
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016
OR

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

For the transition period from _____ to _____

Commission File Number: 000-54598

STELLAR BIOTECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

British Columbia, Canada
(State or other jurisdiction of
incorporation or organization)

N/A
(I.R.S. Employer
Identification No.)

332 E. Scott Street
Port Hueneme, California
(Address of principal executive offices)

93041
(Zip Code)

Registrant's telephone number, including area code: **(805) 488-2800**

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of August 5, 2016, the registrant had 10,136,258 common shares issued and outstanding.

Stellar Biotechnologies, Inc.
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2016

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Stellar Biotechnologies, Inc.

Condensed Interim Consolidated Balance Sheets
(Unaudited)
(Expressed in U.S. Dollars)

| | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2015</u> |
|--|--------------------------------|-------------------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,787,203 | \$ 3,955,503 |
| Accounts receivable | 9,048 | 157,597 |
| Short-term investments | 1,999,081 | 5,015,171 |
| Deferred share issuance costs | 238,441 | - |
| Inventory | 568,698 | 557,280 |
| Prepaid expenses | 123,958 | 181,068 |
| Total current assets | <u>7,726,429</u> | <u>9,866,619</u> |
| Noncurrent assets: | | |
| Equity investment in joint venture | 66,695 | - |
| Property, plant and equipment, net | 691,554 | 503,408 |
| Deposits | 15,340 | 15,900 |
| Total noncurrent assets | <u>773,589</u> | <u>519,308</u> |
| Total Assets | <u>\$ 8,500,018</u> | <u>\$ 10,385,927</u> |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 665,669 | \$ 656,685 |
| Deferred revenue | 173,333 | 173,333 |
| Warrant liability | - | 1,550,630 |
| Total Current Liabilities | <u>839,002</u> | <u>2,380,648</u> |
| Commitments (Note 7) | | |
| Shareholders' equity: | | |
| Common shares, unlimited common shares authorized, no par value, 8,448,758 and 7,984,758 issued and outstanding at June 30, 2016 and September 30, 2015, respectively | 41,336,056 | 38,114,215 |
| Accumulated share-based compensation | 5,345,165 | 5,226,379 |
| Accumulated deficit | (39,020,205) | (35,335,315) |
| Total Shareholders' Equity | <u>7,661,016</u> | <u>8,005,279</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 8,500,018</u> | <u>\$ 10,385,927</u> |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Stellar Biotechnologies, Inc.

Condensed Interim Consolidated Statements of Operations

(Unaudited)

(Expressed in U.S. Dollars)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------------|--------------------------|-----------------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Product sales | \$ 181,092 | \$ 112,748 | \$ 963,587 | \$ 408,036 |
| Contract services revenue | - | 45,000 | 32,000 | 150,000 |
| | <u>181,092</u> | <u>157,748</u> | <u>995,587</u> | <u>558,036</u> |
| Expenses: | | | | |
| Costs of sales and contract services | 119,989 | 231,999 | 700,953 | 571,039 |
| Costs of aquaculture | 59,063 | 53,439 | 223,225 | 201,496 |
| Research and development | 470,097 | 129,710 | 1,068,008 | 830,115 |
| General and administration | 720,421 | 618,185 | 2,595,176 | 2,346,019 |
| | <u>1,369,570</u> | <u>1,033,333</u> | <u>4,587,362</u> | <u>3,948,669</u> |
| Other Income (Loss) | | | | |
| Foreign exchange gain (loss) | (8,188) | 77,468 | 109,448 | (391,190) |
| Gain (loss) in fair value of warrant liability | - | 1,254,029 | (211,956) | 2,455,361 |
| Investment income | 2,589 | 17,074 | 16,593 | 48,607 |
| | <u>(5,599)</u> | <u>1,348,571</u> | <u>(85,915)</u> | <u>2,112,778</u> |
| Income (Loss) Before Income Tax | (1,194,077) | 472,986 | (3,677,690) | (1,277,855) |
| Income tax expense | - | 9,000 | 7,200 | 27,800 |
| Net Income (Loss) | \$ (1,194,077) | \$ 463,986 | \$ (3,684,890) | \$ (1,305,655) |
| Earnings (loss) per common share - basic | \$ (0.14) | \$ 0.06 | \$ (0.44) | \$ (0.16) |
| Earnings (loss) per common share - diluted | \$ (0.14) | \$ 0.05 | \$ (0.44) | \$ (0.16) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | <u>8,448,758</u> | <u>7,954,665</u> | <u>8,423,429</u> | <u>7,951,779</u> |
| Diluted | <u>8,448,758</u> | <u>8,502,035</u> | <u>8,423,429</u> | <u>7,951,779</u> |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Stellar Biotechnologies, Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in U.S. Dollars)

| | Nine Months Ended | |
|--|--------------------------|---------------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| Cash Flows Used In Operating Activities: | | |
| Net loss | \$ (3,684,890) | \$ (1,305,655) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 106,712 | 119,410 |
| Share-based compensation | 209,781 | 244,781 |
| Foreign exchange (gain) loss | (109,448) | 391,190 |
| (Gain) loss in fair value of warrant liability | 211,956 | (2,455,361) |
| Changes in working capital items: | | |
| Accounts receivable | 148,611 | (69,242) |
| Deferred share issuance costs | (232,822) | - |
| Inventory | (11,418) | (159,476) |
| Prepaid expenses | 38,301 | (137,939) |
| Deposits | 560 | - |
| Accounts payable and accrued liabilities | 8,695 | (211,667) |
| Deferred revenue | - | 86,666 |
| Net cash used in operating activities | <u>(3,313,962)</u> | <u>(3,497,293)</u> |
| Cash Flows From Investing Activities: | | |
| Acquisition of property, plant and equipment | (294,858) | (202,997) |
| Purchase of short-term investments | (6,005,737) | (12,704) |
| Proceeds on sales and maturities of short-term investments | 9,021,827 | 419,283 |
| Contribution to joint venture | (66,695) | - |
| Net cash provided by investing activities | <u>2,654,537</u> | <u>203,582</u> |
| Cash Flows From Financing Activities: | | |
| Proceeds from exercise of warrants and options | 1,368,260 | 28,719 |
| Net cash provided by financing activities | <u>1,368,260</u> | <u>28,719</u> |
| Effect of exchange rate changes on cash and cash equivalents | 122,865 | (356,207) |
| Net change in cash and cash equivalents | <u>831,700</u> | <u>(3,621,199)</u> |
| Cash and cash equivalents - beginning of period | <u>3,955,503</u> | <u>8,768,459</u> |
| Cash and cash equivalents - end of period | <u>\$ 4,787,203</u> | <u>\$ 5,147,260</u> |
| Cash (demand deposits) | \$ 1,712,003 | \$ 1,902,460 |
| Cash equivalents | 3,075,200 | 3,244,800 |
| Cash and cash equivalents | <u>\$ 4,787,203</u> | <u>\$ 5,147,260</u> |

Supplemental disclosure of non-cash transactions *(Note 9)*

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

1. Nature of Operations

Stellar Biotechnologies, Inc. (the "Company") is organized under the laws of British Columbia, Canada. The Company's common shares are listed on the Nasdaq Capital Market under the trading symbol "SBOT." Prior to listing on Nasdaq effective November 5, 2015, the Company's common shares were quoted in the United States on the U.S. OTCQB Marketplace Exchange under the trading symbol "SBOTF." The Company's common shares were previously listed in Canada on the TSX Venture Exchange as a Tier 2 issuer under the trading symbol "KLH." The Company voluntarily delisted from the TSX Venture Exchange effective close of business April 8, 2016.

In April 2010, the Company changed its name from CAG Capital, Inc. to Stellar Biotechnologies, Inc. and completed a reverse merger transaction with Stellar Biotechnologies, Inc., a California corporation, which was founded in September 1999, and remains the Company's wholly-owned subsidiary and principal operating entity. The Company's executive offices are located at 332 E. Scott Street, Port Hueneme, California, 93041, USA, and its registered and records office is Royal Centre, 1055 West Georgia Street, Suite 1500, Vancouver, BC, V6E 4N7, Canada.

Nature of Operations

The Company's business is the aquaculture, research and development, manufacture and commercialization of Keyhole Limpet Hemocyanin ("KLH"). The Company markets and distributes its KLH products to biotechnology and pharmaceutical companies, academic institutions, and clinical research organizations primarily in Europe, the United States, and Asia.

Management Plans

For the nine months ended June 30, 2016 and 2015, the Company reported net losses of approximately \$3.7 million and \$1.3 million, respectively. The most significant factor in the fluctuations in net income and losses relates to noncash changes in the fair value of warrant liability, which was a loss of \$0.2 million and gain of \$2.5 million for the nine months ended June 30, 2016 and 2015, respectively. As of June 30, 2016, the Company had an accumulated deficit of approximately \$39 million and working capital of approximately \$6.9 million.

In the past, operations of the Company have primarily been funded by the issuance of common shares, exercise of warrants, grant revenues, contract services revenue, and product sales. Management believes these financial resources are adequate to support the Company's initiatives at the current level for at least 12 months. Management is also continuing the ongoing effort toward expanding the customer base for existing marketed products, and the Company may seek additional financing alternatives, including non-dilutive financing through grants, collaboration and licensing arrangements, additional equity financing and debt financing.

The accompanying condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Functional Currency

The condensed interim consolidated financial statements of the Company are presented in U.S. dollars, unless otherwise stated, which is the Company's functional currency.

Reverse Share Split

On September 2, 2015, the Company effected a share consolidation (reverse split) of the Company's common shares at a ratio of 1-for-10. As a result of the reverse split, every ten shares of the issued and outstanding common shares, without par value, consolidated into one newly-issued outstanding common share, without par value. Each fractional share remaining after the reverse split that was less than one-half of a share was cancelled and each fractional share that was at least one-half of a share was changed to one whole share. The reverse split reduced the number of common shares outstanding from 79,847,550 to 7,984,758 after fractional share rounding. The number of warrants, broker units, and options were proportionately adjusted by the split ratio and the exercise prices correspondingly increased by the same split ratio. All historical shares and exercise prices are presented on a post-split basis in these condensed interim consolidated financial statements.

2. Basis of Presentation

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP for complete financial statements. These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2015.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

The accompanying condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Stellar Biotechnologies, Inc. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the period presented have been included in the interim period. Operating results for the nine months ended June 30, 2016 are not necessarily indicative of the results that may be expected for other interim periods or the year ending September 30, 2016. The condensed interim consolidated financial data at September 30, 2015 is derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015, as filed on December 14, 2015 with the SEC.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

3. Significant Accounting Policies*Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended by ASU 2015-14 to defer the effective date ("ASU 2014-09"). ASU 2014-09 creates a new topic in the Accounting Standards Codification ("ASC") Topic 606 and establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenue. In addition, ASU 2014-09 adds a new Subtopic to the Codification, ASC 340-40, *Other Assets and Deferred Costs: Contracts with Customers*, to provide guidance on costs related to obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer that are not in the scope of another ASC Topic. The guidance in ASU 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early application is only permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* ("ASU 2016-08"); ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"); and ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the "new revenue standards"). The Company has not yet determined the impact of ASU 2014-09 and the new revenue standards on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 provides guidance on determining management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The guidance in ASU 2014-15 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those years with early application permitted. The Company has not yet determined the impact of ASU 2014-15 on its consolidated financial statements.

In July 2015, FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). ASU 2015-11 indicates that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU does not apply to inventory measured using LIFO or the retail inventory method. It does apply to all other inventory, including inventory measured using FIFO or average cost. The guidance in ASU 2015-11 is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within those years. The provisions should be applied prospectively with early application permitted as of the beginning of an interim or annual reporting period. The Company has not yet determined the impact of ASU 2015-11 on its consolidated financial statements.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”), which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, ASU 2016-01 clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The guidance is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. The Company has not yet determined the impact of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which establishes a new lease accounting model for lessees. The updated guidance requires an entity to recognize assets and liabilities on the balance sheet arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The amended guidance is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those years, with early adoption permitted. The Company has not yet determined the impact of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”), which is part of the FASB's Simplification Initiative. The updated guidance simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amended guidance is effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those years, with early adoption permitted. The Company has not yet determined the impact of ASU 2016-09 on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16* (“ASU 2016-11”), which rescinds certain SEC paragraphs from the FASB Accounting Standards Codification in response to SEC staff announcements at the March 3, 2016 Emerging Issues Task Force meeting, and which supersedes certain SEC observer comments on the topics of revenue and expense recognition for freight service in process, accounting for shipping and handling fees and costs, accounting for consideration given by a vendor to a customer and accounting for gas-balancing arrangements upon the adoption of ASU 2014-09. The effective date for ASU 2016-11 is the same as the effective date of ASU 2014-09 as amended by ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within those years. The Company has not yet determined the impact of ASU 2016-11 on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which includes provisions that require financial assets measured at amortized cost basis to be presented at the net amount expected to be collected and credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses, which requires recognition of an estimate of all current expected credit losses. The guidance is effective for public entities for fiscal years beginning after December 15, 2019, including interim periods within those years, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company has not yet determined the impact of ASU 2016-13 on its consolidated financial statements.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

4. Investments

Short-term investments consisted of the following:

| | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2015</u> |
|-----------------------------|--------------------------------|-------------------------------------|
| U.S. Treasury Bills | \$ 1,999,081 | \$ - |
| Mutual fund debt securities | | 5,015,171 |
| | <u>\$ 1,999,081</u> | <u>\$ 5,015,171</u> |

U.S. Treasury Bills are carried at amortized cost which approximates fair value and classified as held-to-maturity investments. Mutual fund debt securities are carried at fair value using level 1 inputs.

5. Inventory

Raw materials include inventory of manufacturing supplies. Work in process includes manufacturing supplies, direct and indirect labor, contracted manufacturing and testing, and allocated manufacturing overhead for inventory in process at the end of the period. Finished goods include products that are complete and available for sale. At June 30, 2016 and September 30, 2015, the Company recorded work in process and finished goods inventory only for those products with recent sales levels to evaluate net realizable value.

Inventory consisted of the following:

| | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2015</u> |
|-----------------|--------------------------------|-------------------------------------|
| Raw materials | \$ 58,724 | \$ 42,549 |
| Work in process | 24,276 | 137,021 |
| Finished goods | 485,698 | 377,710 |
| | <u>\$ 568,698</u> | <u>\$ 557,280</u> |

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

6. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following:

| | <u>June 30,</u> <u>2016</u> | <u>September 30,</u> <u>2015</u> |
|--------------------------------|--------------------------------|-------------------------------------|
| Aquaculture system | \$ 126,257 | \$ 124,529 |
| Laboratory facilities | 62,033 | 62,033 |
| Computer and office equipment | 100,799 | 78,936 |
| Tools and equipment | 794,434 | 714,764 |
| Vehicles | 10,997 | 10,997 |
| Leasehold improvements | 259,258 | 123,562 |
| | <u>1,353,778</u> | <u>1,114,821</u> |
| Less: accumulated depreciation | <u>(750,204)</u> | <u>(643,492)</u> |
| Depreciable assets, net | 603,574 | 471,329 |
| Construction in progress | <u>87,980</u> | <u>32,079</u> |
| | <u>\$ 691,554</u> | <u>\$ 503,408</u> |

Depreciation and amortization expense amounted to \$106,712 and \$119,410 for the nine months ended June 30, 2016 and 2015, respectively.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

7. Commitments*Operating leases*

The Company leases three buildings and facilities used in its operations under sublease agreements with the Oxnard Harbor District. In June 2015, the Company exercised its option to extend these sublease agreements for an additional five-year term beginning in October and November 2015. The Company negotiated an option to extend the leases for two additional five-year terms.

The Company leases facilities used for executive offices and laboratories. The Company must pay a portion of the common area maintenance. In July 2016, the Company extended this lease for a two-year term, with three options to renew for successive two-year terms.

The Company leases undeveloped land in Baja California, Mexico to assess the potential development of an additional aquaculture locale and expansion of production. The lease term is three years from June 2015 with options to extend the lease for 30 years. The Company may terminate early with 30 days' notice. The first two years of rent under the lease totaling \$74,606 were prepaid in June 2015, and are not included in the future minimum lease payments below. The Company has a related agreement with the lessor to collaborate on the design, expansion and development of marine aquaculture resources and KLH production facilities on the leased property. Under that agreement, the Company is responsible for certain leasehold improvements including construction of structures and a power-generating facility, which will be owned by the Company. The Company will reimburse the lessor for local operational support. The collaboration agreement expires in June 2018, unless terminated earlier.

Future minimum lease payments are as follows:

| | June 30, 2016 |
|--|--------------------------|
| <u>For The Year Ending September 30,</u> | |
| 2016 | \$ 44,000 |
| 2017 | 143,000 |
| 2018 | 106,000 |
| 2019 | 106,000 |
| 2020 | 106,000 |
| Thereafter | 6,000 |
| | <u>\$ 511,000</u> |

Rent expense on these lease agreements amounted to approximately \$176,000, and \$137,000 for the nine months ended June 30, 2016 and 2015, respectively.

Purchase obligations

The Company has commitments totaling approximately \$340,000 at June 30, 2016 for signed agreements with contract research organizations and consultants. The Company also has agreements to pay time and materials to contractors, which are estimated at approximately \$5,000 at June 30, 2016. All purchase obligations are expected to be fulfilled within the next 12 months.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

Supply agreements

The Company has two commitments under certain supply agreements with customers for fixed prices per gram of KLH on a non-exclusive basis except within that customer's field of use. One amended and restated supply agreement replaced two prior agreements that automatically renewed each year. This agreement is effective March 2015 through March 2020 and is renewable for one-year terms upon written request of the customer. The other customer supply agreement is effective October 2014 through October 2019 and is renewable for one-year terms upon written request of the customer.

Joint venture agreement

In May 2016, the Company entered into a joint venture agreement with another party for the formation of a joint venture company to manufacture and sell conjugated therapeutic vaccines. The joint venture is organized as a French simplified corporation.

The Company holds a 30% equity interest in the joint venture in exchange for an initial capital contribution of €120,000. One-half of the initial contribution, approximately \$67,000, was paid prior to June 30, 2016 with the balance due upon the occurrence of certain defined future events. The Company will also provide the joint venture additional financing as may be required, on a 30% pro rata basis. If the joint venture does not achieve certain milestones by December 2017, the joint venture will be dissolved, unless (i) the parties mutually agree to pursue the joint venture arrangement, or (ii) either party decides to purchase the equity interests of the other party. Each of the parties is entitled, upon the occurrence of certain defined events, to acquire the interest of the other party.

In connection with the formation of the joint venture and the performance of its goals and projects, the parties and the joint venture agreed to enter into (a) an exclusive supply agreement within a limited field of use for the Company to supply KLH to the joint venture, (b) a supply agreement designating the joint venture as the exclusive manufacturer and supplier of the other party's vaccines, and (c) services agreements for the provision of various knowledge and expertise by each of the parties to the joint venture. The other party will also license certain of its intellectual property to the joint venture. The supply agreements, service agreement and license have not yet been executed at June 30, 2016.

The joint venture has an initial ten-year term, renewable for successive five-year terms. If either party provides notice at least six months prior to the expiration date of an applicable term that it does not wish to continue the joint venture transaction, the other party will have a right to acquire all of such terminating party's equity interests in the joint venture.

The joint venture agreement contains customary restrictions on transfer of the equity interests, tag-along and drag-along rights, non-competition, non-solicitation, confidentiality and termination provisions.

Licensing fees

In July 2013, the Company acquired the exclusive, worldwide license to certain patented technology for the development of human immunotherapies against *Clostridium difficile* infection ("C. diff"). The license agreement required an initial, non-refundable license fee of \$25,000, which was paid in fiscal August 2013, and payment of an aggregate of \$200,000 in delayed license fees, which were paid in fiscal August 2014. Beginning September 2014, the terms also require a license fee of \$20,000 to be paid annually, creditable against royalties due, if any. Royalties are payable for a percentage of related net sales, if any. License fees are also payable for a percentage of related non-royalty sublicensing revenue, if any. No royalties have been incurred to date. The Company also reimbursed patent filing costs of approximately \$11,000 and \$50,000 in the nine months ended June 30, 2016 and 2015, respectively, and will reimburse certain future patent filing, prosecution, and maintenance costs. License fees and patent cost reimbursements have been accounted for as research and development expense in the accompanying condensed interim consolidated statements of operations.

The license agreement expires when the last valid patent claim licensed under the license agreement expires, which is currently 2030. Prior to that time, the license agreement can be terminated by the licensor upon certain conditions. The Company will have 30 days after written notice from the licensor to cure the problem prior to termination of the license agreement. The Company can terminate the agreement with three months' prior written notice.

Upon execution of the license agreement, the Company issued 37,120 common shares and warrants to purchase up to 27,840 of the Company's common shares to the licensor. The warrants expired on January 23, 2015 and were not exercised. The value of the shares and warrants were recorded as research and development expense.

The license agreement provides for the Company to pay up to an aggregate of \$6,020,000 in milestone payments to the licensor upon achievement of various financing and development targets up to the first regulatory approval. Remaining contingent milestone payments to the licensor totaling \$57,025,000 are related to achievement of sales targets. A financing milestone was met during the year ended August 31, 2014, and accordingly, the Company made a milestone payment of \$100,000. No other milestones have been met to date and there can be no assurance that any of the remaining milestones will be met in the future.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

Retirement savings plan 401(k) contributions

The Company sponsors a 401(k) retirement savings plan that requires an annual non-elective safe harbor employer contribution of 3% of eligible employee wages. All employees over 21 years of age are eligible beginning the first payroll after 3 consecutive months of employment. Employees are 100% vested in employer contributions and in any voluntary employee contributions. Contributions to the 401(k) plan were approximately \$46,000 and \$45,000 for the nine months ended June 30, 2016 and 2015, respectively.

*Related party commitments**Patent royalty agreement*

On August 14, 2002, through its California subsidiary, the Company entered into an agreement with a director and officer of the Company, whereby he would receive royalty payments in exchange for assignment of his patent rights to the Company. The royalty is 5% of gross receipts from products using this invention in excess of \$500,000 annually. The Company's current operations utilize this invention. Royalty expense incurred during the nine months ended June 30, 2016 was approximately \$28,000. There was no royalty expense incurred during the nine months ended June 30, 2015.

Collaboration agreement

In December 2013, the Company entered into a collaboration agreement with a privately-held Taiwanese biopharmaceuticals manufacturer which expired in accordance with its terms in December 2015. Under the terms of the agreement, the Company was responsible for the production and delivery of GMP grade KLH for evaluation as a carrier molecule in the collaboration partner's potential manufacture of OBI-822 active immunotherapy. The Company was also responsible for method development, product formulation, and process qualification for certain KLH reference standards. The collaboration partner was responsible for development objectives and product specifications. The agreement provided for the collaboration partner to pay fees for certain expenses and costs associated with the collaboration. Subject to certain conditions and timing, the collaboration also provided for the parties to negotiate a commercial supply agreement for Stellar KLH™ in the future. However, there can be no assurance that any such negotiations will lead to successful execution of any further agreements related to this collaboration.

The privately-held Taiwanese biopharmaceuticals manufacturer is a beneficial owner of over 5% of the Company's common shares. In addition, a member of the Company's Board of Directors currently serves as the manufacturer's general manager and chair of its board of directors.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

8. Share Capital

The Company had the following transactions in share capital:

| | Nine Months Ended | |
|---|--------------------------|-----------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| Number of common shares issued | 464,000 | 12,680 |
| Proceeds from exercise of warrants | \$ 1,368,260 | \$ 938 |
| Transfer to common shares on exercise of warrants | 1,853,581 | 426 |
| Proceeds from exercise of options | - | 27,781 |
| Transfer to common shares on exercise of options | - | 27,619 |
| Share-based compensation | 209,781 | 244,781 |

Performance shares

There were 1,000,000 common shares allotted as performance shares to be issued to certain officers, directors and employees of the Company based on meeting milestones related to completion of method development for commercial-scale manufacture of KLH, compilation and regulatory submittal of all required chemistry, manufacturing and control data and completion of preclinical toxicity and immunogenicity testing of products under a performance share plan. Share-based compensation was recorded over the estimated vesting period ending in August 2012.

At June 30, 2016, there are 383,838 performance shares reserved for issuance.

Black-Scholes option valuation model

The Company uses the Black-Scholes option valuation model to determine the fair value of warrants, broker units and share options. Option valuation models require the input of highly subjective assumptions including the expected price volatility. The Company has used historical volatility to estimate the volatility of the share price. Changes in the subjective input assumptions can materially affect the fair value estimates, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants, broker units and share options.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

*(Expressed in U.S. Dollars)**Warrants*

A summary of the Company's warrants activity is as follows:

| | <u>Number of Warrants</u> | <u>Weighted Average Exercise Price</u> |
|-------------------------------------|-------------------------------|--|
| Balance - September 30, 2015 | 1,022,761 | CDN \$12.12 |
| Granted | 40,000 | CDN \$ 4.00 |
| Exercised | (424,000) | CDN \$ 4.00 |
| Expired | <u>(40,000)</u> | <u>CDN \$ 4.00</u> |
| Balance - June 30, 2016 | <u>598,761</u> | <u>\$ 13.33</u> |

As a result of the exercise and expiration of warrants in the quarter ended December 31, 2015, there are no outstanding warrants with exercise prices denominated in Canadian dollars at June 30, 2016.

The weighted average contractual life remaining on the outstanding warrants at June 30, 2016 is 2.4 months.

The following table summarizes information about the outstanding warrants at June 30, 2016:

| <u>Exercise Price</u> | <u>Number of Warrants</u> | <u>Expiry Date</u> | |
|-----------------------|-------------------------------|--------------------|-----------------|
| \$13.50 | 470,190 | September 9, 2016 | |
| \$10.50 | 20,000 | September 9, 2016 | Broker warrants |
| \$13.50 | 95,238 | September 20, 2016 | |
| \$10.50 | 13,333 | September 20, 2016 | Broker warrants |
| | <u>598,761</u> | | |

Warrant liability

All warrants with exercise prices denominated in Canadian dollars were exercised or expired. Therefore there is no outstanding warrant liability at June 30, 2016.

Equity offerings conducted by the Company in prior years included the issuance of warrants with exercise prices denominated in Canadian dollars. The Company's functional currency is the U.S. dollar. As a result of having exercise prices denominated in other than the Company's functional currency, these warrants met the definition of derivatives and were therefore classified as derivative liabilities measured at fair value with adjustments to fair value recognized through the consolidated statements of operations. As these warrants were exercised, the fair value of the recorded warrant liability on date of exercise was included in common shares along with the proceeds from the exercise. When these warrants expired, the related decrease in warrant liability was recognized in profit or loss, as part of the change in fair value of warrant liability. There was no cash flow impact as a result of this accounting treatment.

The fair value of the warrants was determined using the Black-Scholes option valuation model at the end of each reporting period. Upon exercise of the warrants, the fair value of warrants included in derivative liabilities was reclassified to equity.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

The fair value of warrants exercised was determined using the Black-Scholes option valuation model, using the following weighted average assumptions:

| | Nine Months Ended | |
|---------------------------------|--------------------------|-----------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| Risk free interest rate | 0.48% | 1.12% |
| Expected life (years) | 0.04 | 0.01 |
| Expected share price volatility | 92% | 97% |

The fair value of warrants granted was determined using the Black-Scholes option valuation model, using the following weighted average assumptions:

| | Nine Months |
|---------------------------------|--------------------|
| | Ended |
| | June 30, |
| | 2016 |
| Risk free interest rate | 0.52% |
| Expected life (years) | 0.01 |
| Expected share price volatility | 91% |
| Expected dividend yield | 0% |

There were no warrants granted during the nine months ended June 30, 2015.

Broker units

The Company granted broker units as finders' fees in conjunction with equity offerings in prior years. Broker units are fully vested when granted and allow the holders to purchase equity units. Each unit consists of one common share and one warrant to purchase a common share.

A summary of broker units activity is as follows:

| | Number of | Weighted |
|-------------------------------------|------------------|-----------------------|
| | Units | Average |
| | | Exercise Price |
| Balance - September 30, 2015 | 46,600 | CDN \$ 2.50 |
| Exercised | (40,000) | CDN \$ 2.50 |
| Expired | (6,600) | CDN \$ 2.50 |
| Balance - June 30, 2016 | - | \$ - |

There were no broker units granted during the nine months ended June 30, 2016 and 2015.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

Options

The Company has a fixed share option plan adopted in 2013 (the “Plan”) administered by the Board of Directors, which has the discretion to grant up to an aggregate of 1,000,000 options. The exercise price of an option is set at the closing price of the Company’s common shares on the date of grant. Share options granted to directors, officers, employees and consultants are subject to the following vesting schedule:

- (a) One-third shall vest immediately;
- (b) One-third shall vest 12 months from the date of grant; and
- (c) One-third shall vest 18 months from the date of grant.

Share options granted to investor relations consultants vest over a period of not less than 12 months as to 25% on the date that is three months from the date of grant, and a further 25% on each successive date that is three months from the date of the prior vesting.

Options have been granted under the Plan allowing the holders to purchase common shares of the Company as follows:

| | Number of Options | Weighted Average Exercise Price |
|-------------------------------------|------------------------------|--|
| Balance - September 30, 2015 | 557,638 | CDN \$ 6.93 |
| Granted | 47,700 | \$ 7.24 |
| Expired | (6,667) | \$ 18.30 |
| Expired | (42,501) | CDN \$5.37 |
| Balance - June 30, 2016 | 556,170 | \$ 5.37 |

The weighted average contractual life remaining on the outstanding options is 2.75 years.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

The following table summarizes information about the options under the Plan outstanding and exercisable at June 30, 2016:

| Number of Options | Exercisable at June 30, 2016 | Range of exercise prices | Expiry Dates |
|--------------------------|---|---------------------------------|---------------------|
| 291,610 | 291,610 | CDN\$0.01 - 5.00 | Apr 2017-Dec 2019 |
| 145,860 | 144,193 | CDN\$5.01 - 10.00 | Oct 2017-Jun 2022 |
| 47,700 | 15,900 | \$5.01 - 10.00 | Dec 2022 |
| 21,500 | 21,500 | CDN\$15.01 - 20.00 | Nov 2018-Nov 2021 |
| 49,500 | 49,500 | \$15.01 - 20.00 | Nov 2020 |
| 556,170 | 522,703 | | |

The estimated fair value of the share options granted during the nine months ended June 30, 2016 and 2015 was determined using a Black-Scholes option valuation model with the following weighted average assumptions.

| | Nine Months Ended | |
|---------------------------------|--------------------------|--------------------------|
| | June 30, 2016 | June 30, 2015 |
| Risk free interest rate | 1.05% | 1.65% |
| Expected life (years) | 7.00 | 7.00 |
| Expected share price volatility | 108% | 115% |
| Expected dividend yield | 0% | 0% |

The weighted average fair value of share options awarded during the nine months ended June 30, 2016 and 2015 was \$7.08 and \$9.76, respectively.

As of June 30, 2016, the Company had approximately \$121,000 of unrecognized share-based compensation expense, which is expected to be recognized over a period of 1 year.

The intrinsic value of the options exercised during the nine months ended June 30, 2015 was \$9.59. There were no options exercised during the nine months ended June 30, 2016. The intrinsic value of the vested options at June 30, 2016 was \$0.75.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

9. Supplemental Disclosure of Cash Flow and Non-Cash Transactions

Supplemental disclosure of cash flow information follows:

| | Nine Months Ended | |
|---------------------------------------|--------------------------|-------------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| | <u> </u> | <u> </u> |
| Cash paid during the period for taxes | \$ 7,200 | \$ 27,800 |

Supplemental disclosure of noncash financing and investing activities follows:

| | Nine Months Ended | |
|---|--------------------------|-------------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| | <u> </u> | <u> </u> |
| Transfer to common shares on exercise of warrants | \$ 1,853,581 | \$ 426 |
| Transfer to common shares on exercise of options | - | 27,619 |

10. Fair Value of Financial Instruments

The Company uses the fair value measurement framework for valuing financial assets and liabilities measured on a recurring basis in situations where other accounting pronouncements either permit or require fair value measurements.

Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying value of certain financial instruments such as accounts receivable, short-term investments in U.S. Treasury Bills, accounts payable, accrued liabilities, and deferred revenue approximates fair value due to the short-term nature of such instruments.

The Company follows the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical or similar assets and liabilities.
- Level 2: Quoted prices for identical or similar assets and liabilities in markets that are not active or observable inputs other than quoted prices in active markets for identical or similar assets and liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company records its short-term investments in mutual fund debt securities at fair value using Level 1 inputs in the fair value hierarchy. The Company records its warrant liability at fair value using Level 2 inputs using the Black-Scholes option valuation model and assumptions disclosed in Note 8.

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

The following table summarizes fair values for those assets and liabilities with fair value measured on a recurring basis. There are no short-term investments in mutual fund debt securities or warrant liability at June 30, 2016.

| | Fair Value Measurements Using | | | Total Fair Value |
|---|---|---|---|------------------|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| September 30, 2015 | | | | |
| Assets | | | | |
| Short-term investments in mutual fund debt securities | \$ 5,015,171 | \$ - | \$ - | \$ 5,015,171 |
| Liabilities | | | | |
| Warrant liability, current portion | - | 1,550,630 | - | 1,550,630 |

11. Concentrations of Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, mutual fund debt securities and accounts receivable. The Company estimates its maximum credit risk at the amount recorded on the balance sheet.

Management's assessment of the Company's credit risk for cash and cash equivalents is low as they are held in major financial institutions believed to be credit worthy and U.S. Treasury Bills with an original maturity of 90 days or less. The Company limits its exposure to credit loss for short-term investments by using U.S. Treasury Bills with an original maturity of over 90 days and a mutual fund that invests in high-quality, U.S. dollar-denominated short-term fixed-, floating- and variable-rate debt securities that have received either a minimum short-term rating of at least A-1 (or its equivalent) or a minimum long-term rating of A minus (or its equivalent), by one or more Nationally Recognized Statistical Ratings Organizations, or, if unrated, that are deemed by the fund to be of comparable quality at the time of purchase. Based on credit monitoring and history, the Company considers the risk of credit losses due to customer non-performance on accounts receivable to be low.

The Company had the following concentrations of revenues by customers:

| | Nine Months Ended | |
|---|----------------------|----------------------|
| | June 30, 2016 | June 30, 2015 |
| Product sales and contract services revenue | 91% from 5 customers | 67% from 3 customers |

Stellar Biotechnologies, Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars)

The Company had the following concentrations of revenues by geographic areas:

| | Nine Months Ended | |
|--------|--------------------------|-----------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| Europe | 55% | 43% |
| Asia | 32% | 47% |
| U.S. | 13% | 10% |

The Company had the following concentrations of accounts receivable:

| | June 30, | September 30, |
|---------------------|-------------------------|-------------------------|
| | 2016 | 2015 |
| Accounts receivable | 82% from 2 customers | 91% from 2 customers |

12. Reclassifications

Certain reclassifications have been made to the prior period to conform with the current period's presentation. These include the Company's reclassification of a mutual fund investing in short-term debt securities from cash equivalents to short-term investments and reclassification of costs related to aquaculture to present such costs separately from costs of sales and contract services. There was no impact on total assets, total shareholders' equity, accumulated deficit, total expenses or net income (loss) resulting from these reclassifications. The statement of cash flows reflects the mutual fund activity as cash flows from investing activities rather than changes in cash.

13. Subsequent Event

On June 30, 2016, the Company entered into Securities Purchase Agreements with certain institutional investors providing for the issuance and sale by the Company of an aggregate of 1,687,500 of the Company's common shares, no par value, at a price of \$4.00 per share in a registered direct offering. In a concurrent private placement, the Company agreed to sell to such investors warrants to purchase up to an aggregate of 1,265,625 Common Shares with an exercise price of \$4.50 per share. The transaction closed on July 6, 2016 with total gross proceeds of \$6,750,000, placement agent fees of \$422,500 and issuance costs of approximately \$270,000 for approximate net proceeds of \$6,000,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q as of June 30, 2016 and our audited consolidated financial statements for the year ended September 30, 2015 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on December 14, 2015.

This Quarterly Report on Form 10-Q contains forward-looking statements. When used in this report, the words "expects," "anticipates," "suggests," "believes," "intends," "estimates," "plans," "projects," "continue," "ongoing," "potential," "expect," "predict," "believe," "intend," "may," "will," "should," "could," "would" and similar expressions are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the risks described in this report, the risks described in our Annual Report on Form 10-K for the year ended September 30, 2015 and other reports we file with the Securities and Exchange Commission. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made. We do not intend to update any of the forward-looking statements after the date of this report to conform these statements to actual results or to changes in our expectations, except as required by law.

The discussion and analysis of our financial condition and results of operations are based on our unaudited condensed interim consolidated financial statements as of June 30, 2016 and September 30, 2015, and for the nine months ended June 30, 2016 and 2015 included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Overview

Stellar Biotechnologies, Inc. ("Stellar," the "Company," "we," "our" and "us") is a biotechnology company engaged in the aquaculture, research and development, manufacture and commercialization of Keyhole Limpet Hemocyanin, or KLH, protein. KLH is a high molecular weight, immune-stimulating protein with an extensive history (over 40 years) of safe and effective use in immunological applications.

KLH can be used as an active pharmaceutical ingredient ("API") and combined with a disease-targeting agent to create immunotherapies targeting cancer, immune disorders, Alzheimer's disease, and inflammatory diseases, or it can be used as a finished, injectable product in the immunodiagnostic market for measuring immune response in patients and research settings. Our mission is to become the world leader in the sustainable manufacture of KLH and use our unique, proprietary methods and intellectual property to serve the growing demand for KLH in immunotherapeutic and immunodiagnostic markets.

Third Quarter Highlights; Recent Developments

- On May 11, 2016, our Company and Neovacs, S.A. ("Neovacs") entered into an agreement (the "Joint Venture Agreement") to form a joint venture to manufacture and sell conjugated therapeutic vaccines using Stellar's proprietary KLH and Neovacs' cytokine antigens conjugated to KLH, including Neovacs' Kinoid immunotherapy product candidates and other KLH-based immunotherapy vaccine products, for human or veterinary use (the "Neovacs Joint Venture"). We agreed with Neovacs to organize the Neovacs Joint Venture as a French simplified corporation and, in connection with the Neovacs Joint Venture, to enter into (a) an exclusive supply agreement within a limited field of use for the supply of Stellar KLH™ to the Neovacs Joint Venture and (b) a service agreement for the provision of various knowledge and expertise by our Company to the Joint Venture.

The Company holds a 30% equity interest in the Neovacs Joint Venture in exchange for an initial capital contribution of €120,000. One-half of the initial contribution, approximately \$67,000, was paid prior to June 30, 2016 with the balance due upon the occurrence of certain future events as set forth in the Joint Venture Agreement.

- On June 30, 2016, we entered into securities purchase agreements with certain institutional investors providing for the issuance and sale by us of an aggregate of 1,687,500 of our common shares, at a price of \$4.00 per share in a registered direct offering (the "Registered Direct Offering"). In a concurrent private placement, we agreed to sell to such investors warrants to purchase up to an aggregate of 1,265,625 of our common shares, with an exercise price of \$4.50 per share (the "Private Placement").

On July 6, 2016, the Registered Direct Offering and the Private Placement were consummated, resulting in net proceeds to the Company of approximately \$6 million.

- At our request, our common shares were voluntarily delisted from the TSX Venture Exchange (the "TSX-V") in Canada and were no longer trading on the TSX-V as of the close of business on April 8, 2016.

Significant Accounting Policies and Estimates

For a discussion of our significant accounting policies and estimates, refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as filed with the Securities and Exchange Commission (the “SEC”) on December 14, 2015. There are no material changes in our significant accounting policies and estimates from the disclosure provided in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Results of Operations

Comparison of Nine Months Ended June 30, 2016 and 2015

Our net loss was \$3,684,890, or \$0.44 loss per basic share, for the nine months ended June 30, 2016 compared to \$1,305,655, or \$0.16 loss per basic share, for the nine months ended June 30, 2015. The increase in net loss was primarily due to fluctuations in non-cash gain/loss in fair value of warrant liability, as more fully discussed below.

Total revenues were \$995,587 and \$558,036 for the nine months ended June 30, 2016 and 2015, respectively. The increase in revenues for the nine months ended June 30, 2016 was due to greater product sales volume including sales under supply agreements and custom manufactured products. Our product sales were \$963,587 and \$408,036 for the nine months ended June 30, 2016 and 2015, respectively. We also recorded \$173,333 of deferred revenue for a customer deposit on products that were shipped subsequent to June 30, 2016. Contract services revenue was \$32,000 for the nine months ended June 30, 2016, as compared to \$150,000 for the nine months ended June 30, 2015. The decrease over the prior period was due to the successful conclusion of a collaboration agreement mid-December 2015 and completion of services related to a supply agreement in December 2014.

Total expenses were \$4,587,362 and \$3,948,669 for the nine months ended June 30, 2016 and 2015, respectively. Costs of sales and contract services were \$700,953 and \$571,039 for the nine months ended June 30, 2016 and 2015, respectively. These costs did not increase in line with revenues since our indirect manufacturing costs are incurred regardless of product sales levels. In addition, some employees were temporarily assigned to process development related to our Stellar KLH™ products, thereby lowering indirect manufacturing costs in the current period. Our research and development expenses were \$1,068,008 for the nine months ended June 30, 2016, as compared to \$830,115 for the nine months ended June 30, 2015. The increase over the prior period was a result of the increased internal research and process development related to our Stellar KLH™ products and increased costs related to our aquaculture feasibility assessment in Baja California, Mexico. Our administration expenses were \$2,595,176 for the nine months ended June 30, 2016, as compared to \$2,346,019 for the nine months ended June 30, 2015. The increase over the prior period resulted primarily from a combination of increased corporate expenses, including our Nasdaq listing fees; compensation increases; expanded customer and business development travel and increased investor relations activity.

Other income (loss) was an overall loss of \$85,915 for the nine months ended June 30, 2016, as compared to a gain of \$2,112,778 for the nine months ended June 30, 2015. The change in the nine months ended June 30, 2016 as compared to the prior period resulted primarily from the non-cash gain/loss in fair value of warrant liability, which fluctuated to a loss of \$211,956 for the nine months ended June 30, 2016 from a gain of \$2,455,361 in the prior period. All warrants with Canadian dollar exercise prices were exercised or expired by October 2015 and, consequently, there was no warrant liability and no gain/loss in fair value of warrant liability after that time. These fair value gains and losses occur in inverse relation to changes in our share price that affect the Black-Scholes valuation model. This increased loss was partially offset by a foreign exchange gain of \$109,448 for the nine months ended June 30, 2016, as compared to a foreign exchange loss of \$391,190 for the nine months ended June 30, 2015. The change was due primarily to favorable exchange rates for our Canadian cash and cash equivalents. The portion of foreign exchange gain (loss) realized in cash was \$3,171 and (\$13,517) for the nine months ended June 30, 2016 and 2015, respectively.

Comparison of Three Months Ended June 30, 2016 and 2015

Our net loss was \$1,194,077, or \$0.14 loss per basic share, for the three months ended June 30, 2016 compared to \$463,986 net income, or \$0.06 income per basic share, for the three months ended June 30, 2015. The increase in net loss over the prior period net income was primarily due to fluctuations in non-cash gain/loss in fair value of warrant liability, as more fully discussed below.

Total revenues were \$181,092 and \$157,748 for the three months ended June 30, 2016 and 2015, respectively. The increase in revenues for the three months ended June 30, 2016 was due to an increase in customers and greater product sales volume including sales under supply agreements. Our product sales were \$181,092 and \$112,748 for the three months ended June 30, 2016 and 2015, respectively.

Total expenses were \$1,369,570 and \$1,033,333 for the three months ended June 30, 2016 and 2015, respectively. Costs of sales and contract services were \$119,989 and \$231,999 for the three months ended June 30, 2016 and 2015, respectively. These costs decreased relative to revenues due to the temporary re-assignment of some employees to process development related to our Stellar KLH™ products, thereby lowering indirect manufacturing costs, and due to the mix of product sales and contract services which have lower cost-to-revenue ratios in the current period over the prior period. Our research and development expenses were \$470,097 for the three months ended June 30, 2016, as compared to \$129,710 for the three months ended June 30, 2015. The increase over the prior period was a result of increased costs related to our aquaculture feasibility assessment in Baja California, Mexico, increased internal research and process development related to our Stellar KLH™ products, new R&D employees and the completion of contract services under our collaboration agreement, resulting in higher costs incurred by internal research. Our administration expenses were \$720,421 for the three months ended June 30, 2016, as compared to \$618,185 for the three months ended June 30, 2015. The increase over the prior period resulted from increased corporate expenses, costs related to hiring new employees, increased business development travel and increased investor relations activity.

Other income (loss) was an overall loss of \$5,599 for the three months ended June 30, 2016, as compared to a gain of \$1,348,571 for the three months ended June 30, 2015. The decrease in overall gain (loss) resulted primarily from the non-cash gain/loss in fair value of warrant liability, which had no activity for the three months ended June 30, 2016 from a gain of \$1,254,029 in the prior period. All warrants with Canadian dollar exercise prices were exercised or expired by October 2015 and, consequently, there was no warrant liability and no gain/loss in fair value of warrant liability after that time. These fair value gains and losses occur in inverse relation to changes in our share price that affect the Black-Scholes valuation model. This decrease was also due to a foreign exchange loss of \$8,188 for the three months ended June 30, 2016, as compared to a foreign exchange gain of \$77,468 for the three months ended June 30, 2015. The change was due to fluctuations in exchange rates for our Canadian cash and cash equivalents. The portion of foreign exchange gain (loss) realized in cash was (\$206) and (\$679) for the three months ended June 30, 2016 and 2015, respectively.

Capital Expenditures

Our capital expenditures, which primarily consist of scientific, manufacturing, and aquaculture equipment, and facility leasehold improvements for the nine months ended June 30, 2016 and 2015 are as follows:

| Assets Acquired | Nine Months Ended | |
|-------------------------------|-------------------|------------------|
| | June 30, 2016 | June 30, 2015 |
| Property, plant and equipment | \$ 238,957 | \$ 114,134 |
| Construction in progress | 55,901 | 89,477 |

Liquidity and Capital Resources

Our working capital position at June 30, 2016 was \$6,887,427, including cash and cash equivalents of \$4,787,203 and short-term investments of \$1,999,081. Subsequent to June 30, 2016, we completed the Registered Direct Offering and the Private Placement of our securities for net proceeds of approximately \$6 million.

Management believes our current working capital is sufficient to meet our present requirements, including all contractual obligations and anticipated research and development expenditures for at least the next 12 months. We expect to finance our future expenditures and obligations through revenues from product sales, contract services income, grant revenues, and sales of common shares. We expect to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue our business plan and continue as a going concern. .

We may pursue opportunities to obtain additional financing in the future through equity and/or debt financings. We have filed with the SEC, and the SEC declared effective, a universal shelf registration statement which permits us to issue up to \$100 million of registered equity securities, of which we utilized approximately \$6.7 million in our Registered Direct Offering. Under this effective shelf registration, we have the flexibility to issue registered securities, from time to time, in one or more separate offerings or other transactions with the size, price and terms to be determined at the time of issuance. Registered securities issued through this shelf may be used to raise additional capital to fund our general corporate needs, including capital expenditures, research and development and working capital.

Our management believes that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means, if needed; however, we have not secured any commitment for new financing at this time, nor can we provide any assurance that new financing will be available on commercially acceptable terms, if needed.

Nine Months Ended June 30, 2016

Our working capital was \$6,887,427 as of June 30, 2016, compared to working capital of \$7,485,971 as of September 30, 2015. Working capital was reduced by the non-cash current portion of our warrant liability in the amount of \$1,550,630 at September 30, 2015. All warrants with Canadian dollar exercise prices have been exercised or have expired and, consequently, there was no warrant liability at June 30, 2016.

Our cash and cash equivalents totaled \$4,787,203 at June 30, 2016, compared to cash and cash equivalents of \$3,955,503 at September 30, 2015, which represented an increase of \$831,700 over the nine-month period. Our short-term investments totaled \$1,999,081 at June 30, 2016, compared to short-term investments of \$5,015,171 at September 30, 2015, which represented a decrease of \$3,016,090 over the nine-month period.

During the nine months ended June 30, 2016, operating activities used cash of \$3,313,962. Items not affecting cash included: depreciation and amortization of \$106,712; share-based compensation related to the issuance and vesting of stock options of \$209,781; unrealized foreign exchange gain of \$109,448; and loss in fair value of warrant liability of \$211,956 due to the adjustment to the fair value of warrants previously issued. Changes in non-cash working capital items primarily result from a decrease in accounts receivable of \$148,611 and an increase in deferred share issuance costs of \$232,822.

Investing activities provided cash of \$2,654,537. The acquisition of property, plant and equipment used cash of \$294,858 related to improvements in manufacturing and aquaculture facilities. Purchase of short-term investments in U.S. Treasury Bills used cash of \$6,005,737. Sales and maturities of short-term investments in mutual fund debt securities and U.S. Treasury Bills provided cash of \$9,021,827. Approximately \$5 million of this amount represents mutual fund debt securities that were sold to purchase U.S. Treasury Bills. Each time U.S. Treasury Bills mature, additional U.S. Treasury Bills are purchased, resulting in an increase in gross purchases and maturities. Contribution to our joint venture with Neovacs S.A. used cash of \$66,695.

The effect of fluctuations in exchange rates on cash and cash equivalents was an increase of \$122,865 due to an improvement in the Canadian dollar relative to the U.S. dollar.

Financing activities provided cash of \$1,368,260 related to proceeds from the exercise of warrants. As a result of such exercises, 464,000 common shares were issued during the period.

Nine Months Ended June 30, 2015

Our working capital was \$8,944,753 as of June 30, 2015, as compared to working capital of \$13,751,301 as of September 30, 2014. Working capital was reduced by the non-cash current portion of our warrant liability in the amount of \$1,235,905 and \$460 at June 30, 2015 and September 30, 2014, respectively.

Our cash and cash equivalents totaled \$5,147,260 at June 30, 2015, compared to cash and cash equivalents of \$8,768,459 at September 30, 2014, which represented a decrease of \$3,621,199. Our short-term investments totaled \$5,014,198 at June 30, 2015, as compared to short-term investments of \$5,450,126 at September 30, 2014, which represented a decrease of \$435,928 over the nine-month period.

During the nine months ended June 30, 2015, operating activities used cash of \$3,497,293. Items not affecting cash included: depreciation and amortization of \$119,410; share-based compensation related to the issuance and vesting of stock options of \$244,781; unrealized foreign exchange loss of \$391,190; and gain in fair value of warrant liability of \$2,455,361 due to the adjustment to the fair value of warrants previously issued. Changes in non-cash working capital items include a increase in accounts receivable of \$69,242; increase in inventory related to custom manufacturing orders in process of \$159,476; increase in prepaid expenses of \$137,939; decrease in accounts payable and accrued liabilities of \$211,667; and increase in deferred revenue of \$86,666.

Investing activities provided cash of \$203,582. The acquisition of property, plant and equipment used cash of \$202,997. Purchase of short-term investments used cash of \$12,704. Proceeds on maturities of short-term investments provided cash of \$419,283. The effect of exchange rate changes on cash and cash equivalents was a reduction of \$356,207 due to a decline in Canadian dollars relative to U.S. dollars.

Financing activities provided cash of \$28,719 related to proceeds from the exercise of warrants and options. As a result of such exercises, 12,680 common shares were issued during the period.

Geographic Concentrations

The geographic markets of our customers are principally Europe, the United States and Asia. We had the following concentrations of revenues by geographic areas:

| | Nine Months Ended | |
|--------|--------------------------|--------------------------|
| | June 30, 2016 | June 30, 2015 |
| Europe | 55% | 43% |
| Asia | 32% | 47% |
| U.S. | 13% | 10% |

Research and Development

Our core business is developing and commercializing Keyhole Limpet Hemocyanin for use in immunotherapy and immunodiagnostic applications. Our internal research includes, among other activities, continual improvement of methods for the culture and growth of the Giant Keyhole Limpet, innovations in aquaculture systems and infrastructure, biophysical and biochemical characterization of the KLH molecule, analytical processes to enhance performance of our products, KLH manufacturing process improvements, new KLH formulations, and early development of potential new KLH-based immunotherapies. However, from time to time we may engage in non-related research and development activities as opportunities arise.

Research and development costs, including materials and salaries of employees directly involved in research and development efforts, are expensed as incurred.

The following table includes our research and development costs for each of the nine months ended June 30, 2016 and 2015:

| | Nine Months Ended | |
|----------------------------------|--------------------------|-----------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| Research and development expense | \$ 1,068,008 | \$ 830,115 |

The increase in research and development expense over the prior period was a result of increased internal research and process development related to our Stellar KLH™ products and increased costs related to our aquaculture feasibility assessment in Baja California, Mexico.

Disclosure of Contractual Obligations

We lease three buildings and facilities used in our operations under sublease agreements with the Oxnard Harbor District. In June 2015, we exercised our option to extend these sublease agreements for an additional five-year term beginning in October and November 2015. We negotiated an option to extend the leases for two additional five-year terms.

We lease facilities used for executive offices and laboratories, and we must pay a portion of the common area maintenance. In July 2016, we extended this lease for a two-year term, which extension includes three (3) options to renew this lease for successive, two-year terms.

We lease undeveloped land in Baja California, Mexico to assess the potential development of an additional aquaculture locale and expansion of production. The lease term is three years beginning June 2015, with an option to extend for 30 years if we proceed with site development. We may terminate the lease early upon 30 days' notice. Under a related collaboration agreement, we are responsible for certain improvements to the leased undeveloped land, and for reimbursement to the lessor for local operational support. The collaboration agreement expires in June 2018, unless terminated earlier.

We have purchase commitments for contract research organizations, consultants and contractors.

There have been no material changes in our contractual obligations previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as filed with the SEC on December 14, 2015.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, including unrecorded derivative instruments, that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to financial market risks associated with foreign exchange rates, concentration of credit, and liquidity. In accordance with our policies, we manage our exposure to various market-based risks and where material, these risks are reviewed and monitored by our Board of Directors. For a discussion of our market risk exposure, refer to Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as filed with the SEC on December 14, 2015. There are no material changes in market risk from the disclosure provided in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material information related to our Company, including our consolidated subsidiaries, is made known to senior management, including our Chief Executive Officer and Chief Financial Officer, by others within those entities on a timely basis so that appropriate decisions can be made regarding public disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities and Exchange Act of 1934, as amended) as of June 30, 2016. Our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures, as of June 30, 2016, were effective.

Changes in Internal Control over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in legal proceedings, claims and litigation arising in the ordinary course of business, including contract disputes, employment matters and intellectual property disputes. We are not currently a party to any material legal proceedings or claims outside the ordinary course of business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

There have been no material changes in the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as filed with the SEC on December 14, 2015.

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

Other than as previously reported in our Current Reports on Form 8-K, or prior periodic reports, we did not sell any unregistered securities during the three-month period ended June 30, 2016, or subsequent period through the date hereof.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with or incorporated by reference in this Quarterly Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 9, 2016

STELLAR BIOTECHNOLOGIES, INC.

/s/ Kathi Niffenegger

Kathi Niffenegger

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|--|
| 4.1 | Form of Warrant to be issued to investors pursuant to Securities Purchase Agreement dated June 30, 2016 (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the SEC on June 30, 2016). |
| 10.1± | Joint Venture Agreement, dated May 11, 2016, by and among Neovacs, S.A. and Stellar Biotechnologies, Inc. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the SEC on May 17, 2016). |
| 10.2 | Form of Securities Purchase Agreement, between Stellar Biotechnologies, Inc. and certain investors, dated June 30, 2016 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the SEC on June 30, 2016). |
| 31.1 | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (*) |
| 32.2 | Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (*) |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document |

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

± Certain portions have been omitted pursuant to a confidential treatment request. Omitted information has been filed separately with the SEC.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank R. Oakes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stellar Biotechnologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2016

By: /s/ Frank R. Oakes
Frank R. Oakes
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kathi Niffenegger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Stellar Biotechnologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2016

By: /s/ Kathi Niffenegger
Kathi Niffenegger
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Stellar Biotechnologies, Inc. (the "Company") for the quarter ended June 30, 2016 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Frank R. Oakes, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2016

By: /s/ Frank R. Oakes

Frank R. Oakes
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Stellar Biotechnologies, Inc. (the "Company") for the quarter ended June 30, 2016 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Kathi Niffenegger, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2016

By: /s/ Kathi Niffenegger
Kathi Niffenegger
Chief Financial Officer
(Principal Financial Officer)
