10.6 to our Form 8-K dated September 6, 2001.

10.30 Agreement of Northrop Family Trust. Incorporated by reference to Exhibit 10.7 to our Form 8-K dated September 6, 2001.

10.31 Agreement of M. Duane Stutzman. Incorporated by reference to Exhibit 10.8 to our Form 8-K dated September 6, 2001.

10.32 Stock Voting Agreement dated August 1, 2001. Incorporated by reference to Exhibit 10.9 to our Form 8-K dated September 6, 2001.

10.33 Mark Smith and Related Entities Agreement dated August 1, 2001. Incorporated by reference to Exhibit 10.10 to our Form 8-K dated September 6, 2001.

10.34 D2 Agreement dated August 1, 2001. Incorporated by reference to Exhibit 10.11 to our Form 8-K dated September 6, 2001.

10.35 2001 Incentive Plan. Incorporated by reference to Exhibit 10.12 to our Form 8-K dated September 6, 2001.

10.36 Lease Agreement with Pamela Equities Corp. dated August 2001.

Filed herewith electronically.

21 Subsidiaries of the Registrant. Incorporated by reference to our Form 10-KSB for the fiscal year ended June 30, 2000.

23.1 Consent of BDO Seidman, LLP. Previously filed.

99.1 Bion Environmental Technologies, Inc.'s Capital Structure. Incorporated by reference to Exhibit 10.13 to our Form 8-K/A dated December 28, 1999.

99.2 Form of Note and Warrant Purchase Agreement. Incorporated by reference to Exhibit 10.1 to our Form 8-K dated April 13, 2000.

99.3 Form of Convertible Bridge Note. Incorporated by reference to Exhibit 10.2 to our Form 8-K dated April 13, 2000.

99.4 Form of Bridge Warrant. Incorporated by reference to Exhibit 10.3 to our Form 8-K dated April 13, 2000.

Reports on Form 8-K

The following Report on Form 8-K was filed during the quarter ended June 30, 2001:

Form 8-K dated April 26, 2001 reporting information under Items 5 and 7.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders
Bion Environmental Technologies, Inc.
New York, New York

We have audited the accompanying consolidated balance sheet of Bion Environmental Technologies, Inc. and Subsidiaries as of June 30, 2001 and the related consolidated statements of operations, stockholders' deficit and cash flows for the years ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bion Environmental Technologies, Inc. and Subsidiaries as of June 30, 2001 and the results of their operations and their cash flows for the years ended June 30, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's significant operating losses and stockholders' deficit raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Seidman, LLP
BDO Seidman, LLP
New York, New York

August 10, 2001 (except for Note 6, which is as of August 31, 2001 and Note 10, which is as of September 6, 2001)

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	June 30, 2001
ASSETS	
Current:	
Cash and cash equivalents	$ 1,300,398
Accounts receivable, less allowance of $12,000 for possible losses	21,738
Prepaid expenses, note receivable and accrued interest	8,446
Total current assets	1,330,582
Property and equipment (Note 6):	
Furniture and equipment	339,414
Computer equipment	75,845
Leasehold Improvements	30,174
	445,433
Less accumulated depreciation and amortization	262,582
Net property and equipment	182,851
Other assets:	
Patents, net of accumulated amortization of $18,344	33,370
Deposits and other	135,859
Total other assets	169,229
	$ 1,682,662

See accompanying Notes to Consolidated Financial Statements

BION ENVIRONMENTAL TECHNOLOGIES, INC.

AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	June 30, 2001
Liabilities and Stockholders' Deficit	
Current:	
Accounts payable	$ 210,473
Convertible bridge notes payable (Note 2)	5,801,721
Notes payable, related parties - current(Note 3)	2,298,538
Current portion of capital lease obligations (Note 6)	12,893
Accrued expenses	35,272
Total current liabilities	8,358,897
Long-term liabilities:	
Notes payable, related parties (Note 3)	2,482,279
Long-term portion of capital lease obligations (Note 6)	3,248
Total long-term liabilities	2,485,527
Total liabilities	10,844,424
Commitments and contingencies (Note 6)	
Stockholders' deficit (Note 7):	
Common stock, no par value, 100,000,000 shares authorized, 13,062,324 shares issued and outstanding	30,218,339
Accumulated deficit	(39,380,101)
Total stockholders' deficit	(9,161,762)
	$ 1,682,662

See accompanying Notes to Consolidated Financial Statements

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30,	2001	2000
Revenues:		
Soil	$ 74,322	$ 135,945
System contracts	10,000	22,500
Total revenues	84,322	158,445
Cost of goods sold:		
Soil	439,817	348,305
System contract	-	41,997
Total cost of goods sold	439,817	390,302
Gross loss	(355,495)	(231,857)
Expenses:		
General and administrative (including $7,645,570 and $3,590,191 of non-cash expenses, respectively)	10,424,451	5,779,081
Research and development	1,262,010	598,304
Total expenses	11,686,461	6,377,385
Loss from operations	(12,041,956)	(6,609,242)
Other income (expense):		
Interest expense (including $3,013,644 and $2,244,028 of non-cash expenses, respectively)	(3,016,149)	(2,259,136)
Interest income	36,598	79,411
Loss on sale of mortgage receivable	-	(57,250)
Other expense, net	(50,466)	(51,168)
Total other expense	(3,030,017)	(2,288,143)
Net loss before cumulative effect of change in accounting principle	(15,071,973)	(8,897,385)
Cumulative effect of change in accounting principle (Note 9)	(481,250)	-
Net loss and comprehensive loss	$ (15,553,223)	$ (8,897,385)
Basic and diluted loss per common share:		
Net loss before cumulative effect of change in accounting principle	$ (1.16)	$ (.79)
Cumulative effect of change in accounting principle	(0.04)	-
Net loss per common share	$ (1.20)	$ (.79)
Weighted-average number of common shares outstanding, basic and diluted	12,937,188	11,196,912

See accompanying Notes to Consolidated Financial Statements

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

Years Ended June 30, 2001 and 2000	Common Stock Shares	Common Stock Amount	Non-Recourse Promissory Note	Common Stock Subscribed	Deferred Consulting Expense	Unear Compens
Balance, July 1, 1999	10,092,795	$12,060,705	$ -	$ 60,000	$ -	$ -
Conversion of common stock subscriptions to note payable	-	-	-	(60,000)	-	-
Issuance of common stock for cash (Note 7)	282,686	426,460	-	-	-	-
Issuance of common stock for services and note payable (Note 7)	294,762	643,503	-	-	-	(90,000)
Issuance of warrants for cash and non- recourse promissory note (Note 4)	-	2,477,370	(500,000)	-	-	-
Issuance of stock to employees for cash (Note 7)	60,000	127,605	-	-	-	-
Issuance of stock and warrants in related party note payable and warrant exchange (Note 3)	1,172,426	2,419,771	-	-	-	-
Beneficial conversion feature on convertible note payable (Note 3	-	656,027	-	-	-	-
Issuance of warrants as additional consideration to note holders (Note 3)	-	349,492	-	-	-	-
Warrants issued for consulting services (Note 4)	-	2,477,820	-	-	(2,333,687)	-
Issuance of warrants in connection with convertible bridge notes (Note 2)	-	1,110,118	-	-	-	-
Deferred consulting and compensation expense (Notes 4 and 7)	-	-	-	-	388,948	22,500
Net loss for the year ended June 30, 2000	-	-	-	-	-	-
Balance, June 30, 2000	11,902,669	22,748,871	(500,000)	-	(1,944,739)	$(67,500)
Compensation associated						

with warrants exchanged for common stock (Note 7)	1,145,128	2,179,182			
Issuance of stock options and warrants for consulting services (Note 4)		2,834,702			
Modification of terms of convertible bridge notes (Note 7)		213,172			
Warrants issued for consulting services (Note 4)		737,005		(737,005)	
Deferred consulting expense (Note 4)				320,591	

See accompanying Notes to Consolidated Financial Statements

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (Concluded)

Issuance of common stock for consulting services (Note 7)	25,000	42,175			
Deferred salaries expense					27,000
Beneficial conversion feature on convertible bridge notes (Note 9)		1,751,000			
Beneficial value of warrants issued (Notes 2 and 7)		699,902			
Deferred compensation charged to operations in connection with renegotiation of management agreement (Note 4)				2,361,153	
Repurchase of warrants previously issued for cash and non-recourse (Note 4) promissory note		(1,000,000)	500,000		
Cancellation of shares previously issued for services (Notes 2 and 7)	(16,200)	(40,500)			40,500
Issuance of warrants for cash as additional consideration to convertible note holders (Note 7)		37,907			

Issuance of shares on exercise of options in exchange for legal services (Note 7)	5,000	10,000				
Exercise of stock options	727	1,454				
Adjustment for variable options		3,469				
Net loss for the year ended June 30, 2001						
Balance, June 30, 2001	13,062,324	$30,218,339	$ -	$ -	$ -	$ -

See accompanying Notes to Consolidated Financial Statements

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Years Ended June 30,	2001	2000
Operating activities:		
Net loss	$(15,553,223)	$(8,897,385)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	76,954	60,919
Issuance of stock for services and compensation	79,175	459,321
Issuance of warrants for consulting expenses	2,230,000	-
Amortization of prepaid consulting expenses		770,800
Beneficial value of warrants issued		1,477,370
Amortization of debt discounts	1,673,178	944,187
Amortization of deferred consulting expense	320,591	388,948
Compensation charge for warrants issued for services	2,361,153	-

Beneficial conversion feature amortized to interest expense	262,500	656,027
Compensation associated with warrants exchanged for common stock	2,179,182	-
Issuance of options and warrants for consulting services	102,000	-
Adjustment for variable options	3,469	-
Loss on sale of property and equipment	10,691	-
Beneficial conversion feature recorded as cumulative effect of change in accounting principle	481,250	-
Amortization of deferred compensation		22,500
Loss on sale of mortgage assets		57,250
Changes in operating assets and liabilities:		
Accounts receivable	4,957	67,067
Prepaid expenses and other	(85,719)	42,039
Accrued interest receivable		(20,000)
Accounts payable	109,307	(256,960)
Accrued liabilities	8,807	(324,736)
Issuance of note payable for management fee	370,000	120,000
Issuance of note payable for legal services rendered		225,000
Issuance of note payable for officer compensation		65,333
Issuance of note payable for interest expense	1,077,966	643,814
Net cash used in operating activities	(4,287,762)	(3,498,506)

See accompanying Notes to Consolidated Financial Statements

F-8

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)

Years Ended June 30,	2001	2000
Investing activities:		
Purchases of equipment	(60,801)	(95,379)
Refund of equipment returned	1,447	-
Proceeds from sale of computer equipment	525	-
Proceeds on sale of mortgage assets	-	202,750
Net cash provided by (used in) investing activities	(58,829)	107,371
Financing activities:		
Proceeds from notes payable, related parties	500,000	1,031,074
Proceeds from issuance of notes payable in private placement	2,527,218	4,095,000
Proceeds from issuance of warrants	540,607	561,425
Proceeds from stock issuances and subscriptions	-	426,460
Proceeds from sale of stock to officers	-	127,605
Proceeds from exercise of options and warrants	1,454	-
Payments for cancellation of warrants previously issued	(500,000)	
Payments in exchange for note receivable		(10,000)

Payments on notes payable	-	(241,559)
Payments on capital lease obligations	(27,223)	(49,520)
Net cash provided by financing activities	3,042,056	5,940,485
Net increase (decrease) in cash and cash equivalents	(1,304,535)	2,549,350
Cash and cash equivalents, beginning of year	2,604,933	55,583
Cash and cash equivalents, end of year	$ 1,300,398	$ 2,604,933
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,504	$9,323
Supplemental disclosure of non-cash financing activities:		
Warrants issued in private placement	699,902	1,110,118
Warrants issued for deferred consulting services	-	2,333,687
Warrants and stock issued in exchange for warrants	-	2,419,771
Conversion of note payable to common stock for legal services	-	94,182
Issuance of stock for unearned compensation	-	90,000
Issuance (cancellation) of note receivable for sale of warrants	(500,000)	500,000
Conversion of common stock subscribed	-	60,000
Beneficial conversion feature on convertible bridge notes	1,751,000	-

See accompanying Notes to Consolidated Financial S

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
SUMMARY OF ACCOUNTING POLICIES

Business

Bion Environmental Technologies, Inc. ("Bion" or the "Company") is an environmental service company focused on the needs of confined animal feeding operations (CAFO's). Bion is engaged in two main areas of activity: waste stream remediation and organic soil and fertilizer production. Bion's waste remediation service business provides CAFO's (primarily in the swine and dairy industries) with treatment for the animal waste outputs. In this regard, Bion treats their entire waste stream in a manner which cleans and reduces the waste stream thereby mitigating pollution of the air, water (both ground and surface) and soil, while creating value-added organic soil and fertilizer products. Bion's soil and fertilizer products are being used for a variety of applications including school athletic fields, golf courses and home and garden applications.

The Company's Nutrient Management System (NMS) solution is a patented biological and engineering process that treats water, nutrient and air pollution associated with animal waste. The system also provides a use for the waste materials and solids by biologically converting them into environmentally friendly, time-release organic-based solids which are the basis of Bion's organic soil and fertilizer business segment. Bion's BionSoil and Bion Fertilizer product lines contain a unique mix of organic nutrients, bacteria and other microbes that extensive testing has shown produces superior plant growth with reduced leaching of nutrients when compared to traditional chemical fertilizers.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Bion Technologies, Inc. and BionSoil, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

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

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives (ranging from three to seven years) of the assets. Maintenance and repairs are expensed as incurred. Major renewals and improvements are capitalized. When property and equipment is retired or otherwise disposed of, the asset and accumulated depreciation or amortization are removed from the accounts and the resulting profit or loss is reflected in operations.

Depreciation and amortization expense for property and equipment for the years ended June 30, 2001 and 2000 was $73,722 and $57,687.

Property and equipment at June 30, 2001 and 2000 included equipment under capital lease obligations with an original cost of $102,599 and accumulated depreciation of $83,209 and $101,157.

Long-Lived Assets

The Company applies Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets. Under SFAS No. 121, long-lived assets and certain intangibles are evaluated for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through the estimated undiscounted future cash flows resulting from the use of these assets. When any such impairment exists, the related assets will be written down to fair value.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
SUMMARY OF ACCOUNTING POLICIES

Revenue Recognition

Revenues from fixed-price system development and construction projects are recognized on the percentage-of-completion method. For contracts accounted for under the percentage-of-completion method, the amount of revenue recognized is the percentage of the total contract price that the cost expended to date bears to the anticipated final total cost based upon current estimates of the cost to complete the contract. Contract cost includes all labor and benefits, materials unique to or installed in the project, subcontract costs and allocations of indirect costs. General and administrative costs are charged to expense. Provisions for estimated losses on uncompleted contracts are provided when determined, regardless of the completion percentage. As contracts can extend over one or more accounting periods, revisions in costs and earnings estimated during the course of the work are reflected during the accounting period in which the facts that require such revisions become known. Project managers make assumptions concerning cost estimates for labor hours, consultant hours and other project costs. Due to uncertainties inherent in the estimation process and potential changes in customer needs as projects progress, it is at least reasonably possible that completion costs for some uncompleted projects may be further revised in the near term, and that such revisions may be material.

Revenue from the sale of BionSoil products and associated fees are recognized when shipped, as the Company has no continuing obligations. Fees and royalties paid on BionSoil production are negotiated as a fixed price per cubic yard of product produced and are included in the cost of the BionSoil.

Advertising

The Company expenses advertising and promotional costs as incurred. For the years ended June 30, 2001 and 2000, the Company recorded $2,315 and $2,402 in advertising expense.

Income Taxes

The Company accounts for income taxes under the liability method, which requires an entity to recognize deferred tax assets and liabilities. Deferred taxes are temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

Net Loss Per Share

The Company follows the provisions of SFAS No. 128, "Earnings Per Share." SFAS No. 128 provides for the calculation of "Basic" and "Diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted earnings per share. In loss periods, dilutive common equivalent shares are excluded, as the effect would be anti-dilutive. Therefore, basic and diluted earnings per share are the same for all periods presented.

For the years ended June 30, 2001 and 2000, stock options exercisable into 1,904,964 and 1,786,445 shares of common stock and stock warrants exercisable into 9,397,608 and 14,069,173 shares of common stock and debt convertible into 5,959,378 and 3,910,334 shares of common stock were not included in the computation of diluted earnings per share because their effect was antidilutive.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company's cash and cash equivalents are in demand deposit accounts placed with federally insured financial institutions and selected brokerage accounts. Such deposit accounts at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Concentrations of credit risk with respect to trade accounts receivable are generally limited since customers are dispersed across geographic areas. The Company reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based upon the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral from its customers.

Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies, including the Black Scholes model. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The carrying amounts reported on the consolidated balance sheets approximate their respective fair values.

Segment Information

The Company follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the reporting of information about operating segments in annual and interim financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker(s) in deciding how to allocate resources and in assessing performance. See Note 11 for disclosure.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
SUMMARY OF ACCOUNTING POLICIES

Stock Option Plan

The Company applies Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB Opinion 25") and related Interpretations in accounting for all stock option plans. Under APB Opinion 25, compensation cost is recognized for stock options issued to employees when the exercise price of the Company's stock options granted is less than the market price of the underlying common stock on the date of grant. SFAS No. 123, "Accounting for Stock-Based Compensation" requires the Company to provide pro forma information regarding net income (loss) as if compensation cost for the Company's stock option plans had been determined in accordance with the fair value based method prescribed in SFAS No. 123. To provide the required pro forma information, the Company estimates the fair value of each stock option at the date of grant by using the Black-Scholes option pricing model (Note 8).

Patents

Patents are recorded at cost less accumulated amortization, which is calculated on a straight-line basis over a period of the estimated economic life or legal life of 17 years. Amortization expense for the years ended June 30, 2001 and 2000 was $3,232 each year.

Comprehensive Loss

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income". Comprehensive loss is comprised of net loss and all changes to the consolidated statement of stockholders' deficit, except those changes made due to investment by stockholders, changes in paid in capital and distributions to stockholders. The Company had no components of comprehensive loss except for net losses for the years ended June 30, 2001 and 2000.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES
SUMMARY OF ACCOUNTING POLICIES

Impact of Recently Issued
Accounting Pronouncements

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair market value. Gains or losses resulting from changes in the values of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 had no material effect on the Company's financial statements.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"), which was effective July 1, 2000, except that certain conclusions in this Interpretation which cover specific events that occur after either December 15, 1998 or January 12, 2000 are recognized on a prospective basis from July 1, 2000. This Interpretation clarifies the application of APB Opinion 25 for certain issues related to stock issued to employees. The Company's existing stock based compensation policies and procedures are in compliance with FIN 44 and therefore, the adoption of FIN 44 had no material impact on the Company's financial condition, results of operations or cash flows.

In July 2001, the FASB issued Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), which supersedes APB Opinion No. 16, "Business Combinations". SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. The Company is currently reviewing the statement, but does not anticipate the new standard will have any effect on its financial statements.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets," ("SFAS 142"), which supersedes APB Opinion No. 17. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets , addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to goodwill and intangible assets arising from transactions completed before and after the statement's effective date. SFAS 142 is effective for fiscal 2002. The Company is currently reviewing the statement and has not yet determined the impact of the adoption of SFAS 142 will have on its financial statements.

Reclassifications

Certain consolidated financial amounts as of June 30, 2000 have been reclassified for consistent presentation.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Going Concern

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses totaling $15,553,223 during the year ended June 30, 2001 (including non-cash interest expense and other non-cash expenses of $3,013,644 and $7,645,570, respectively) and a history of losses has resulted in an accumulated deficit of $39,380,101 at June 30, 2001.

During the year ended June 30, 2001, the Company has successfully obtained external financing through a private placement of debt and equity and the sale of its warrants. The Company continues to explore sources of additional financing to satisfy its current operating requirements.

There can be no assurance that any funds required during the next twelve months or thereafter can be generated from operations or that if such required funds are not internally generated that 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 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.

To enhance the Company's longer term prospects, since January 2000, management has committed significant resources to developing the next generation Bion system design, which will include system monitoring and controls and a clean water recycling loop; an expanded research program for BionSoil; and retained consultants to support these efforts. The expenditures related to these efforts are anticipated to continue until the next generation design is completed. There can be no assurance that the next generation Bion system design or the BionSoil program will be successful or that sufficient capital will be available to fund operations.

There is 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 asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Convertible Bridge Notes Payable

On June 8, 2001, the Company completed a private offering of unsecured convertible bridge notes payable (the "2001 Notes") in the principal amount of $2,527,218. The 2001 Notes bear interest at the rate of ten percent per year (accrued interest of $34,207 at June 30, 2001 is included in convertible bridge notes) and mature on April 30, 2002. The Company can prepay the notes at any time with no penalty. In general, if the Company sells $5,000,000 of equity securities prior to April 29, 2002, each note will convert into the number of shares that is obtained by dividing the aggregate principal amount of each note plus accrued but unpaid interest by the price of one share of the equity security which triggers the conversion; provided, however, that in no event may the conversion price be greater than $2.50 per share. If prior to midnight on April 29, 2002 the notes are not paid in cash or converted into shares of common stock as the result of an offering, then at that time each note will be automatically converted into the number of shares that is obtained by dividing the aggregate principal amount of each note plus accrued but unpaid interest by the average of the closing bid prices of the common stock for the preceding 20 business days; provided, however, that in no event may the conversion price be greater than $2.50 per share. In connection with the sale of the 2001 Notes, the Company issued stock purchase warrants exercisable to purchase 758,138 shares of the Company's common stock at $1.50 per share through December 31, 2005. The warrants were originally valued at $737,809 using the Black Scholes option-pricing model and are being amortized as additional interest expense over the term of the Notes. The unamortized value of the warrants at June 30, 2001 was $622,289. As a result of the issuance of EITF 00-27, the Company has recorded an additional discount on the 2001 Notes of $701,000 due to the beneficial conversion feature calculated on the instrinsic value of the allocated proceeds received in the financing.

For the three months ended June 30, 2001, $127,083 (including accrued interest of $2,083 through June 30, 2001) of 2001 Notes has been issued for payment of management fees to the Trust Under Deferred Compensation Plan for D2CO, LLC in accordance with agreement with the Company and D2.

On April 13, 2000, the Company completed a private offering of unsecured convertible bridge notes payable (the "Notes") in the original principal amount of $4,095,000. As of June 30, 2001, accrued interest included in convertible bridge notes payable amounted to $534,056. In connection with the sale of the Notes, the Company issued stock purchase warrants exercisable to purchase 1,213,500 shares of the Company's common stock at $2.375 per share through December 31, 2004. The warrants were originally valued at $1,110,118 using the Black Scholes option-pricing model and are being amortized as additional interest expense over the term of the Notes. The unamortized warrant discount at June 30, 2001 was $587,763. Principal and accrued interest on this offering bears interest at 10% per annum and are due on April 30, 2002.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional 2000 Notes totaling $265,000 (including accrued interest of $25,000 through June 30, 2001) were issued to D2 for payment of monthly management fees for the twelve months ending December 31,2000.

2000 Notes totaling $130,208 (including accrued interest of $5,208 through June 30, 2001) for management fees for the three-month period ending March 31, 2001 have been issued to the Trust Under Deferred Compensation Plan for D2CO, LLC pursuant to the agreement with the Company and D2.

Following acceptance by the 2000 Notes holders on August 24, 2000, the Company amended the 2000 Notes and associated warrants as follows:

* adjusted the conversion rate to equal the market price of the Company's common stock at the date of conversion;
* limited the conversion rate on the notes to $5.00 per share;
* adjusted the exercise price of the warrants from $2.375 to $2.00 per share; and,
* provided for automatic conversion one year from date of note.

The reduction of the exercise price of the warrants to $2.00 per share, resulted in an additional $70,079, of value attributable to the warrants. Such amount has been reflected as an additional discount on the convertible bridge notes payable.

Following acceptance by 87.80% of the holders of the 2000 Notes and associated warrants for the holders who indicated acceptance the terms were amended as follows:

* extended the maturity date to April 30, 2002;
* requires automatic conversion of the notes (principal and interest) to Bion's common stock on April 29, 2002, if not previously converted or paid;
* reduced the maximum conversion price from $5.00 to $2.50 per share;
* reduced the call price of the warrants to $3.50; and,
* reduced the warrant exercise price of the warrants from $2.00 to $1.50.

On June 30,2001 two of the three holders of the convertible bridge notes payable and associated warrants who did not extend the maturity date of their notes agreed to extend the maturity date to April 30, 2002 and also agreed to all the other changes in terms from the prior amendments.

The amendments in terms of the convertible bridge notes payable and associated warrants resulted in an additional $143,093 of value attributable to the warrants. Such amount has been reflected as an additional discount on the convertible bridge notes.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

One note holder who did not agree to extend the maturity has been issued common stock of the Company subsequent to June 30, 2001.

Of the 2000 Notes, $100,000 was issued to D2 and $50,000 was issued to Salvatore Zizza, a director of the Company. Of the 2001 Notes payable, $100,000 was issued to each of Salvatore Zizza and Joseph Wright, both directors of the Company. $240,000 of the 2000 Notes payable were issued to D2 in accordance with the management agreement between the Company and D2. The Company also issued $125,000 of the 2000 Notes payable and $125,000 2001 Notes payable to the Trust Under Deferred Compensation Plan for D2CO, LLC for additional management fees.

Total interest accrued on the 2001 and 2000 Notes for the year ended June 30, 2001 was $436,875 and $36,290, respectively. These amounts were added to the total of the outstanding balances of the 2001 and 2000 Notes for the year ended June 30, 2001.

Below is a summary of the outstanding Convertible Bridge Notes as of June 30, 2001:

Non-affiliated Third Parties (including accrued interest of $547,218 and unamortized discount of $1,782,627)	$5,031,884
Directors (including accrued interest of $8,526 and unamortized discount of $114,141)	149,311
D2 (including accrued interest of $12,521) (1)	98,235
D2 Management Fee (including accrued interest of $25,000) (2)	265,000
Trust Under Deferred Compensation For D2, LLC. (including accrued interest of $7,291) (3)	257,291
Total	$5,801,721

(1) This note was purchased by D2.
(2) These notes were issued to D2 as payment for management fees.
(3) These notes were issued to Trust Under Deferred Compensation For D2, LLC. as payment for D2 management fee.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Convertible Bridge Notes bear interest at the rate of ten percent per year and mature on April 30, 2002. The Company can prepay the notes at any time with no penalty. In general, if the Company sells $5,000,000 of equity securities prior to April 29,2002, each note will convert into the number of shares that is obtained by dividing the aggregate principal amount of each note plus accrued but unpaid interest by the price of one share of the equity security which triggers the conversion; provided, however, that in no event may the conversion price be greater than $2.50 per share.

If prior to midnight on April 29, 2002 the notes are not paid in cash or converted into shares of common stock as the result of an offering, then at that time each note will be automatically converted into the number of shares that is obtained by dividing the aggregate principal amount of each note plus accrued but unpaid interest by the average of the closing bid prices of the common stock for the preceding 20 business days; provided, however, that in no event may the conversion price be greater than $2.50 per share.

3. Notes Payable, Related Parties

Notes payable, related parties, consisted of the following:

June 30,	2001
Unsecured notes payable to Mark A. Smith Rollover IRA, Kelly Smith Rollover IRA and Dublin Holding LTD., entities controlled by a stockholder/director, principal amount of $3,075,798 plus accrued interest of $616,365 (including accrued interest of $415,556 for the year ended June 30, 2001 added to the balance of the notes), net of unamortized warrant discount of $1,209,884. All outstanding principal and accrued interest due is immediately convertible into shares of the Company's common stock at a price of $1.80 per share. Upon certain events the Company may convert these notes into the number of shares into which they would be convertible upon maturity. All outstanding principal and interest, computed at 1% per month, is due and payable on or before December 31, 2002. (1) (See Note 10)	$2,482,279
Unsecured notes payable to a stockholder, principal amount of $308,114 plus accrued interest of $77,426 (including accrued interest of $36,974 for the year ended June 30, 2001 added to the balance of the notes). All outstanding principal and interest, computed at 1% per month, is due and payable on or before December 31, 2001. The outstanding principal and accrued interest due is convertible into shares of the Company's common stock at a price of $1.80 per share, under certain agreed upon conditions. Subsequent to June 30, 2001, the conversion provisions of this note were amended. (See Note 10)	385,540

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unsecured notes payable to various stockholders, principal amount of $1,171,081 plus accrued interest of $224,274 (included accrued interest of $134,628 for the year ended June 30, 2001 added to the balance of the notes). All outstanding principal and accrued interest at 1% per month is due and payable on or before December 31, 2001. Under the terms of the agreement, options or warrants held by these stockholders may be exercised, as repayment for the existing notes. Subsequent to June 30, 2001 conversion provisions of these notes were amended. (See Note 10)	1,395,355
Unsecured notes payable to Southview, principal amount of $500,000 plus accrued interest of $17,643. All outstanding principal and accrued interest at .67% per month is due and payable on July 30, 2001.(2)(See Note 10)	517,643
Total notes payable - related parties (3)	4,780,817
Less current maturities - Note payable related parties	2,298,538
Total long-term debt - related parties	$2,482,279

(1) In August 2000, the LoTayLingKyur, Inc. note was cancelled and the balance was added to the LTLK Defined Benefit Plan and the Dublin Holding LTD. notes. In December 2000, the LTLK Defined Benefit Plan note was cancelled and reissued as the Mark A. Smith Rollover IRA and the Kelly Smith Rollover IRA notes. The Company amortized $1,209,887 of discount through June 30, 2001, resulting in a $ 1,209,884 discount balance at that time.

During the year ended June 30, 2000, the Company exchanged its previous note obligation including related accrued interest for a total of $3,075,798, and extended the terms of the notes. In connection with the note exchange, The Company issued 1,172,426 shares of common stock valued at $3,089,343 and 2,735,660 Class Z warrants, exercisable into common stock at $13.50 per share through December 31, 2001, valued at $218,853, in exchange for 3,908,084 Class X warrants previously issued to the entities in connection with various events, including the original note issuances. The total value of the 3,908,084 warrants using the Black Scholes option-pricing model was $888,425, of which $349,492 related to the warrants issued with the original notes payable. On the date of the exchange, the Company expensed the remaining balance of the unamortized discount, and recorded a new discount of $2,419,771, representing the excess of the value of the stock and warrants issued over the value of the warrants surrendered. Additionally, a beneficial conversion feature of $656,027 was recorded and charged to interest expense as the Company's common stock price exceeded the $1.80 conversion price on the date the notes were exchanged.

(2) This note was extended on August 1, 2001 until proceeds from financing are available for repayment.

(3) This figure does not include Convertible Bridge Notes Payable purchased by Salvatore Zizza and Joseph Wright, directors of the Company, and D2, a company owned by David Mitchell. Convertible Bridge Notes Payable issued to D2 and D2 Trust Under Deferred Compensation Plan for D2CO, LLC as compensation to D2 are also not included in these amounts. See Note 2.

4. Related Party Transactions

The Company's notes payable and equity transactions with stockholders and other related parties are included in Notes 3 and 7, respectively.

In December 1999 the Company entered into a three year agreement for management and consulting services with D2 Co., LLC ("D2"). The agreement requires total annual consideration of $240,000 payable in common stock of Bion or cash, at the option of the Company. In January 2000, D2 agreed to add monthly fees aggregating to $522,292 at June 30, 2001, to the balance of their convertible bridge notes payable (Note 3). Starting January 1, 2001 through March 31, 2001, $125,000 of the total management fee due was issued in the form of 2000 Convertible Bridge Notes to the Trust Under Deferred Compensation Plan For D2CO, LLC. From April 1, 2001 through June 30, 2001, $125,000 of the total management fee due was issued in the form of 2001 Convertible Bridge Notes to the Trust Under Deferred Compensation Plan For D2CO, LLC. In connection with the agreement the Company granted warrants exercisable into 2,500,000 shares of the Company's common stock at $2.50 per share through June 30, 2004. The warrants were valued at $2,333,687 using the Black Scholes option-pricing model and have been reflected as deferred consulting expense for the year ended June 30, 2000 in the accompanying Consolidated Statement of Stockholders' Deficit and are being amortized to consulting expense over the three year term of the agreement. In a separate transaction with D2, the Company issued warrants exercisable into 2,500,000 shares of the Company's common stock at $1.75 per share through December 31, 2004 for $500,000 in cash and a $500,000 non-recourse note receivable which bears interest at 8% per annum and is due December 31, 2004. The warrants were valued at $2,477,370 using the Black Scholes option-pricing model. The $1,477,370 value of the warrants in excess of the consideration received has been expensed in the accompanying Consolidated Statement of Operations for the year end June 30, 2000 (included in general and administrative expenses).

During August 2000, the Company amended the management agreement with D2, whereby the Company extended the consulting services for an additional year and issued 1,500,000 additional warrants (1,000,000 warrants exercisable at $3.50 per share and 500,000 exercisable at $6.00 share, both from January 1, 2002 until August 10, 2005). The Company valued the warrants issued under the Black Scholes option-pricing model and has added the value of $737,005 to the deferred consulting expense. During the year ended June 30, 2001, the Company recorded $320,591 to consulting expense as a result of amortizing the deferred consulting expense.

Effective December 1, 2000, the Company amended the D2 management and consulting agreement as follows:

* extended the term of the agreement by another 18 months;
* cancelled all outstanding warrants owned by D2 by agreeing to repay to D2 $1,000,000 with $500,000 cash and cancellation of the existing $500,000 non-recourse promissory note receivable and accrued interest;
* increased the annual base consideration from $240,000 to: calendar year 2001 - $500,000; calendar year 2002 - $600,000; and calendar year 2003 - $750,000;
* agreed to pay future compensation on a deferred basis.

As a result of the cancellation of the D2 warrants, the Company wrote off the remaining deferred consulting expense of $2,361,153 to consulting expense as of December 1, 2000, recorded a payable to D2 and cancelled the non-recourse promissory note.

Effective January 8, 2001, Southview, Inc. ("Southview"), a corporation wholly owned by David J. Mitchell, Chairman, CEO and President of the Company, agreed to purchase warrants to purchase 6,500,000 shares of the Company's common stock for the sum of $500,000. Warrants to purchase 3,250,000 shares of common stock are exercisable at $1.00 per share and warrants to purchase another 3,250,000 shares of common stock are exercisable at varying prices between $1.00 and $2.00 per share, depending on the market price of the Company's common stock. All warrants purchased are exercisable from February 16, 2001 to February 16, 2006. The 6,500,000 warrants were valued using the Black Scholes model at $2,730,000, $2,230,000 of which was charged to expense as non-cash compensation in the year ended June 30, 2001.

During the year ended June 30, 2001 Southview advanced the Company $871,000 under a promissory note accruing interest at 8% per annum and due on July 30, 2001. Of this $871,000, the Company re-paid $371,000 on April 13, 2001 leaving a balance at June 30, 2001 of $517,643 including accrued interest of $17,643 added to the balance of the note.

In August 2000, the Company granted stock options and issued warrants to three members of the Company's Board of Directors for additional services to be performed by the directors. In total, options were granted to purchase 160,000 shares of common stock at $2.25 per share, exercisable immediately until December 31, 2003 and warrants were issued to purchase 100,000 shares of common stock at $2.375 per share, exercisable immediately until December 31, 2003. During the year ended June 30, 2001, the Company recorded $102,000 as consulting expense related to the options and warrants.

In June 2001, the Company granted stock options to a member of the Company's Board of Directors. In total, options were granted to purchase 20,000 shares of common stock at $1.50 per share, with 10,000 shares vesting on June 6, 2002 and 10,000 shares vesting on June 6, 2003, all shares are exercisable until December 31, 2005.

5. Income Taxes

The provision for income taxes consisted of the following:

Years Ended June 30,	2001	2000
Deferred benefit:		
Federal	$ 5,282,000	$2,751,000
State	1,014,000	562,000
	6,296,000	3,313,000
Increase in valuation allowance	(6,296,000)	(3,313,000)
	$ -	$ -

A reconciliation of the effective tax rate and the statutory U.S. federal income tax rate is as follows:

Years Ended June 30,	2001	2000
Benefit computed at the federal statutory rate	$(5,288,000)	$(3,025,000)
Change in valuation allowance	6,296,000	3,313,000
State income tax benefit, net of federal tax amount	(1,081,000)	(618,000)
Permanent differences	6,000	275,000
Other	67,000	55,000
Taxes on income	$ -	$ -

Temporary differences that give rise to a significant portion of the deferred tax assets and liabilities are as follows:

Years Ended June 30,	2001	2000
Deferred tax asset:		

Net operating loss carryforwards	$12,014,000	$ 8,285,000
Accounts receivable allowance	5,000	5,000
Accrued liabilities	14,000	9,000
Compensation expense for common stock options and warrants not allowed for income tax purposes	3,357,000	795,000
Deferred tax asset	15,309,000	9,094,000
Valuation allowance	(15,390,000)	(9,094,000)
Net deferred tax asset (liability)	$ -	$ -

The valuation allowance of $15,390,000 at June 30, 2001 was established because the Company has not been able to determine that it is more likely than not that the deferred tax asset will be realized.

At June 30, 2001, the Company had net operating loss carryforwards of approximately $28,025,000 with expirations from 2004 through 2021. The utilization of certain of the loss carryforwards may be limited under Section 382 of the Internal Revenue Code.

6. Commitments and Contingencies

Leases

Rent expense for the years ended June 30, 2001 and 2000 was $247,059 and $95,519, respectively. The Company leases certain equipment, office space and operating facilities under noncancellable operating and capital leases. At June 30, 2001 future minimum rental commitments under operating and capital leases are as follows:

Years Ending June 30,	Operating Leases	Capital Leases

2002	$ 220,611	$ 13,896
2003	210,858	3,122
2004	214,539	400
2005	218,366	0
2006	240,394	0
Thereafter	1,226,660	0
Total minimum lease payments	$2,331,428	$ 17,418
Less amounts representing interest		1,277
Present value of minimum lease payments		16,141
Less current maturities		12,893
Long-term obligation, net		$ 3,248

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employment Agreements

As of June 30, 2001 there are two employment agreements with officers for a period commencing December 1, 1997 and ending December 31, 2002. The agreements each provide for base salaries of $150,000 per year and various benefits, with annual reviews for increases, bonuses and benefits. Of the base salaries, $30,000 to $50,000 may be accrued annually and paid when the Company has sufficient cash flow from future operations. One of these agreements was terminated August 31, 2001. (See Note 10.)

7. Stockholders' Deficit

Private Placements - Common Stock and Warrants

During the years ended June 30, 2001 and 2000, the Company issued, for cash consideration, -0- and 282,686 shares of restricted common stock for $0 and

$426,460, respectively.

During the years ended June 30, 2001 and 2000, in connection with the Company's private placements of its convertible notes payable (Note 2), the Company issued 758,138 and 1,213,500 warrants with a value of $737,809 and $1,110,118, respectively. These values were obtained using the Black Scholes model of pricing, and have been charged to stockholders' deficit, and are reflected as a discount on the convertible notes. Increases in value totaling $213,172 have been made to the warrants issued during the year ending June 30, 2001 due to various changes in terms of these warrants.

Common Stock Issued for Services

During the years ended June 30, 2001 and 2000, the Company issued 30,000 and 294,762 shares of its common stock in return for services totaling $52,175 and $643,503, respectively. Of the shares issued in fiscal 2000, 36,000 shares of common stock valued at $90,000 were issued as compensation to certain employees and have been reflected as unearned compensation at June 30, 2000 to be amortized through stockholders' deficit to expense over the one year contract terms. As of February 28, 2001, 16,200 of these shares of common stock valued at $40,500 were cancelled in accordance with termination agreements with these employees.

During October 1999, the Company issued 60,000 shares of common stock to two employees and received short-term notes receivable for the value of the stock ($127,605). The employees repaid the notes during the year ended June 30, 2000.

During the year ended June 30, 2001, certain holders of Class X warrants and Class Z warrants exchanged 634,656 Class X warrants and 6,323,884 Class Z warrants for 1,145,128 shares of restricted common stock. For the year ended June 30, 2001, the Company recorded $2,179,182 as additional expense related to the beneficial value of the consideration received over the value of warrants surrendered.

8. Stock Option Plan and Warrants

The 1994 Incentive Plan (the "Plan") provides for incentive stock options to be granted to employees. Options to purchase up to 2,380,553 shares of the Company's common stock (or 20% of the Company's outstanding stock which ever is greater) may be granted under the Plan. Terms of exercise and expiration of options granted under the Plan may be established at the discretion of an administrative committee appointed to administer the Plan, or by the Board of Directors if no committee is appointed, but no option may be exercisable for more than ten years. As of June 30, 2001, options to purchase 879,001 shares of the Company's common stock are outstanding under the Plan.

The 1996 Non-employee Director Stock Plan ("the Director Plan") provides for each non-employee director to receive annually, an option to purchase 5,000 shares of the Company's common stock at an exercise price of 50% of the average market price of the Company's common stock for the preceding twelve months. The options were ultimately issued with an exercise price equal to the market value of the Company's common stock at its issuance date, and therefore no compensation had been recorded. No option may be exercisable for more than five years. Options to purchase up to 100,000 shares of the Company's common stock may be granted under the Director Plan. As of June 30, 2001, options to purchase 43,336 shares of the Company's common stock are outstanding under the Director Plan.

In April 2000, the Company established the 2000 Incentive Plan (the "2000 Plan"), which provides for incentive stock options to be granted to selected employees and directors of the Company, and selected non-employee advisors to the Company. Options to purchase up to 1,000,000 shares of the Company's common stock may be granted under the 2000 Plan. Terms of exercise and expiration of options granted under the 2000 Plan may be established at the discretion of an administrative committee appointed to administer the 2000 Plan, but no option may be exercisable for more than five years. As of June 30, 2001, options to purchase 982,627 shares of the Company's common stock are outstanding under the 2000 Plan.

In June 2001, the Company established the 2001 Incentive Plan (the "2001 Plan"), which provides for incentive stock options to be granted to selected employees and directors of the Company, and selected non-employee advisors to the Company. Options to purchase up to 1,500,000 shares of the Company's common stock may be granted under the 2001 Plan. Terms of exercise and expiration of options granted under the 2001 Plan may be established at the discretion of an administrative committee appointed to administer the 2001 Plan, but no option may be exercisable for more than ten years. As of June 30, 2001, no options are outstanding under the 2001 Plan.

The Company applies APB Opinion 25 in accounting for stock options and stock purchase warrants granted to employees. Had compensation expense been determined based upon the fair value of the awards at the grant date and consistent with the method under SFAS 123, the Company's net loss and basic and diluted loss per share would have been increased to the pro forma amounts indicated in the following table.

The following table provides detail as to Pro forma amounts:

Years Ended June 30,	2001	2000
Net loss as reported	$(15,553,223)	$(8,897,385)
Net loss pro forma	(16,095,907)	(9,597,939)
Loss per share basic and diluted, as reported	(1.20)	(.79)
Loss per share basic and diluted, pro forma	(1.24)	(.86)

Years Ended June 30,	2001	2000
Dividend yield	0%	0%
Expected volatility	60%	74%
Risk free interest rates	4.09 to 6.02%	5.55 to 6.66%
Expected lives in years	.50 to 5 years	.50 to 5 years

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of the Company's stock option plan and warrants issued as of June 30, 2001 and 2000 are presented below:

	Options		Warrants	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, July 1, 1999	504,850	$5.87	8,430,649	$10.14
Granted	1,453,094	3.94	10,407,868	5.74
Canceled	-	-	(4,769,344)	7.33
Exercised	(171,499)	6.03		-
Outstanding July 1, 2000	1,786,445	4.28	14,069,173	7.77
Granted	979,357	1.95	8,886,513	1.81
Exercised	5,727	2.00	-	-
Canceled	855,111	6.39	13,558,078	7.99
Outstanding June 30, 2001	1,904,964	$2.16	9,397,608	1.68

Exercisable June 30, 2000	1,176,338	$3.48	14,069,173	$7.77
Exercisable June 30, 2001	1,561,434	$2.22	9,397,608	1.68

	Options	Warrants
Weighted average fair value of options and warrants granted during 2000	$0.55	$0.67
Weighted average fair value of options and warrants granted during 2001	$0.82	$0.56

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about exercisable stock options and warrants at June 30, 2001:

		Outstanding			Exercisable	
	Range of Exercisable Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Options	$1.55-2.25	1,443,851	3.13	$ 2.06	1,175,321	$ 2.12
	2.50-3.04	461,113	3.45	2.57	386,113	2.54
	$1.50-3.04	1,904,964	3.21	$ 2.16	1,561,434	$ 2.22
Warrants	1.00 - 2.50	8,890,138	5.81	$ 1.36	8,890,138	$ 1.36
	2.70 - 3.60	17,031	0.39	2.70	17,031	2.70
	4.50 - 5.40	29,260	2.10	5.06	29,260	5.06
	7.20 -11.25	461,179	4.00	8.00	461,179	8.00
	1.00-11.25	9,397,608	5.70	$1.68	9,397,608	$ 1.68

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Change in Accounting Principle

During the year ended June 30, 2001, the Company adopted Emerging Issues Task Force Issue No. 00-27 ("EITF 00-27"), "Application of EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments", which is effective for all such instruments. This issue clarifies the accounting for instruments with beneficial conversion features or contingently adjustable conversion ratios. The Company has modified the previous calculation of the beneficial conversion features associated with previously issued convertible bridge notes. Based on further clarification, the beneficial conversion feature should be calculated by allocating the proceeds received in the financing to the convertible instruments and to any detachable warrants issued in the transactions, and measuring the intrinsic value based on the effective conversion price based on the allocated proceeds. The previous calculation was based on a comparison of the stated conversion price in the term of the instrument to the fair value of the issuer's stock at the commitment date.

As a result of the issuance of EITF 00-27, effective October 1, 2000, the Company has recorded an additional warrant discount on the Note of $1,050,000 due to the beneficial conversion feature calculated on the intrinsic value of the allocated proceeds received in the financing. Since the notes automatically convert into common stock one year from the date of issuance, the Company has recorded $481,250 as a cumulative effect of change in accounting principle and $262,500 as interest expense of the Note for the three months ended December 31, 2000, which represents the amortization of the new warrant discount in that period. The remaining discount of $306,250 will be amortized to interest expense over the remaining conversion period.

10. Subsequent Events

(a) Severance Agreements. On September 6, 2001, the Company entered into severance agreements with Jon Northrop and the only other employee that remained in the Company's Denver, Colorado office. As a result, the Company no longer has any employees in Denver, although the Company will continue to have a small office in Denver which will be used by Mr. Northrop in his capacity as our consultant.

(b) Restructuring of Notes to Related Parties and Cancellation of Options and Warrants. On September 6, 2001, the Company has amended the terms of certain notes that it owes to certain related parties and has cancelled certain outstanding options and warrants held by them. The accrued amounts due under the notes that were amended are as follows:

Holder	Amount of Accrued Debt (Accrued to November 1, 2001)
Jon Northrop	$ 337,466
Jere Northrop	$ 297,531
Harley Northrop	$ 397,865
Northrop Family Trust	$ 136,150
Edward A. Hennig	$ 159,173
M. Duane Stutzman	$ 181,106
William J. Crossetta	$ 279,000
S. Craig Scott	$ 49,804
Dublin Holding Ltd.	$3,682,944
Mark Smith Rollover IRA	$ 393,556
Kelly Smith Rollover IRA	$ 339,870
TOTAL	$6,254,465

As the result of these amendments the Company now has approximately $14.2 million of debt (without non-cash discounts reflected in the balance sheet) in instruments (including accrued interest to November 1, 2001)that are now all convertible at the same time and at the same price, subject to conversion price caps which differ for the various debt instruments from $1.80 to $2.50 per share. The provisions of the agreements vary for each debt holder, with cancellations of certain options and warrants. All of the subject debt is convertible to shares of Common Stock on or before April 29, 2002, subject to certain conditions precedent.

(c) D2 Agreements. On September 6, 2001, the Company entered into an agreement with D2, Southview, Inc. and Atlantic Partners, LLC, all of which are affiliates of David Mitchell, the Company's President and CEO (collectively "D2") in which, among other things, the Company agreed to:

- provide that certain compensation to D2 be paid in a deferred manner to the Deferred Trust under the Deferred Compensation Plan to D2 Co., LLC.

- amend certain Southview warrants ("SV1" and "SV2") so that upon earlier of (i) completion of financing or series of financings large enough to "trigger" the conversion of the Company's outstanding Bridge Notes and 2001 Convertible Notes

(collectively "CV Notes") into the Company's common stock; or (ii) conversion of the CV Notes into the Company's common stock on April 29, 2002, the outstanding Class SV1 and SV2 Warrants owned by D2 will be adjusted ("Adjusted Warrants") so that D2 owns Adjusted Warrants to purchase a number of shares of the Company's Common Stock equal to 20% of the "fully-diluted" outstanding shares, calculated by including (i) the Adjusted Warrants, (ii) the securities issued in the conversion of the CV Notes and other notes, (iii) the securities issued in connection with the subject financing, and (iv) other outstanding options, warrants and/or convertible promissory notes which are exercisable or convertible, as applicable, at a price equal to or lower than the exercise price of the Adjusted Warrants, which Adjusted Warrants will have the same expiration date as the current SV1 and SV2 Warrants and will have an exercise price equal to the lower of $1.00 per share or the conversion price of the CV Notes; provided, however, that for purposes of calculating the number of Adjusted Warrants, no securities outstanding related to any portion of a financing aggregating greater than $10,000,000 will be included in the calculation. As partial consideration for Bion agreeing to the adjustment to the warrants, Southview agreed to extend the term of the outstanding promissory note (with an accrued balance of $521,039 as of July 31, 2001)so that such promissory note could be repaid from the proceeds of a new financing.

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Segment Information

The Company operates in two business segments as follows:

Systems: The Company designs, markets, installs and manages waste, wastewater and storm water systems, primarily in the agricultural and food processing industries.

Soil: The Company produces and markets BionSoil products such as organic fertilizers, potting soils and soil amendments which are produced from the nutrient rich Bion Solids harvested from certain types of agricultural systems installed on large dairy and hog farms.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of accounting policies. The Company evaluates performance based upon several factors, of which the primary financial measure is segment operating income.

Year Ended June 30,	2001	2000
Revenues:		
Soil	$ 74,322	$ 135,945
Systems	10,000	22,500
	$ 84,322	$ 158,445
Operating Income (Loss):		
Soil	$ (5,320,737)	$(3,017,623)
Systems	(6,721,219)	(3,591,619)
	$(12,041,956)	$(6,609,242)
Depreciation and amortization:		
Soil	$ 48,225	$ 49,024
Systems	28,729	11,895
	$ 76,954	$ 60,919
Total Assets:		
Soil	$ 842,146	$ 1,460,812
Systems	840,516	1,474,437
	$ 1,682,662	$ 2,935,249
Expenditures for additions and		

long-lived assets:		
Soil	$ 24,414	$ 95,379
Systems	34,940	-
	$ 59,354	$ 95,379

BION ENVIRONMENTAL TECHNOLOGIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Fiscal Year 2000 Fourth Quarter Adjustments

The Company recorded in the quarter ended June 30, 2000 certain adjustments relative to non-cash interest expense related to the valuations of detachable warrants issued with certain promissory notes payable and the beneficial conversion feature of certain related party notes payable amounting to $1.6 million, non-cash miscellaneous expense related to the excess of the valuation of warrants purchased over the purchase consideration received by the Company amounting to $1.5 million and non-cash consulting expense related to the valuation of warrants issued for consulting services amounting to $533,000. Of the aggregate amount, approximately $180,000, $2.4 million and $396,000 relate to the first, second and third quarters, respectively. The Company filed amended Forms 10-QSB for the quarters ended September 30, 1999, December 31, 1999 and March 31, 2000.

The following summarizes the effect of the changes on earnings (loss) per share as previously reported:

	Previously Reported	Restated
Three months ended September 30, 1999	$(.12)	$(.13)
Three months ended December 31, 1999	(.09)	(.32)
Six months ended December 31, 1999	(.12)	(.46)
Three months ended March 31, 2000	(.11)	(.14)
Nine months ended March 31, 2000	(.32)	(.60)

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Amendment to be signed on its behalf by the undersigned thereunto duly authorized.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

Date: February 20, 2002

By: /s/ David Fuller

David Fuller, Authorized Officer
and Principal Accounting Officer