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

FORM 20-F

[**X**] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended _____

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report ……

Stellar Biotechnologies, Inc.

(Exact name of Registrant as specified in its charter)

British Columbia, Canada
(Jurisdiction of incorporation or organization)

332 E. Scott Street, Port Hueneme, CA 93041
(Address of principal executive offices)

Securities to be registered pursuant to Section 12(b) of the Act:
None

Securities to be registered pursuant to Section 12(g) of the Act:
Common Shares, without par value
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Company's classes of capital or common stock as of the close of the period covered by the annual report.
41,611,832 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ___ No _X_

If this report is an annual or a transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the *Securities Exchange Act of 1934*.
Yes ___ No ___

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 12 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 ninety days.
Yes ___ No _X_

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

Large accelerated filer __ Accelerated filer __ Non-accelerated filer X

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [ ] International Financial Reporting Standards as issued by the International Accounting Standards Board [ ] Other [X]

Indicate by check mark which financial statement item the registrant has elected to follow:
Item 17 _X_ Item 18 ___

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No _X_ N/A __

Stellar Biotechnologies Inc.
Form 20-F Registration Statement

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INTRODUCTION

Stellar Biotechnologies, Inc. (or the "Company") was incorporated on June 12, 2007 in Canada under the *Canada Business Corporations Act* under the name China Growth Capital Inc. The Company was originally classified as a Capital Pool Corporation ("CPC") and changed its name to CAG Capital Inc. ("CAG") on April 15, 2008. On November 25, 2009, the Company was continued into British Columbia under the *British Columbia Business Corporations Act*. On April 7, 2010, the Company changed its name to Stellar Biotechnologies Inc. and subsequently completed its qualifying transaction through a reverse merger transaction with Stellar Biotechnologies Inc. ("Stellar CA"), a corporation incorporated under the laws of the State of California on September 9, 1999.

BUSINESS OF STELLAR BIOTECHNOLOGIES INC.

Stellar Biotechnologies is a biotechnology research and production company involved in the production and marketing of Keyhole Limpet Hemocyanin ("KLH") as well as the development of new technology related to the culture and production of KLH and KLH subunit ("KLHsu") formulations.

KLH is a potently immunogenic (i.e., a substance that induces an immune response) high-molecular-weight protein. It operates as a carrier molecule for vaccine antigens (substances that promote the generation of antibodies) against cancers and infectious agents. The combination of an antigen against specific tumor cell-types, conjugated to the Immunogenic ("IMG") KLH molecule, is the basis for a proven strategy for a new class of drugs known as therapeutic vaccines. Potent yet proven safe in humans, KLH is a critical component of several important therapeutic vaccines including vaccines for lymphoma, bladder, breast, colon, and other cancers.

FINANCIAL AND OTHER INFORMATION

In this Registration Statement, unless otherwise specified, all dollar amounts are expressed in United States Dollars.

FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute "forward-looking statements". Some, but not all, forward-looking statements can be identified by the use of words such as "anticipate," "believe," "plan," "estimate," "expect," and "intend," statements that an action or event "may," "might," "could," "should," or "will" be taken or occur, or other similar expressions. Although the Company has attempted to identify important factors that could cause actual results to differ materially from expected results, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Registrant, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the risks associated with outstanding litigation, if any, risks associated with product development; the need for additional financing; uncertainties and risks related to carrying on business in foreign countries; environmental liability claims and insurance; reliance on key personnel; the potential for conflicts of interest among certain officers, directors or promoters of the Registrant with certain other projects; the absence of dividends; currency fluctuations; competition;

dilution; the volatility of the Registrant's common share price and volume; and tax consequences to U.S. Shareholders. We are obligated to keep our information current and revise any forward-looking statements because of new information, future events or otherwise.

Part I

Item 1. Identity of Directors, Senior Management and Advisors

Table No. 1
Company Officers and Directors

Name	Position	Business Address
Frank R. Oakes	President, CEO and Director	332 East Scott Street Port Hueneme, CA 93041
Scott Davis	Chief Financial Officer	#510 - 580 Hornby Street Vancouver, B.C. V6C 3B6
Darrell H. Brookstein	Executive VP - Corporate Development and Finance, and Director	332 East Scott Street Port Hueneme, CA 93041
Daniel E. Morse, Ph.D.	Director	128 Via Alicia Santa Barbara, CA 93108
Malcolm Gefter, Ph.D.	Director	46 Baker Bridge Road Lincoln, MA 01773
David L. Hill, Ph.D.	Director	332 East Scott Street Port Hueneme, CA 93041
Harvey Wright	Director	19623 Apricot Lane, Caldwell, ID 83607

The Company's auditor for the fiscal years ended August 31, 2011, 2010 and 2009 is D+H Group LLP, Chartered Accountants, 10th Floor, 1333 West Broadway, Vancouver, British Columbia, Canada, V6H 4C1.

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key Information

As used within this Annual Report, the terms "Stellar", "the Company", "Issuer", and "Registrant" refer collectively to Stellar Biotechnologies, Inc., its predecessors, subsidiaries and affiliates.

SELECTED FINANCIAL DATA

The selected financial data of the Company for the Years Ended August 31, 2011, 2010, and 2009 were derived from the financial statements of the Company which have been audited by D+H Group LLP, Chartered Accountants, as indicated in its audit reports which are included elsewhere in this Registration Statement. The financial data for the years ended August 31, 2008 and August 31, 2007 have been derived from the financial statements of the Company as audited by Glenn, Burdette, Phillips & Bryson, Certified Public Accountants, which are not included herein.

The Company has not declared any dividends on its common shares since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain future earnings, if any, for use in its operations and the expansion of its business.

Table No. 2 is derived from the financial statements of the Company, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), the application of which, in the case of the Company, conforms in all material respects for the years presented with US GAAP, except as disclosed in Note 16 to the financial statements. Under the merger agreement between Stellar and Stellar CA, Stellar CA is the purchaser and parent company for accounting purposes. Therefore, the financial information for the fiscal years ended August 31, 2008 and 2007 are taken from the financial statements of Stellar CA.

Table No. 2
Selected Financial Data
(US$ in 000, except per share data)

	Year Ended 8/31/11	Year Ended 8/31/10	Year Ended 8/31/09	Year Ended 8/31/08	Year Ended 8/31/07
Revenue	$697	$855	$910	$1,180	$1,013
Interest and Other Income	$15	$386	$-	$0	$17
Comprehensive Net Income (Loss)	($7,086)	($588)	$6	($106)	$0.3
Comprehensive Net Income (Loss) Per Share	($0.19)	($0.04)	$0.01	($0.20)	$0.00

Dividends Per Share	$0	$0	$0	$0	$0
Wtg. Avg. Shares (000)	38,088	15,600	530	530	530
Working Capital	$4,062	$2,174	N/A	$110	$201
Long-Term Debt	$0	$0	N/A	$266	$266
Shareholder's Equity (deficit)	$4,592	$2,472	N/A	($119)	($14)
Total Assets	$4,751	$2,893	N/A	$175	$262
US GAAP Net Loss	($5,997)	($859)	$6	N/A	N/A
US GAAP Loss Per Share	($0.16)	($0.06)	$0.01	N/A	N/A
US GAAP Wtg. Avg. Shares	38,088	15,600	530	N/A	N/A
US GAAP Equity	$3,066	$1,673	N/A	N/A	N/A
US GAAP Total Assets	$4,751	$2,893	N/A	N/A	N/A

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in United States Dollars ($).

Statement of Capitalization and Indebtedness

Table No. 3
Capitalization and Indebtedness

	Amount Authorized	Amount Outstanding as of December 15, 2011
Common Shares	Unlimited	43,930,432
Preferred Shares	Not Authorized	None
Common Share Options	20% of issued and Outstanding Common Shares	4,259,600 options
Common Share Purchase Warrants		8,268,600 warrants
Capital Leases		Nil
Guaranteed Debt		Nil
Secured Debt		Nil

Risk Factors

An investment in the Common Shares of the Company must be considered speculative due to the nature of the Company's business and the present stage of research and development. In particular, the following risk factors apply:

Risks Relating to the Operations of the Company

Research and Development of drugs and medical products can be costly and require years of research and development activities.
The Company is expending substantial resources on research and development of its products and aquaculture technology. Much of the products and technology is at the development stage, and may never be commercially successful. The Company's future success will be in part dependent upon the Company's ability to successfully develop its products, the ability to obtain the required regulatory approvals, the protection of its processes and products, and commercial acceptance of its products.

The Company may not achieve its projected development goals in the timeframes it announces and expects.
The Company has established certain developmental goals, and made public statements regarding the anticipated timing of meeting its objectives. The timing of these events may be affected by various factors, including financial limitations, progress and timing of third-party developmental activities, delays or failures of regulatory approvals and clinical trials, and delays and failures in increasing KLH aquaculture and production. Any inability to meet its projected goals could have a negative effect on the Company's operations and financial position.

The Company may be unable to achieve certain milestones associated with external partnerships.
Certain of the Company's agreements with third-parties include certain milestones the Company must meet in order to obtain payments and continue the partnership agreements. If the Company is unable to achieve these milestones, it would have a negative effect on the Company's operations and financial condition. Additionally, it would likely curtail future development programs which would also have a negative effect on the Company's operations.

The Company depends on third-parties for its manufacturing operations.
The Company is currently dependent upon a small number of contractors and locations for its manufacturing capacity. The Company does not currently have backup manufacturing capacity for some of its key products. If the Company is unable to retain its current contractors, or is unable to obtain new contractors to provide manufacturing services, it will have a negative effect on the Company's operations. These contract manufacturers provide services to many biotechnology and research companies, and may not provide the quality, quantity, or costs required by the Company. In addition, they may not be able to provide the services required on a schedule acceptable to the Company. These issues may result in the Company being unable to manufacture its products in the required quantities or at an acceptable cost, which would have a negative effect on the Company's financial condition.

Rapid technological change could make the Company's products obsolete.
New developments in products, methods or technology may negatively affect the development and sale of some or all of the products utilizing the Company's products and technology, and may render them obsolete. New product development and/or modification is costly, requires significant research and development time and expense, and may not necessarily result in the successful commercialization of any new product. If the Company is unable to enhance and improve its products, or to develop and introduce new products that incorporate new technologies that achieve market acceptance, it may have a negative effect on the Company's operations and financial position.

Protection of Patents and Proprietary Rights is limited.
The Company's success will depend in part on its ability to protect its proprietary rights and technologies. The Company relies upon a combination of contractual arrangements, licenses, patents, trade secrets and know-how to protect its proprietary technology and rights. These measures may not apply or

may afford only limited protection. The Company may not have adequate remedies for any infringement or funds to take action against those infringing, or that its trade secrets will not otherwise become known or independently developed by competitors. There can be no assurance that any current or future patents licensed by or applied for by the Company will be upheld, if challenged, or that the protections afforded will not be circumvented by others. If the Company enters litigation in regards to its business or to protect or enforce its patents, it may involve substantial expenditures and require significant management attention, even if the Company ultimately prevails. If the Company is unable to protect its intellectual property rights, it may result in the loss of valuable technologies and undermine its competitive position which would have a negative effect on the Company's operations and financial position.

The Company is subject to substantial government regulation.
The Company is subject to various laws, regulations, regulatory actions and court decisions at the local, State and Federal level in the United States and other countries. Failure to obtain regulatory approvals or delays in obtaining regulatory approvals by the Company, its collaborators, customers, vendors or service providers will adversely affect the development or marketing of its products and services. Changes in the regulatory environment could adversely affect the ability of the Company to attain its corporate objectives and obligations. Any new government regulation that affects biotechnology companies or relate specifically to the Company's processes and products may increase the Company's costs and price of its systems. These regulations may have a negative effect on the Company's operations and financial condition.

The Company faces uncertainties related to regulatory approval.
The therapeutic drug industry is subject to significant government regulation. Before regulatory approvals for the commercial sale of any products is granted, the Company and/or its partners must demonstrate through preclinical testing and clinical trials that the Company's product and the drug candidates that utilize the Company's products are safe and effective for their intended use in humans. The process to determine safety and efficacy, including clinical trials, is expensive and prolonged. The time necessary to complete these processes and trials and submit applications for the regulatory approvals is difficult to predict and is subject to numerous factors. These trials may not be successful. In addition, the various government regulators, including the United States Food and Drug Administration ("FDA"), the European agencies, review boards and safety monitoring boards may require revisions to the product trials, or additional trials be completed. Failure to comply with the detailed and extensive regulations governing these trials may cause the various government regulators to delay, suspend or permanently terminate trials. Larger or later stage clinical trials may not produce the same results as earlier trials. Successful results in clinical trials may not result in regulatory approval, due to certain factors including unacceptable side effects or safety issues. Delays in obtaining regulatory approvals, or failure to obtain regulatory approvals altogether, would have a negative effect on the Company's operations and financial condition.

Even if the Company obtains marketing approval, its products will be subject to ongoing regulatory review.
If the Company or its partners receive regulatory approval to market any product, they will be subject to ongoing regulatory requirements, which include registration, manufacturing, labeling, advertising and promotion, packaging, distribution, record keeping and reporting, and storage. Manufacturing facilities, both those operated by the Company and its vendors, are subject to continual review and inspection, and failure to meet these regulatory requirements can interrupt delay, or shut down these facilities. Previously unknown problems with the Company's products, or products produced by others which utilize the Company's products, may result in regulatory restrictions on such products, including withdrawal from the marketplace. These factors could have a negative effect on the Company's operations and financial condition.

The Company may not be able to manufacture its products in commercial quantities, which would prevent it from marketing its products.
Currently, the production of KLH by the Company is limited, and it has not been determined if it is economic to manufacture KLH and related products on a large scale. The Company contracts with third-party vendors for the manufacture of its products, and may be unable to establish and maintain relationships with qualified manufacturers in order to produce sufficient supplies of its finished products. If the Company is unable to produce economic quantities of its products, it would have a negative effect on the Company's operations and financial condition.

The Company has limited marketing, sales and distribution experience.
The Company and its personnel have limited experience in the marketing, sales and distribution of pharmaceuticals and medical device products. The Company may not be able to establish its marketing, sales and distribution capabilities itself, or establish agreements with its collaborators, licensees or third parties to successfully perform these tasks. If the Company contracts or makes arrangements with third parties for the sales and marketing of its products, Company revenues will be dependent on the efforts of these third parties, whose efforts may not be successful. If the Company markets any of its products directly, it must either internally develop or acquire a marketing and sales force, which would require substantial resources and management attention.

The Company's products, if approved, may fail to achieve market acceptance.
If the Company is successful in developing its products and receives the required approvals from the applicable regulatory authorities, its products may not achieve market acceptance. The Company's intended products will compete with a number of drugs and other products currently available in the marketplace, as well as other products currently under development from other pharmaceutical companies. The market acceptance of any of the Company's products will depend on a number of factors, including the demonstration and establishment of the efficacy and safety, as well as their advantages over other alternative products.

The Company is subject to the risk of product liability claims, for which it may not have, or be able to obtain, adequate insurance coverage.
The Drug industry is subject to product liability claims in the event of adverse effects, even in respect to products that have received regulatory approval for commercial sale. Such claims might be made directly by consumers, healthcare providers or by pharmaceutical companies, or others selling or utilizing the Company's products. Although the Company may maintain liability insurance for its products, it may not be able to obtain or maintain sufficient and affordable insurance coverage for all claims that may occur. Any product liability claims would require management attention and related costs, and would have a negative effect on the Company's operations and financial condition.

Risks Relating to the Financing of the Company

The Company has a history of net losses and limited cash flow to sustain operations.
The Company currently has limited revenue from product sales, and anticipates its planned research and development expenditures, as well as its general and administrative expenses, will be greater than its revenues for the foreseeable future. The Company has paid no dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The Company has historically relied upon the sale of common shares to help fund its operations and meet its obligations. Any future additional equity financing would cause dilution to current stockholders. If the Company does not

have sufficient capital for its operations, management would be forced to reduce or discontinue its activities which would have a negative effect on the Company's operations and financial condition.

The Company will require additional financing which could result in substantial dilution to existing shareholders.
The Company anticipates that it will need to sell additional common shares in order to raise funds required to meet its budgeted expenditures and obligations. The Company's ongoing research and development activities are dependent upon the Company's ability to obtain the required funds, which is expected to include the sale of common shares, as well as possible debt financings, joint-ventures, or other means. Such sources of financing may not be available on acceptable terms, if at all. Failure to obtain such financing may result in delay or indefinite postponement of research and development of the Company's current and any future products. Any transaction involving the issuance of previously authorized but unissued shares of common stock, or securities convertible into common stock, could result in dilution, possibly substantial, to present and prospective holders of common stock. These financings may be on terms less favorable to the Company than those obtained previously.

Risks Relating to an Investment in the Securities of the Company

The Company has a dependence upon key management employees, the loss or absence of which could have a negative effect on the Company's operations.
The Company strongly depends on the business and technical expertise of its management and key personnel, including President and Chief Executive Officer Frank Oakes, Chief Financial Officer Scott Davis, and Executive Vice-President Darrell Brookstein. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required. The Company may not be able to attract and retain additional qualified personnel and this would have a negative effect on the Company's operations.

The market for the Company's common stock has been subject to volume and price volatility which could negatively effect a shareholder's ability to buy or sell the Company's shares.
The market for the common shares of the Company may be highly volatile for reasons both related to the performance of the Company or events pertaining to the biopharmaceutical industry, as well as factors unrelated to the Company or its industry. During the fiscal year ended August 31, 2011, the price of our common shares on the TSX Venture Exchange ranged from a low of $0.31 to a high of $1.50. The Company's common shares can be expected to be subject to volatility in both price and volume arising from market expectations, announcements and press releases regarding the Company's business, and changes in estimates and evaluations by securities analysts or other events or factors. In recent years the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small-capitalization companies such as the Company, have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values, or prospects of such companies. For these reasons, the price of the Company's common shares can also be expected to be subject to volatility resulting from purely market forces over which the Company will have no control. Further, despite the existence of a market for trading the Company's common shares in Canada, stockholders of the Company may be unable to sell significant quantities of common shares in the public trading markets without a significant reduction in the price of the stock.

The Company could be deemed a passive foreign investment company which could have negative consequences for U.S. investors.
The Company could be classified as a Passive Foreign Investment Company ("PFIC") under the United States tax code. If the Company is declared a PFIC, then owners of the Company's Common Stock who are U.S. taxpayers generally will be required to treat any so-called "excess distribution" received on its common shares, or any gain realized upon a disposition of common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund ("QEF") election or a mark-to-market election with respect to the Company's shares. A U.S. taxpayer who makes a QEF election generally must report on a current basis its share of the Company's net capital gain and ordinary earnings for any year in which the Company is classified as a PFIC, whether or not the Company distributes any amounts to its shareholders.

Broker-Dealers may be discouraged from effecting transactions in our common shares because they are considered "Penny Stocks" and are subject to the Penny Stock Rules.
Rules 15g-1 through 15g-9 promulgated under the Securities Exchange Act of 1934, as amended, impose sales practice and disclosure requirements on FINRA broker-dealers who make a market in "a penny stock". A penny stock generally includes any equity security that has a market price of less than $5.00 per share that is not registered on certain national securities exchanges or quoted on the NASDAQ system. The additional sales practice and disclosure requirements imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our shares, which could severely limit the market liquidity of the shares and impede the sale of our shares in the secondary market.

Under the penny stock regulations, a broker-dealer selling penny stock to anyone other than an established customer or "accredited investor" (generally, an individual with net worth in excess of US$1,000,000 or an annual income exceeding US$200,000 in each of the last two years, or US$300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt.

In addition, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the US Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

As a "Foreign Private Issuer", the Company is exempt from the Section 14 Proxy Rules and Section 16 of the 1934 Securities Act.
The submission of proxy and annual meeting of shareholder information (prepared to Canadian standards) on Form 6-K may result in shareholders having less complete and timely data. In addition, the Company's officers, directors and principal shareholders are exempt from the short-swing insider disclosure and profit recovery provisions of Section 16 of the Exchange Act. The exemption from Section 16 rules regarding sales of common shares by insiders may result in shareholders having less data.

Item 4. Information on the Company

DESCRIPTION OF BUSINESS

Introduction

Stellar's operations and executive office is located at:
332 East Scott Street
Port Hueneme, CA 93041
Telephone: (805) 488-2147
Facsimile: (805) 488-1278
E-Mail: foakes@stellarbiotech.com or dbrookstein@stellarbiotech.com
Website: www.stellarbiotechnologies.com/

The Contact person in Port Hueneme is Frank Oakes, President and CEO, or Darrell Brookstein, Executive Vice-President, Development & Finance.

The Company also maintains a Canadian Regulatory Address located at:
1868 King George Blvd.
South Surrey, British Columbia, Canada
V4A 5A1
Telephone: (604) 306-8854
Facsimile: (604) 535-4454

The Company currently leases its executive offices in Port Hueneme for a term expiring in June 2014, with an option to extend for a further two years. The Company also leases three buildings in the Port Hueneme Aquaculture Business Park from the Port Hueneme Surplus Property Authority under sublease agreements which expire in September 2015 with an option to extend the lease for an additional five years.

The Company's common shares trade on the TSX Venture Exchange under the symbol "KLH".

The authorized share capital of the Company consists of an unlimited number common shares. As of August 31, 2011, the end of the most recent fiscal year, there were 41,611,832 common shares issued and outstanding.

Corporate Background

Stellar Biotechnologies, Inc. (or the “Company”) was incorporated on June 12, 2007 in Canada under the *Canada Business Corporations Act* under the name China Growth Capital Inc. The Company was originally classified as a Capital Pool Corporation ("CPC") and changed its name to CAG Capital Inc. ("CAG") on April 15, 2008. On November 25, 2009, the Company was continued into British Columbia under the *British Columbia Business Corporations Act*. On April 7, 2010, the Company changed its name to Stellar Biotechnologies Inc. and subsequently completed its qualifying transaction through a reverse merger transaction with Stellar Biotechnologies Inc. ("Stellar CA"), a corporation incorporated under the laws of the State of California on September 9, 1999.

The Company presently has one wholly owned subsidiary, Stellar Biotechnologies Inc. ("Stellar CA"), a corporation incorporated under the laws of the State of California on September 9, 1999.

Currently, the Company operates as a biotechnology research and production company involved in the production and marketing of Keyhole Limpet Hemocyanin ("KLH") as well as the development of new technology related to the culture and production of KLH and KLH subunit ("KLHsu") formulations.

History and Development of the Business

The Company was originally incorporated as a Capital Pool Company (“CPC”) under the policies of the TSX Venture Exchange, and began trading on the TSX Venture Exchange on August 29, 2008 under the symbol "CAG".

On April 12, 2010, the Company completed its qualifying transaction through the reverse merger with Stellar Biotechnologies Inc. ("Stellar CA"), a corporation incorporated under the laws of the State of California on September 9, 1999. Stellar CA was a private California-based biotechnology research and production company specializing in production of Keyhole Limpet Hemocyanin protein products for biomedical applications. Under the terms of the agreement, the Company issued 10,000,000 payment shares, at a deemed price of $0.28 per share, to the Stellar CA shareholders for a 100% interest in Stellar CA. In addition to the 10,000,000 payment shares, a further 10,000,000 performance shares were allotted for issuance to key individuals upon achievement of certain milestones in the development of the business. There was a dissenting shareholder of Stellar CA who did not exchange his shares for 1,661,241 shares of the Company. Therefore, the Company purchased those shares for $125,025, or approximately $0.075 per share, in order to cancel and return them to treasury.

The transaction with Stellar CA has been treated for accounting purposes as a recapitalization, with Stellar CA as the purchaser and parent company.

On September 9, 2010, the Company announced that it had filed for patent protection for its inventions related to its native immunogenic ("IMG") KLH technology platform and immune status monitoring product portfolio. Patent claims include pharmaceutical grade compositions of matter, processes for manufacture and methods of use in a wide range of therapies.

On September 13, 2010, the Company announced an important milestone with the Company's collaboration with Bayer Innovation GmbH ("BIG") had been reached. The development of Bayer's personalized idiotype vaccine for the treatment of Non-Hodgkin's Lymphoma, for which the Company supplies KLH, had entered Phase I clinical trials. Stellar received a milestone payment from BIG, and the parties expanded their development agreement. In December 2010, Stellar acquired an exclusive, irrevocable worldwide sub-licensable and royalty-free license to the technology developed through the collaborative agreement between the Company and BIG. The license included a carve-out by BIG to use the technology in the non-Hodgkin Lymphoma vaccine under development, but Stellar may exclusively commercialize the technology in other fields.

On September 30, 2010, the Company announced that it had received payment of $288,000 for a filled order of KLH/SUBUNIT from French biotechnology company Neovacs SA for its Phase IIa human trials of its KLH-based vaccine for rheumatoid arthritis, and its upcoming Phase I trial for Lupus.

In November 2010, the Company was awarded two grants under the Therapeutic Discovery Project Program administered by the United States Internal Revenue Service for a total grant award of $488,985. The grants provide supplemental funding for the company's diagnostic development of KLH/IMG platforms.

In January 2011, preclinical toxicity and immunogenicity testing of KLH/IMG and Subunit KLH were completed on non-rodent species. These early tests support new product ideas established by the Company, including possible development of new products for the Company's products, such as standardized, preclinical immunotoxicity diagnostic products.

In August 2011, the Company entered into a marketing and sales agreement with SAFC, a unit of Sigma Aldrich. Under the agreement, Stellar will produce KLH commercial intermediate and SAFC will sell, distribute and market high molecular weight keyhole limpet hemocyanin ("HMW KLH") for applications in therapeutic vaccines. The lead purchase order under the agreement was received in September 2011.

In August 2011, the National Science Foundation ("NSF") granted Stellar a Phase IIB SBIR award as a two-year extension to the Company's current SBIR Grant. The new award totals $498,560, and will allow full implementation of commercial scale aquaculture systems for KLH production, and development and deployment of a validated KLH-based immunogenicity assay.

In October 2011, the Company and Life Diagnostics, Inc. entered into an exclusive manufacturing and supply agreement. Stellar will supply Life Diagnostics KLH for the development and manufacturing of Stellar-brand KLH test kits for the detection of anti-KLH antibodies for use in the immunotoxicity and immunology research markets.

In December 2011, the Company announced the completion of a major expansion of its keyhole limpet hatchery factory in Port Hueneme. The new facility has a spawning capacity of 2 million larvae and is designed to produce 50,000 juvenile limpets per year for Stellar to support the increased demand for KLH products.

The Board of Directors adopted a Shareholder Rights Plan (the "Rights Plan") on December 13, 2011. The Rights Plan is subject to approval of the TSX Venture Exchange and the shareholders within 6 months of adoption. It is scheduled to be submitted to shareholders for ratification at the Annual General and Special Meeting scheduled for January 17, 2012.

Capital Expenditures

The Company's capital expenditures, which primarily consist of scientific, manufacturing, and aquaculture equipment, for the previous three fiscal years is as follows:

Fiscal Year	Capital Expenditures	Assets Acquired
2011	$ 309,782	Purchase of property, plant and equipment
2010	$ 88,877	Purchase of property, plant and equipment
2009	None	N/A

An expansion of the Company's keyhole limpet hatchery facility in Port Hueneme is currently underway. The expansion incorporates recent advances in aquaculture technology developed by the Company with grant support from the NSF. The expansion is designed to produce 50,000 juvenile limpets per year, and will increase the Company's future production capacity to in excess of 20,000 grams of KLH annually. The Company has budgeted a total of $660,000 for capital expenditures in fiscal 2012, with a large portion of the funds for the aquaculture expansion provided by the NSF Phase IIB SBIR award of $498,560 and the remainder provided by the Company's working capital.

Business Overview

Stellar Biotechnologies, Inc. was formed through a reverse merger transaction with Stellar Biotechnologies Inc. ("Stellar CA"), a corporation incorporated under the laws of the State of California on September 9, 1999. Stellar is a biotechnology research and production company involved in the production and marketing of Keyhole Limpet Hemocyanin ("KLH") as well as the development of new technology related to the culture and production of KLH and KLH subunit ("KLHsu") formulations. Stellar is the only company dedicated solely to developing and commercializing KLH. Pharmaceutical formulations of KLH typically sell for $5,000 to $200,000 per gram.

KLH is a potently immunogenic (i.e., a substance that induces an immune response) high-molecular-weight protein. It operates as a carrier molecule for vaccine antigens (substances that promote the generation of antibodies) against cancers and infectious agents. The combination of an antigen against specific tumor cell-types, conjugated to the Immunogenic ("IMG") KLH molecule, is the basis for a proven strategy for a new class of drugs known as therapeutic vaccines. Potent yet proven safe in humans, demand for KLH has driven by the development of KLH-based therapeutic vaccines for a wide variety of serious chronic diseases which are currently being developed and in clinical trials by over a dozen biopharmaceutical companies.

The Company’s goals and objectives are to execute its business strategy which includes:

1. Produce, maintain and develop keyhole limpets through key intellectual property (“IP”).

2. Continuously advance key IP to extract, purify and formulate KLH profitably, while increasing the number and maintaining the good health of the essential source animals.

3. Market and sell the Company’s formulations of KLH and use consistent efforts to expand markets, promote the use of KLH within the academic, research, pharmaceutical, biotech and medical diagnostic markets.

4. Alone and in partnership with others, develop and sell as many proprietary KLH-based products as possible for the medical diagnostic and therapeutic markets.

KLH has historically been produced from California giant keyhole limpets (Megathura crenulata) harvested from the rare wild populations in the coastal waters of the Pacific Ocean from central California to the northern Baja Peninsula, Mexico. Stellar has developed a dedicated aquaculture technology and captive hatchery-reared populations of M. crenulata for sustainable vaccine-grade KLH production. Through its leased facilities in Port Hueneme, California, the Company operates aquaculture, laboratory and production facilities to raise M. crenulata, and extract and purify the KLH proteins utilizing sophisticated and proprietary aquaculture methods and a patented non-lethal hemolymph extraction process. The Company contracts with specialized contract manufacturing organizations ("CMO's") and contract research organizations ("CRO's) for certain steps of cGMP processing and quality control testing.

Stellar has supply agreements in place to provide vaccine-grade KLH with two vaccine developers and is currently negotiating with several potential customers. In May 2011, the Company entered into a marketing and sales agreement with SAFC, a business unit of Sigma-Aldrich. Stellar will produce and provide KLH commercial intermediate to SAFC who will sell, distribute and market cGMP-grade HMW (high molecular weight keyhole limpet hemocyanin) KLH for use in therapeutic vaccines. In October 2011, the Company and Life Diagnostics, Inc. entered into an exclusive manufacturing and supply agreement. Stellar will supply Life Diagnostics KLH for the development and manufacturing of Stellar-brand KLH test kits for the detection of anti-KLH antibodies for use in the immunotoxicity and immunology research markets.

Keyhole Limpet and KLH Background

The Giant Keyhole Limpet is a large saltwater mollusk which lives in a limited range of the coastal areas of the eastern Pacific Ocean from central California to the northern Baja Peninsula, Mexico. Its shell can be up to 5 inches in length, but the body of mature limpets will often extend beyond the shell. Its diet is primarily seaweed and other vegetation. The Giant Keyhole Limpet is the only species of its type. Although never harvested by humans for food, it has been harvested in order to extract Keyhole Limpet Hemocyanin ("KLH"), a high-molecular weight protein in high demand from the biopharmaceutical industry. There is currently no regulated fishery of wild limpets to protect the limited population, and wild stocks are being depleted.

KLH is a potent immunogenic high-molecular-weight protein, which is a substance that naturally induces an immune response. It is derived from the limpet's hemolymph, a fluid in the mollusk circulatory system. Hemolymph contains hemocyanin, a copper-based protein which serves as the animal's oxygen transport molecule to its cells. Unlike iron-based hemoglobin, which serves as the oxygen transport molecule in humans and other vertebrates and turns red when oxygenated, hemocyanin turns blue when oxygenated. Keyhole Limpet Hemocyanin is an ideal carrier molecule for vaccine antigens (substances that promote the generation of antibody and cell-mediated immune responses) against cancers and infectious agents. The combination of an antigen against specific tumor cell-types, conjugated to the immunogenic KLH molecule, is the basis for a proven strategy for a new class of drugs known as therapeutic vaccines. KLH is potent yet safe in humans. Due to its exceptional size and unusual construction, KLH cannot be easily synthesized, and is more efficiently and cost-effectively prepared by purification from the hemolymph of the limpet.

Current Operations

Stellar specializes in the production of KLH protein purified from the hemolymph of the California giant keyhole limpet. Stellar produces its own supply of keyhole limpets through its own aquaculture operations and extracts the KLH protein using its own patented, non-harmful methods. The KLH is then purified utilizing the Company's proprietary methods. Currently, the Company's commercial operations are conducted at its own aquaculture production facility and hatchery, a controlled clean room environment aquaculture laboratory, and a manufacturing facility. Stellar currently produces KLH from limpets raised in the Company's own hatchery or harvested wild from the fishery under California Department of Fish and Game license. In the future, as a sustainable supply of limpets grown to maturity in the Company's aquaculture facility come on line for production, wild sources will be less necessary to meet demand. The Company currently offers several KLH products to the pharmaceutical and research industries, and is also developing new uses for its KLH, including diagnostic test kits.

The Company's operations are centered in several buildings and 37,000 square foot oceanfront leasehold facility within the Port Hueneme Aquaculture Business Park. The facility includes Stellar's corporate offices, as well as its aquaculture, laboratory and manufacturing operations.

Aquaculture

The Company's aquaculture operations are located on the Pacific Ocean within the Port Hueneme Harbor District, and was specially developed in the 1990's, with advice from Stellar CA's founders, for production and research on gastropod mollusks. The facility has been in near continuous operation since that time. The specialized aquaculture systems were designed and built to specifically support scalable commercial production of California giant keyhole limpets for pharmaceutical KLH uses with a fully permitted seawater supply system, recirculating seawater supply systems, environmental controls and regulated seawater return to the ocean. The site also contains a fabrication shop for production of specialized equipment and culture apparatus.

At present, the limpets used by the Company are derived from either its own aquaculture production facility or are harvested from the wild fishery under license from the State of California Department of Fish and Game. The culture cycle for commercially useful limpets is 4 to 5 years from the fertilized egg to the adult animal, with multiple complex larval and juvenile stages. Mature limpets can be extracted for KLH several times per year and, if properly maintained, the average extracted quantity of KLH per year per limpet is predictable and useful to create production targets that optimize the use of the physical plant.

Stellar's aquaculture operations are believed to be the world's only dedicated hatchery and captive reared giant keyhole limpet facility for KLH production. It utilizes proprietary methods for the reliable control of spawning, larval development, metamorphosis and grow-out of the limpets. All proprietary technologies for aquaculture production were developed by the Company and are protected as trade secrets. The production process includes feeding regimens and the recirculation of seawater optimized for limpet health and growth. Each closed recirculating system is equipped with temperature controlled seawater distribution, filtration and treatment equipment. The facility currently has 18 production tanks after a recent major expansion which incorporated significant advances in technology developed by the Company with support from monetary grants from the National Science Foundation. These advancements include methods for the control of the limpet reproductive cycle and systems for intensive propagation of the complex larval stages. The expansion increases the Company's future KLH production capacity to in excess of 20,000 grams of KLH annually.

In addition to the expansion of the Stellar's Port Hueneme aquaculture facility, the Company has negotiated a term sheet with a regional aquaculture producer for additional culture capacity to both increase hatchery production and to geographically diversify some of its keyhole limpet population. Studies required by the California Department of Fish and Wildlife to certify the Port Hueneme hatchery facility for transport and stocking of limpets

throughout California are now underway. The contracted expansion will allow for additional limpet production sooner than at the Port Hueneme facility alone.

KLH Uses

Mature limpets can be extracted for KLH several times per year as the hemolymph is extracted in a sterile, non-harmful manner utilizing the Company's patented methods. Once extracted, the hemolymph is processed through the Company's proprietary methods which are protected as trade secrets. The Company contracts with specialized contract manufacturing organizations and contract research organizations for certain steps of current good manufacturing practice ("cGMP") and quality control testing.

KLH is a highly potent T-cell dependent immunostimulatory protein and adjuvant. The molecule has an extensive history of safe and effective use in humans for vaccine development and immunological research. As an essential carrier protein for synthetic conjugate vaccines, KLH has proven to be superior at conferring antigenicity to a wide variety of molecular conjugates and has enabled a broad array of new vaccines and active immunotherapies. The benefits of KLH include:

- **Potent immune system stimulant.** KLH generates potent immune responses, from both the humoral (antibody) and cellular arms of the immune system, to virtually any molecule conjugated to it, and it recruits vigorous “T-cell help” for poorly immunogenic antigens such as polysaccharides.
- **Anti-tumor immune responses.** KLH can break the immune system’s tolerance to “self antigens,” thus allowing the body to mount an effective immune response against its own tumors. This ability to break immune tolerance may be extended to virtually any molecule in the body, enabling the development of vaccines with the potential to treat the growing list of diseases for which specific therapeutic targets have been identified.
- **Ease of conjugation.** A variety of conjugation chemistries can be used to couple virtually any carbohydrate, protein, or lipid molecule to KLH to produce an immunogenic conjugate.

- **High conjugation densities.** KLH’s large molecular weight and its many available conjugation sites allow the molecule to carry high densities of single or multivalent vaccine antigens. High-density KLH conjugates are effective at cross-linking antigen receptors on B-cells, thus inducing B-cell activation and antibody production.
- **Clinical efficacy and safety.** KLH has an outstanding safety record in humans, documented by thousands of clinical trial immunizations. No significant adverse side effects have been reported for KLH in human trials.

KLH also has diagnostic uses. It is widely used by pharmaceutical companies and researchers as a safe, immune-stimulating antigen in drug screening, drug toxicology and assessment of immune status. The benefits of KLH in diagnostic applications include:

- **Antibody Generation** - KLH is an effective carrier protein for poorly antigenic molecules in most species.
- **Immune Response Testing** - KLH is widely used as a neoantigen to assess functional primary immune response and immunocompetence in clinical settings involving immunosuppression such as transplantation and HIV infection. KLH is also used to monitor immune responses in patients receiving therapeutic cancer vaccines and other immunotherapies.
- **Immunotoxicology** - KLH immunization and ELISA testing of antibody response for immunotoxicity testing of new drugs. KLH's advantages include ease of use, greater reliability, and better standardization relative to SRBC assays.

Company Products and Development

The Company currently offers three KLH products:

- partially purified bulk KLH, sold as a pharmaceutical intermediate (ASP KLH);
- purified cGMP-grade subunit KLH (suKLH), sold for vaccine conjugation; and
- non-GMP grade SuKLH, sold as a research regent.

The cGMP suKLH formulation is supported by an FDA drug master file, which is an FDA regulatory file available for reference by the Company's pharmaceutical customers.

To date, the Company has supply contracts with two pharmaceutical companies to supply KLH for use in vaccines.

- Bayer Innovation GmbH ("BIG") has been using Stellar's KLH for BIG's development of vaccines for treatment of non-Hodgkin Lymphoma.

- Neovacs SA of Paris, France has been using Stellar's KLH as the critical carrier in several vaccine trials, including rheumatiod arthritis, Crohn's disease and Lupus.

In August 2011, the Company entered into a marketing and sales agreement with SAFC, a unit of Sigma Aldrich. Under the agreement, Stellar will produce KLH commercial intermediate and SAFC will sell, distribute and market high molecular weight keyhole limpet hemocyanin ("HMW KLH") for applications in therapeutic vaccines. Stellar will supply all aquaculture-derived KLH intermediate, and KLH will manufacture HMW KLH under cGMP conditions. SAFC will also provide cGMP clinical and commercial manufacturing of bioconjugation services to support the development and manufacture of conjugate vaccines. The lead purchase order under the agreement was received in September 2011.

Development

Stellar is continuing development of new products for its KLH formulations, including new proprietary KLH-based products as possible for the medical diagnostic and therapeutic markets. This work is being conducted both by the Company alone and in conjunction with development partners.

Stellar has been providing Bayer Innovation GmbH ("BIG") with KLH for BIG's development of vaccines for treatment of non-Hodgkin Lymphoma. In December 2010, Stellar acquired an exclusive, irrevocable worldwide sub-licensable and royalty-free license to the technology developed through the collaborative agreement between the Company and BIG. The license included a carve-out by BIG to use the technology in the non-Hodgkin Lymphoma vaccine under development, but Stellar may exclusively commercialize the technology in other fields. Stellar paid BIG $200,000 for the licensing rights, which will be jointed owned by both Stellar and BIG.

The Company has also been performing preclinical trials of Immunogenic KLH ("IMG/KLH") for human use. In May 2011, the Company completed a pre-investigational Device Exemption (pre-IDE) meeting with the United States Food and Drug Administration (FDA) Office of In Vitro Diagnostic Device Evaluation and Safety, Center for Devices and Radiological Health to discuss the Company's proposed anti-KLH assay currently in development. The FDA assisted Stellar in identifying and defining its strategy to complete the clinical development and regulatory pathway for the anti-KLH in vitro diagnostic device. The FDA encouraged Stellar to consider additional clinical investigation plans that may distinguish the clinical correlation of the assay results with measures of patient immune response.

In November 2010, the Company began developing a standardized immuno-toxicity diagnostic test for the pre-clinical market. The product is intended to be an Enzyme-linked immunosorbent assay ("ELISA") test kit for biochemistry assays using Stellar IMG/KLH. In October 2011, the Company and Life Diagnostics, Inc. entered into an exclusive manufacturing and supply agreement. Stellar will supply Life Diagnostics KLH for the development and manufacturing of Stellar-brand ELISA KLH test kits for the detection of anti-KLH antibodies for use in the immunotoxicity and immunology research markets. The kits are expected to be available to the research and clinical markets in early 2012.

Royalties and License Agreements

In August 2002, the Company entered into a royalty agreement with Frank Oakes, current Stellar President and CEO. Under the agreement, Mr. Oakes agreed to assign certain patent rights to the Company in exchange for 5% of gross receipts in excess of $500,000 annually from products using this invention. The Company's current operations utilize this invention. To date, the Company had paid no royalties under the agreement.

Under a license agreement with Bayer Innovation GmbH ("BIG"), Stellar acquired an exclusive, irrevocable worldwide sub-licensable and royalty-free license to the technology developed through the collaborative agreement between the Company and BIG. The license included a carve-out by BIG to use the technology in the non-Hodgkin Lymphoma vaccine under development, but Stellar may exclusively commercialize the technology in other fields. Stellar paid BIG $200,000 for the licensing rights, which will be jointed owned by both Stellar and BIG.

Patents

The Company has been awarded a United States patent for its non-lethal hemocyanin extraction methods, and has two provisional patents for its methods for purification of KLH.

Certain of the Company's proprietary operational methods are protected as trade secrets.

Government Regulations

The Company’s operations are subject to regulation at the local, State and Federal levels. These regulations include the Company’s aquaculture and harvesting activities, as well as drug research, development and sales.

New drug development

The research, development, marketing and sale of drugs is highly regulated and designed to demonstrate the safety and efficacy of pharmaceutical products. These regulations are administered primarily on the national level in the United States, Canada and internationally, and vary by jurisdiction. These regulatory requirements are a significant factor in determining if a drug can be developed and sold successfully and economically.

In order to receive approval for a new drug or vaccine, a Company must demonstrate to the applicable regulatory authority that the drug is safe and effective. This process requires successful pre-clinical laboratory testing, and then animal and human clinical trials, before application for approval is made to the regulatory authorities. In addition, the Company must submit details of each phase of testing to the appropriate regulatory authorities in order to receive approval to continue to the next phase.

After the successful completion of the laboratory testing and animal studies, human testing is conducted in three phases. Phase I is conducted on a small number of human subjects and is designed to test the safety of the drug, as well as access the drug's effects on the body. Phase II uses human subjects with the targeted disease or condition in order to establish efficacy and optimal dosages, as well as related safety information. Phase III trials have similar goals to Phase II trials, but are typically conducted on a much larger number of subjects and are also intended to compare the drug against current treatments.

After completion of the Phase III trials, application for marketing approval is submitted to the regulatory authorities. The application will include the results of all the testing and human trials, as well as information regarding processing, manufacturing and packaging. If approved, the drug is then authorized for sale.

The Company’s aquaculture operations are subject to laws and regulations covering clean water and waste discharge, as well as licenses for the harvesting of wild keyhole limpets for its operations. Currently, the Company is conducting certain studies required by the California Department of Fish and Game to certify the Port Hueneme facility for transport and stocking of limpets throughout the state of California, which the Company will use to geographically diversify its hatchery operations to additional facilities.

Item 5. Operating and Financial Review and Prospects

Overview

The Company's financial statements are stated in United States Dollars and are prepared in accordance with Canadian GAAP, the application of which, in the case of the Company, conforms in all material respects for the years presented with US GAAP, except as disclosed in Note 16 to the financial statements.

The Company has since inception primarily financed its activities through the issuance of equity as well as through government grant programs and limited commercial sales of its products. The Company anticipates having to raise additional funds by equity issuance in the next several years as current revenue is not sufficient to meet the Company's anticipated research, capital and administrative expenditures. The timing of such offerings is dependent upon the success of the Company’s exploration programs as well as the general economic climate.

Grants

Stellar has historically financed a portion of its operations through the receipt of monetary grants made available through programs funded and administered by various United States Government departments. The grants offer non-dilutive funding for research and development for projects that align directly with the Company's strategic goals.

These grants are intended to foster and promote research and innovation in important scientific and technological projects. The awards have various program funding periods. Phase I funding is typically for a period of six months, after which companies may apply for Phase II funding for an additional 24 months.

In the most recent three fiscal years, the Company has received the following grant funding:

- National Science Foundation (NSF) Small Business Innovation Research ("SBIR") grant through the Technology Enhancement for Commercial Partnerships ("TECR") program. The initial $99,000 award was granted in December 2010, and was supplemented with a Phase IIB award of $499,000 awarded in August 2011 for an additional 24 months. The project is entitled "Megathura Crenulata Post Larval Culture - Bottleneck for a Valuable Medical Resource". The purpose of the project is to allow for the full implementation of the commercial scale aquaculture systems for KLH production and development of a validated KLH-based immunogenicity assay.
- 2 grants under the Therapeutic Discovery Project Program administered by Internal Revenue Service awarded in November 2010. The grants are entitled "Diagnostic Immune Status Monitoring in Patients with Immunodeficiency" and "Enabling ICH-S8 Immunotoxicity Testing with Keyhole Limpet Hemocyanin". The grants together totaled $488,985 and will be used to provide supplemental funding for the Company's diagnostic development and Stellar KLH/IMG platforms.

- U.S. Department of Health and Human Services, National Institute of Health, National Cancer Institute SBIR Program. Grant entitled "Technology for Culture of Megathura Crenulata for KLH" awarded August 19, 2004 for $2,999,998, with a supplemental award on June 11, 2008 for $533,000.

Results of Operations

Year Ended August 31, 2011 vs. Year Ended August 31, 2010

During the year, the Company received payment for a filled order of KLH from Neovacs SA for its vaccines for use in human trials for rheumatoid arthritis and lupus, and received a milestone payment from BIG for the vaccine for Non-Hodgkin's Lymphoma. Stellar also acquired an exclusive license to the technology developed in the collaborative agreement with BIG. The Company also received a two-year extension to the Company's SBIR Grant totaling $498,560, an additional NSF Grant for $99,000, and two grants under the IRS Therapeutic Discovery Project Program for a total grant award of $488,985.

The net loss for the year was ($7,086,123), or ($0.19) per share, compared to the net loss of ($1,008,630), or ($0.04), in the fiscal year ended August 31, 2010. The higher net loss in the current year was primarily due to higher expenses related to the Company's increase in business activities, as well as higher stock-based compensation.

Revenue for the year totaled $697,187, including contract income of $60,000 from one customer for maintaining dedicated inventory, commercial sales of $18,988 and grant revenue of $618,199. Grant revenue increased by $373,062 over the prior year due to the award of the Internal Revenue Service therapeutic discovery grant. Cost of sales rose to $1,009,083 from $386,088, including grant costs of $595,686 and costs of biological assets of $311,411. There were no biological asset costs in the prior year, as the fiscal 2011 costs were due to production costs of a new subunit KLH product that is not yet saleable and allocated portion of limpet colony costs.

Expenses increased to $6,788,057 from $1,442,665 in the prior fiscal year. The increase in the Company's level of activity, including the hiring of additional personnel, resulted in higher expenses in several areas, including salaries, wages and benefits, which rose to $797,263 from $333,710; Research and development, which increased to $906,518 from $352,780; and general and administration, which rose to $747,883 from $276,111. Stock-based compensation expense totaled $4,007,116 compared to $340,122 in fiscal 2010. The difference was largely due to the issuance of 3,333,335 common shares to the individuals named in the Performance Share Plan for reaching the first performance share milestone. Allocation of costs to grant costs totaled $41,170 as a percentage of the Company's expenses related to work performed under the terms of federal grants are assigned against grant revenue.

Other income totaled $14,630 compared to $385,545 in the prior fiscal year. The largest component of the decline was one-time income for retirement of convertible debt of $230,964 in the prior year. Foreign exchange gain declined to $3,333 from $151,779 due to less favorable exchange rates, and interest income rose to $11,297 from $2,802 due to higher cash balances during fiscal 2011.

Year Ended August 31, 2010 vs. Year Ended August 31, 2009

During the year ended August 31, 2010, the Company completed the merger transaction with Stellar CA, which is considered the purchaser and parent company for accounting purposes.

The net loss for the year was ($1,008,630), or ($0.04) per share, compared to net income of $5,703, or $0.01 per share, in the fiscal year ended August 31, 2009. The net loss in the current year was primarily due to higher expenses related to the Company's increase in business activities as operations were expanded upon the closing of the merger agreement.

Revenue for the year totaled $854,837, including contract income of $60,000 from a customer for maintaining dedicated inventory and $250,000 from a customer under a research collaboration agreement, commercial sales of $299,700 and grant revenue of $245,137. Grant revenue decreased by $214,084 over the prior year due to timing of the award of grants. Cost of sales declined to $386,088 from $639,754, as grant costs fell to $243,233 from $532,317 as the Company had fewer grants in the current year.

Expenses increased to $1,442,665 from $263,493 in the prior fiscal year. The increase in the Company's level of activity, including the hiring of additional personnel and new research and development programs resulted in higher expenses in several areas, including salaries, wages and benefits, which rose to $333,710 from $175,028; research and development, which increased to $352,780 from $96,543; and general and administration, which rose to $276,111

from 105,914. Legal and professional services increased to $218,141 from $42,132 due to expenses related to the merger agreement. Stock-based compensation expense totaled $340,122 compared to $nil in fiscal 2009, as 2010 represented Stellar's first year as a public company and stock options were issued for the first time. The Company also recorded interest expense of $3,734 in fiscal 2010 related to a loan agreement, the proceeds from which were used to retire outstanding convertible debt. Allocation of costs to grant costs totaled $95,206 as a percentage of the Company's expenses related to work performed under the terms of federal grants are assigned against grant revenue.

Other income totaled $385,545 compared to $Nil in the prior fiscal year. The largest component of the increase was one-time income for retirement of convertible debt of $230,964 which represents the differences between the loan balances and the termination payment. Foreign exchange gain was $151,779 due to favorable exchange rates, and interest income totaled $2,802 from interest on cash balances.

Year Ended August 31, 2009 vs. Year Ended August 31, 2008

During the year ended August 31, 2009, the Company continued its research and development in KLH and KLH formulations as well as advancing its aquaculture operations.

The net income for the year ended August 31, 2009 was $5,703, or $0.01 per share, compared to a net loss of ($105,648), or ($0.20) per share, in the fiscal year ended August 31, 2008. The net income in the current year was due to lower cost of sales, primarily from lower grant costs, which declined to $532,317 from $1,043,915.

Revenue for the year totaled $909,750, including contract income of $310,000, commercial sales of $140,529 and grant revenue of $459,221. Grant revenue declined by $497,500 over the prior year due to timing of the award of grants. Cost of sales was $639,754 compared to $1,128,935, with the decrease primarily due to the lower grant costs.

Expenses increased to $263,493 from $156,094 in the prior fiscal year. The increase was due to higher business activity as reflected in several areas, including salaries, wages and benefits, which rose to $$175,028 from $103,620; and research and development, which increased to $96,543 from $80,050; and general and administration, which rose to $105,914 from $76,044. Allocation of costs to grant costs totaled $170,685 as a percentage of the Company's expenses related to work performed under the terms of federal grants are assigned against grant revenue.

Liquidity and Capital Resources

The Company's working capital position at August 31, 2011 was $4,061,980, including cash of $4,145,492. Management believes the current working capital, as well as anticipated revenue, is sufficient to meet the Company's contractual obligations and anticipated research and development expenditures in Fiscal 2011. However, additional funds will be required for future periods. The Company anticipates future public or private sales of its common stock. The timing of such offerings is dependent upon several factors, including the success of the Company's operational plans as well as the general economic climate and market conditions.

The Company has historically financed its operations through revenue, including grant income, as well as through the issuance of common shares. The following sales and issuances of common stock have been completed in the last 5 fiscal years.

Table No. 4
Common Share Issuances

Fiscal Year Ended August 31	Type of Share Issuance	Number of Common Shares Issued	Price	Gross Proceeds or Deemed Value
2012 to date	Exercise of Warrants	2,318,600	Various	US$830,719
2011	Private Placement	3,000,000	CDN$0.35	US$1,002,497
	Private Placement	6,213,000	CDN$0.60	US$3,695,784
	Issuance of Performance Shares	3,333,335	US$1.02	US$3,400,000
	Exercise of Warrants	2,148,805	Various	US$784,858
2010	Merger Agreement	16,027,401	N/A	N/A
	Private Placement	11,502,732	CDN$0.28	US$3,209,262
	Exercise of Warrants	222,500	Various	US$12,875
	Exercise of Agent Warrants	295,200	Various	US$28,133
2009	None	N/A	N/A	N/A
2008	None	N/A	N/A	N/A
2007	None	N/A	N/A	N/A

Fiscal Year Ended August 31, 2011

As of August 31, 2011, the Company's working capital position was $4,061,980 compared to working capital of $2,174,121 as of August 31, 2010. During the year, operating activities used cash of $2,616,542. Items not affecting cash included stock-based compensation of $4,007,116 related to the issuance of stock options and performance shares; amortization of $87,325; and foreign exchange gain of $3,333. Changes in non-cash working capital items include decrease in accounts receivable of $532,807, increase in prepaid expenses of $13,664, and decrease in accounts payable and accrued liabilities of $140,670.

Financing activities provided cash of $5,068,520. Proceeds from the exercise of warrants provided cash of $784,858, share subscription proceeds provided cash of $4,729,524, while share issuance costs used cash of $312,103. The repurchase of dissenting shareholder shares used cash of $125,025 as

the Company repurchased 1,661,241 common shares from a shareholder of Stellar CA in order to cancel them and return them to treasury. Payment of deposits used cash of $8,734.

Investing Activities used cash of $309,782, with the entire amount used for the acquisition of property, plant and equipment.

During the year, a total of 14,695,140 common shares were issued:

- In September 2010, the Company completed the private placement of 3,000,000 units at a price of CDN$0.35 for gross proceeds of $1,002,497 (CDN$1,050,000). Each unit consists of one common share and one-half of a share purchase warrant, with each full warrant exercisable into one common share at a price of CDN$0.50 on or before March 28, 2012. In addition, agent's options to acquire 210,000 units were issued on the same terms of the private placement and are exercisable at a price of CDN$0.35 on or before March 28, 2012. Share issuance costs of $96,958 were paid in relation to the placement.
- In November 2010, the Company completed the private placement of 6,213,000 units at a price of CDN$0.60 per unit for gross proceeds of $3,695,784 (CDN$3,727,800). Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of CDN$0.90 on or before November 14, 2011, and at CDN$1.15 per share if exercised from November 15, 2011 until on or before November 14, 2012. In addition, agent's options to acquire 345,600 units were issued under the same terms as the private placement and are exercisable at CDN$0.60 on or before November 14, 2012. Share issuance costs of $215,145 were paid in relation to the placement.
- 3,333,335 common shares were issued to officers, directors and employees pursuant to the Company's Performance Share Plan.
- 2,148,805 common shares were issued pursuant to the exercise of warrants for proceeds of $784,858.

The Company's cash totaled $4,145,492 at August 31, 2011 compared to cash of $2,003,296 as of August 31, 2010, an increase of $2,142,196 during the year.

Fiscal Year Ended August 31, 2010

As of August 31, 2010, the Company's' working capital position was $2,174,121 compared to working capital of $129,224 as of August 31, 2009. During the year, operating activities used cash of $732,227. Items not affecting cash include amortization of $13,273; stock based compensation of $340,122 related to the issuance of stock options to officers and directors; foreign exchange gain of $151,779; and retirement of convertible debt of $230,964 as the Company terminated a series of agreements with a customer and retired the related convertible debt obligation. Changes in non-working capital items included increase in accounts receivable of $283,794, increase in prepaid expenses of $21,497, and increase in accounts payable and accrued liabilities of $192,383.

Financing activities provided cash of $2,815,953. Proceeds from the exercise of warrants provided cash of $41,008 and share subscription proceeds provided cash of $3,209,262, while share issuance costs used cash of $340,665. Repayment of related party advancement used cash of $15,000, and payment of deferred salaries used cash of $100,500. During fiscal 2009, certain officers of the Company deferred salary until after the completion of the merger transaction. Repayment of convertible debt used cash of $35,000. The Company also recorded assets assumed on recapitalization of $56,848 which was the net assets acquired through the merger agreement between Stellar and Stellar CA.

Investing Activities used cash of $88,877, with the entire amount used for the acquisition of property, plant and equipment.

During the year, a net total of 26,386,592 common shares were issued:

- 16,027,401 common shares were issued under the merger agreement between Stellar and Stellar CA.
- In April 2010, the Company completed the private placement of 11,502,732 units at a price of CDN$0.28 per unit for gross proceeds of $3,209,262 (CDN$3,220,764). Each unit consists of one common share and one-half of a common share warrant, with each warrant exercisable into a common share at a price of CDN$0.40 on or before October 9, 2011. In addition, 35,000 units were issued to an agent under the same terms as the private placement. The Company also granted 1,208,165 agent warrants exercisable on or before October 9, 2011 at a price of CDN$0.28 and paid cash finder's fees of CDN$208,174.
- 222,500 common shares were issued pursuant to the exercise of warrants for proceeds of $12,875.
- 295,200 common shares were issued pursuant to the exercise of agent's warrants for proceeds of $28,133.

In addition to the share issuances above:

- 1,661,241 common shares were repurchased from a dissident shareholder of Stellar CA for $120,803. These shares were cancelled and returned to treasury.

The Company's cash totaled $2,003,296 as of August 31, 2010 compared to cash of $8,447 as of August 31, 2009, an increase of $1,994,849 during the year.

Fiscal Year Ended August 31, 2009

As of August 31, 2009, the Company's working capital position was $129,224 compared to working capital of $109,892 as of August 31, 2008. During the year, Operating activities used cash of $237,855, including net income of $5,703. Item not affecting cash was amortization of $14,561. Changes in non-cash working capital items included a decrease in accounts payable of $259,570, increase in prepaid expenses of $23,165, and increase in accounts payable and accrued liabilities of $24,616.

Financing activities provided cash of $136,208. Related party advances provided cash of $36,070 and deferral of salaries provided cash of $100,500, as certain officers deferred a portion of their salaries and advanced funds to the Company until after the completion of the merger transaction. Payment of deposits used cash of $362.

There were no investing activities during the fiscal year ended August 31, 2009.

No common shares were issued during the year.

The Company's cash totaled $8,447 as of August 31, 2009 compared to cash of $110,094 as of August 31, 2008, a decrease of $101,647 during the year.

Critical Accounting Policies and Estimates

Management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On a regular basis, management evaluates its estimates and assumptions. The estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form that basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with Canadian GAAP and include the accounts of the Company and its wholly-owned subsidiary Stellar CA. Intercompany balances and transactions are eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The Company has made estimates for allowance of doubtful accounts, amortization and impairment of property, plant and equipment and licensing rights, stock-based compensation, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities, and accrued liabilities for the years ended August 31, 2011, 2010 and 2009. Actual results could differ from these estimates.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings (loss) per common share is recognized from the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using inputs that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-compensation, the fair value of the Company's stock and the risk-free interest rate.

For directors and employees, the fair value of options is measured at the date of grant while for non-employees the fair value of options is measured at the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date of grant if the options are fully vested and non-forfeitable. The fair value of the options at the measurement date is accrued and charged to operations on a straight-line basis over the vesting period, with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on the straight-line method based on the following rates which approximate the useful life of the assets:

Aquaculture system	10-20%
Tools and equipment	20%
Leasehold improvements	10-14%
Laboratory	10-20%
Computer and office equipment	20%
Vehicles	20%

Maintenance and repairs are charged to operations as incurred.

Cash and Cash Equivalents

Cash equivalents consist of demand deposits with financial institutions, money market accounts, and highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

Future Income Taxes

Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and losses carried forward. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period of substantive enactment. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be realized, it provides a valuation allowance against the excess.

Financial Instruments - Recognition and Measurement

Financial assets and financial liabilities, including derivatives, are recognized on the balance sheet when the Company becomes a party to contractual provisions of the financial instrument or a derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the Company's income (loss) for the period. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized holding gains and losses including changes in foreign exchange rates being recognized in other comprehensive income ("OCI") upon adoption.

The Company has designated each of its significant categories of financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

The fair value of the Company's financial instruments is believed to equal the carrying amounts due to the short terms to maturity.

Fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The Company's fair value of cash and cash equivalents under the fair value hierarchy is measured using Level 1 inputs.

Long-lived Asset Impairment

Long-lived assets are reviewed when changes in events and circumstances suggest their carrying value has become impaired. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In any event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Biological Assets

Biological assets include an allocation of aquaculture and production costs for both limpet colonies and KLH products in process. The cost of such biological assets is recorded as a period expense until such time as it is probable that future economic benefits associated with the assets will flow to the Company. These costs are recorded as cost of sales and contracts or grant costs to the extent they relate to KLH sales, establishment and maintenance of dedicated limpet colonies under contract or KLH produced under grant programs. The remaining amounts are expensed as costs of biological assets.

Research and Development

The Company is involved in research and development. Research costs, including materials and salaries of employees directly involved in research efforts, are expensed as incurred. Development costs are expensed in the period incurred, unless they meet criteria to technical, market and financial feasibility, in which case they are deferred and amortized over the estimated life of related products. Research and development expenses are shown as a separate line item on the consolidated statements of income (loss), comprehensive income (loss), and deficit. As at August 31, 2011, 2010 and 2009, the Company had no deferred development costs.

Foreign Currency Translation

The Company's primary currency of measurement and reporting is the US dollar, its functional currency. Monetary assets and liabilities denominated in currencies other than the US dollar ("foreign currencies") are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the transaction date. Revenues and expenses, denominated in foreign currencies are translated in US dollars at transaction date rates with the exception of amortization which is translated at historical rates. Gains and losses arising from the translation of monetary assets and liabilities in foreign currencies are included in the results of operations.

Commercial Sales Revenue Recognition

The Company recognizes commercial sales revenue when KLH product is delivered assuming there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectability is reasonably assured. In limited circumstance, the Company retains ownership until the product is received and inspected by the customer; revenue is recognized upon satisfaction of these conditions. The Company documents arrangements with customers with purchase orders and sales agreements.

Commercial sales revenue includes sales made under supply agreements with customers for a fixed price per gram of KLH products based on quantities ordered, including those produced from the customer's dedicated limpet colonies. The supply agreements are on a non-exclusive basis except within that customer's field of use.

Grant Revenue Recognition

The Company has taken the income approach to recognizing grant revenue. The Company recognizes grant revenue when there is reasonable assurance that the Company will comply with the conditions attached, the benefits have been earned and it is reasonably assured of collection. An appropriate amount in respect to earned revenue will be recognized as revenue in the period that the Company is assured of fulfilling the grant requirements. Grant advances received prior to revenue recognition are recorded as deferred revenue.

Contract Revenue Recognition

Contract revenue is recognized when reasonable assurance exists regarding measurement and collectability. An appropriate amount in respect to earned revenue will be recognized as revenue in the period that the Company is assured of fulfilling the contract requirements.

Contract revenue is earned on both the initial set up fee for establishment of limpet colonies dedicated to meet the needs of the customer and monthly fees to maintain those dedicated limpet colonies. The Company also has the right to use raw material produced from dedicated limpet colonies at no cost with prior written consent.

Contract revenue is earned from research collaboration agreements whereby revenue is earned through sharing access to the Company's KLH manufacturing methods and analytical data as well as when certain project milestones are met. The customer and the Company will jointly own the rights to practice the resulting intellectual properties within specified fields of use.

Intangible Asset

An intangible asset is an asset, other than a financial asset, that lacks physical substance. The Company records intangible assets at its historical cost. The Company amortizes intangible assets over their useful life to the Company, unless the life is determined to be indefinite in which case no amortization is recorded until such time as the asset is no longer indefinite.

Recent Accounting Pronouncements

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations*; 1601 – *Consolidated Financial Statements;* and 1602 – *Non-Controlling Interests*. These sections replace the former CICA Handbook Sections 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections are the Canadian GAAP equivalent to IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements.*

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1692 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Management is in the process of evaluating the impact of these standards on the Company's financial statements.

Future accounting pronouncements

First Time Adoption of International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that effective on January 1, 2011, IFRS will replace Canadian GAAP as the basis for accounting for publicly accountable enterprises. The first period reported under IFRS by the Company will be the three month period ended November 30, 2011 and the Company's first fiscal year end date under IFRS will be the fiscal year ending August 31, 2012.

The change from Canadian GAAP to IFRS will be a significant undertaking and may have significant effects on the Company's accounting, internal controls, disclosure controls and financial statement presentation.

Design and Planning

The Company commenced transition plan development in September 2010. The Company has determined its preliminary IFRS policy decisions and significant expected accounting differences, based on an analysis of the current IFRS standards, and the following section outlines each of these. As the conversion work continues, additional differences between Canadian GAAP and IFRS may be identified. As a result, these accounting policy choices may change prior to the adoption of IFRS on September 1, 2011. Although the Company has identified key accounting policy differences, the impact of these differences to its financial statements has not been determined at this time. Decisions with respect to accounting policy changes, outlined below, may change once management has quantified and thoroughly analyzed the effects of such changes and has presented them for final review and approval by the Company's Audit Committee.

First-Time Adoption of IFRS (IFRS 1)

In the first year of transition to IFRS, a company is allowed to elect certain exceptions from IFRS in order not to apply each IFRS on a retrospective basis. IFRS 1 has certain mandatory exemptions as well as limited optional exemptions. Based on analysis to date, the Company expects to apply the following optional exemptions under IFRS 1 that will be significant in preparing the financial statements under IFRS:

Share-Based Payments
A company may elect not to apply IFRS 2 "Share-Based Payments" to equity instruments which vested before the transition date to IFRS. The Company will elect, on transition to IFRS, to apply the optional exemption such that equity instruments which vested prior to the transition date of September 1, 2010, will not be restated.

Accounting Policies
The Company has determined that the main impact of IFRS on the Company will involve a significant increase in note disclosure as well as certain presentation differences.

Financial Instruments

The accounting policy of the Company will be amended to:

- Include changes to impairments of financial assets and their possible reversal.
- Detail the conditions that need to be met for the designation of a financial instrument as “fair value through profit and loss”.

Impairment of Assets

The accounting policy of the Company will be amended to:

- Change the assessment method of whether impairment exists. The two step approach allowed under Canadian GAAP is not acceptable under IFRS. Therefore, the discounted cash flows are taken as an indication to determine impairment.

Share-Based Payments

Canadian GAAP allows certain policy choices in the calculation of stock based compensation. The Company currently amortizes grants in their entirety on a straight-line basis over the vesting term. IFRS standards require each tranche in the grant to be amortized over its respective vesting period. As a result of these changes, share-based compensation expense will be accelerated under IFRS. In addition, unvested options at August 31, 2011 will be re-valued under IFRS, with consequent adjustments to opening retained earnings.

This list should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight those areas we believe to be most significant; however, our analysis of possible changes is still in process and not all decisions have been made where choices of accounting policies are available. Until our adoption date is finalized, the Company is not able to reliably quantify the impacts expected on our consolidated financial statements for these differences.

Presentation and Disclosure

IFRS will require more in depth disclosure. The Company has taken the necessary steps to adjust the system requirements to ensure appropriate data collection for disclosure purposes.

Post Implementation

During this stage the Company will perform a review of the IFRS transition and ensure the preparation of financial statements in compliance with IFRS without external support.

The Company will stay informed on the upcoming changes to the IFRS based on the projects in place or to be initiated by the International Accounting Standards Board and will adjust its plan accordingly to include all key elements to ensure its compliance during 2011.

US GAAP Reconciliation with Canadian GAAP

Derivative Liability

US GAAP requires that share purchase warrants with an exercise price in a currency other than the Company’s functional currency requires them to be classified as long-term liabilities and measured at fair value with changes in fair value recognized in the consolidated statements of loss.

Research and Development Costs

Under Canadian GAAP, research and development costs are charged as an expense in the period incurred except in circumstances where the market and feasibility of the product have been established, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. US GAAP requires that these expenditures be expensed in the year incurred. The Company has not capitalized any development costs during the years ended August 31, 2011 and 2010.

Investment Tax Credits

Canadian GAAP requires that investment tax credits relating to development costs be accounted for as a reduction of development costs. US GAAP requires such amounts to be accounted for as a reduction of income tax expense. There is no impact on the US GAAP loss for the year as a result of this GAAP difference.

Capital Expenditures

The Company has budgeted $65,500 for capital expenditures for fiscal 2012

Research and Development

The Company's core business is developing and commercializing Keyhole Limpet Hemocyanin ("KLH") for use in medical and research products. The Company currently conducts research and development activities related to the aquaculture of keyhole limpets as well as the extraction and purification of KLH.

Research costs, including materials and salaries of employees directly involved in research efforts, are expensed as incurred. Development costs are expensed in the period incurred, unless they meet criteria to technical, market and financial feasibility, in which case they are deferred and amortized over the estimated life of related products. Research and development expenses are shown as a separate line item on the consolidated statements of income (loss), comprehensive income (loss), and deficit. As at August 31, 2011, 2010 and 2009, the Company had no deferred development costs.

The following table includes the Company's research and development costs for each of the most recent three fiscal years:

Fiscal Year	Research and Development Expense
2011	$ 906,518
2010	$ 352,780
2009	$ 96,543

Trend Information

The Company knows of no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's operations or financial condition.

Off-Balance Sheet Arrangements

The Company has no Off-Balance Sheet Arrangements.

Tabular Disclosure of Contractual Obligations

The Company leases three buildings and facilities in Port Hueneme, California under sublease agreements with the Port Hueneme Surplus Property Authority. On September 1, 2010, the Company exercised its option to extend the three buildings and facilities sublease agreement. The monthly base rents total $7,071 for a term of 5 years with rents adjusted by the Consumer Price Index every November 1st. The Company also leases office facilities through June 30, 2014. Rent is $5,126 per month with 3% cost of living increases per year.

The Company also has purchase order commitments for contract manufacturing organizations.

Table No. 5
Contractual Obligations
As of August 31, 2011

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Commitments	$ 533,529	$ 146,676	$ 287,859	$ 98,994	Nil
Purchase Order Commitments	$ 184,000	$ 184,000	Nil	Nil	Nil

Item 6. Directors, Senior Management and Employees

Table No. 6 lists as of December 12, 2011 the names of the Directors of the Company. The Directors have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting or until a successor is duly elected, unless the office is vacated in accordance with the Articles/By-Laws of the Company. All Directors are residents and citizens of the United States. Each director's term will expire at the next annual general meeting of shareholders to be held on January 17, 2012.

Table No. 6
Directors

Name	Age	Date First Elected/Appointed
Frank Oakes (1)	61	April 9, 2010
Darrell Brookstein	60	April 10, 2010
Daniel Morse, Ph.D	70	April 9, 2010
Malcolm Gefter, Ph.D	69	July 12, 2010
David Hill (1)	60	May 17, 2011
Harvey Wright (1)	76	April 9, 2010

(1) Member of Audit Committee.

Members of the audit committee meet periodically to approve and discuss the annual financial statements and each quarterly report before filing and mailing. The committee operates under a written charter as included in the Company's Management Information Circular dated December 17, 2011. Details of the charter are contained in Item 6, "Board Practices" below, and a copy of the Management Information Circular which contains the charter has been filed as an exhibit to this Registration Statement.

Table No. 7 lists, as of December 12, 2011, the names of the Executive Officers of the Company. The Executive Officers serve at the pleasure of the Board of Directors. All Executive Officers are residents and citizens of the United States except Scott Davis, who is a resident and citizen of Canada.

Table No. 7
Executive Officers

Name	Position	Age	Date of Appointment
Frank Oakes	President and CEO	61	April 9, 2010
Scott Davis	Chief Financial Officer	34	March 21, 2011
Darrell Brookstein	Executive Vice-President, Corporate Development and Finance	60	April 9, 2010

Frank R. Oakes is President and Chief Executive Officer and a Director. Mr. Oakes has 30 years of management experience in aquaculture including a decade as CEO of The Abalone Farm, Inc., during which he led that company through the R&D, capitalization, and commercialization phases of development to become the largest abalone producer in the United States. He is the inventor of the company's patented method for non-lethal extraction of hemolymph from the keyhole limpet. He is the Principal Investigator ("PI") on the company's current Small Business Innovation Research ("SBIR") grant from the National Science Foundation and was PI on the company's Phase I and II SBIR grants from the NIH's Center for Research Resources, and a California Technology Investment Partnership ("CalTIP") grant from the Department of Commerce. He has consulted and lectured for the aquaculture industry around the world. Frank received his Bachelor of Science degree from California State Polytechnic University, San Luis Obispo and is a graduate of the Los Angeles Regional Technology Alliance ("LARTA") University's management-training program. Mr. Oakes devotes 100% of his time to the Company's affairs.

Scott Davis is Chief Financial Officer, and is a partner of Cross Davis & Company LLP Certified General Accountants, a firm focused on providing accounting and management services for publicly-listed companies. His experience includes CFO positions of several companies listed on the TSX Venture Exchange, and his past experience consists of senior management positions, including three years at Appleby as an Assistant Financial Controller. Prior to that, he spent two years at Davidson & Company LLP Chartered Accountants as an Auditor, five years with Pacific Opportunity Capital Ltd. as an Accounting Manager, and two years at Jacobson Soda and Hosak, Chartered Accountants. Mr. Davis devotes approximately 10% of his time to the Company's affairs.

Daniel E. Morse, Ph.D. is currently a Director and served as Executive Vice-President, Science & Technology until December 31, 2011. He is also a member of the Company's Scientific Advisory Board. He is Professor of Molecular Genetics and Biochemistry at the University of California, Santa Barbara, and Director of the UCSB-MIT- Caltech Institute of Collaborative Biotechnologies. Dr. Morse is an internationally recognized expert in protein chemistry, molecular biology, molluscan reproductive biology, and aquaculture. Dr Morse's laboratory at the University of California, Santa Barbara is currently working under a seed grant from the Defense Advanced Research Projects Agency ("DARPA") to begin investigations into the fundamental disassociation & assembly dynamics of the company's KLH subunit product. Dr. Morse devotes approximately 30% of his time to the Company's affairs.

Darrell Brookstein is Executive VP, Corporate Development & Finance, and a Director. He was Managing Director of The Nanotech Company, LLC and a director of CAG Capital, Inc. He has founded and been CEO of multiple investment firms in diverse fields and has published books and newsletters on investing in cutting-edge technology and natural resource finance. He is a graduate of Duke University. Mr. Brookstein currently devotes 100% of his time to the Company's affairs.

Malcolm Gefter, Ph.D. is a Director and a member of the Company's Scientific Advisory Board. Dr. Gefter graduated from the University of Maryland with a B.Sc. in Chemistry in 1963 and a Ph.D. in Molecular Biology from Albert Einstein College of Medicine in 1967. He founded Praecis Pharmaceuticals Incorporated in 1989 and held the positions of Chairman of the Board (since 1994), Chief Executive Officer (since 1996) and President (since 1998) until his retirement in 2007. Praecis Pharmaceuticals Incorporated is a biopharmaceutical company focused on the discovery and development of novel compounds to address unmet medical needs or improve existing therapies focused on drug discovery technology, Dr. Gefter has been a professor of biology at the Massachusetts Institute of Technology and is now professor emeritus. He has authored more than 200 original scientific papers. Dr. Gefter was also a founder of ImmuLogic Pharmaceutical Corporation, and from 1987 to March 1997, served as Chairman of the Board of Directors at ImmuLogic. Dr. Gefter devotes approximately 10% of his time to the Company's affairs.

David L. Hill, Ph.D. is a Director and chairman of the Company's audit committee. He currently serves as Scientific Director for the ART Reproductive Center, Beverly Hills, California and is an Assistant Clinical Professor in the Dept. of Obstetrics and Gynecology at the David Geffen School of Medicine, University of California, Los Angeles, and a Research Assistant IV at Cedars-Sinai Medical Center, Los Angeles, California. Dr. Hill received his Ph.D. in Biological Sciences from the Department of Pathology, School of Life Sciences, University of Connecticut and completed a Postdoctoral Fellowship at the Dana Farber Cancer Institute through an appointment by the Department of Physiology and Biophysics, Harvard Medical School, Boston, Massachusetts. Dr. Hill currently devotes approximately 10% of his time to the Company's affairs.

Harvey Wright is a Director. Mr. Wright spent 28 years as a Nurse Anesthesiologist at St; John's Hospital in Jackson Hole WY where he rose to Chief of Anesthesiology, a position he held for 10 years. He was President of the Association of Nurse Anesthesiologists until he retired in 1994. In 1999, he was elected to the Hospital Board of Directors of St. John's Hospital. He has also served as a Director of Tactile Designs, Inc. Boise ID. Mr. Wright currently devotes approximately 10% of his time to the Company's affairs.

No Director and/or Executive Officer has been the subject of any order, judgment, or decree of any governmental agency or administrator or of any court or competent jurisdiction, revoking or suspending for cause any license, permit or other authority of such person or of any corporation of which he or she is a Director and/or Executive Officer, to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining or enjoining any such person or any corporation of which he or she is an officer or director from engaging in or continuing any conduct, practice, or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security or any aspect of the securities business or of theft or of any felony.

There are no arrangements or understandings between any two or more Directors or Executive Officers, pursuant to which he or she was selected as a Director or Executive Officer. No members of the Board of Directors are related.

Scientific Advisory Board

The Company has a Scientific Advisory Board ("SAB"). Each member has extensive industry experience, and provides consulting services to the Company as needed. The SAB currently consists of four members. In addition to Dr. Malcom Gefter Ph.D. and Dr. Daniel Morse, Ph.D., who also serve as a members of the Company's Board of Directors, the Company currently has two other members of the SAB as described below.

Andrew Saxon, M.D. is Chairman of the Scientific Advisory Board. Dr. Saxon received his medical degree from Harvard Medical School. He is board certified in Internal Medicine, Allergy and Clinical Immunology and Diagnostic/Laboratory Immunology. He has published over 180 peer reviewed research publications primarily dealing the control and assessment of the human immune response. Dr. Saxon and colleagues at UCLA were the first to recognize AIDS in 1980, brought this new disease to the attention of the CDC in 1981. As part of his work, Dr. Saxon has had extensive experience with the KLH in its various molecular forms. Dr. Saxon is also the Editor-in-Chief of Clinical Immunology. Dr. Saxon advises the Company on diagnostic and laboratory immunology, and meets with the Company's executives and senior staff on a regular basis.

Daniel C. Adelman, M.D. is Adjunct Professor at UC-San Francisco. He is Sr. VP, Development and Chief Medical Officer at Alvine Pharmaceuticals. Dr. Adelman was Sr. VP, Development and Chief Medical Officer at Sunesis Pharmaceuticals. He served at Pharmacyclics as VP, Clinical Operations and Biometrics and was a Clinical Scientist at Genentech. Dr. Adelman has been involved in all stages of pharmaceutical drug development and shared responsibility for the early development of Xolair and Avastin. He holds a BA in Biology from the University of California and an M.D. degree from the UC-Davis. He did post-doctoral training in Clinical Immunology and Allergy at UCLA. Dr. Adelman advises the Company on biometrics and clinical medicine, and meets with Company's executives and senior staff on a regular basis.

COMPENSATION

The Company had adopted a Compensation Policy for its Directors. Board members receive $6,000 annually, plus an additional $1,000 for each Board of Director's meeting attended in person, or $350 for each meeting attended by telephone. The Chairman of the Board of Directors receives an additional $4,000 annually. The Audit Committee Chairman receives an additional $5,000 annually, and Chairman of other Committees receives an additional $2,000 annually. Members of Committees receive an additional $1,000 annually, and will receive $350 for each committee meeting attended. Non-executive Directors will receive 25,000 to 50,000 stock options each year. Compensation may also be set for each director individually.

There are no director's service contracts providing for benefits upon termination of employment.

To assist the Company in compensating, attracting, retaining and motivating personnel, the Company grants incentive stock options under a formal Share Option Plan which was first approved by shareholders at the Annual General and Special Meeting of shareholders held on October 13, 2009 and subsequently amended as of December 13, 2011.

Table No. 8 sets forth the compensation paid to the Company's executive officers and members of its administrative body during the last three fiscal years.

Table No. 8
Summary Compensation Table
All Figures in Canadian Dollars unless otherwise noted

Name	Fiscal Year	Salary	Options Granted	Other Compensation
Frank Oakes	2011	$ 268,750	425,600	$ 19,494
President, CEO and Director (1)	2010	106,250	1,075,000	Nil
	2009	64,500	Nil	Nil
Scott Davis,	2011	N/A	Nil	$ 26,398
Chief Financial Officer (2)				
Darrell Brookstein,	2011	$ 208,250	376,000	$ 18,567
Executive Vice-President and Director (3)	2010	39,375	620,000	40,500
Daniel Morse,	2011	$ 50,000	120,500	$ 54,750
Director and former Chief Technology Officer,	2010	18,750	290,000	26,028
and Corporate Secretary (4)	2009	1,300	Nil	Nil
Malcolm Gefter,	2011	N/A	70,000	$ 16,999
Director (5)	2010	N/A	70,000	4,121

David Hill,	2011	N/A	25,000	$ 6,000
Director (6)				
Harvey Wright,	2011	N/A	Nil	$ 350
Director (7)	2010	N/A	50,000	Nil
Ben Catalano,	2011	N/A	Nil	$ 2,000
Former Director (8)	2010	N/A	100,000	Nil
Kerry Beamish,	2011	N/A	Nil	$ 10,620
Former Chief Financial Officer (9)	2010	N/A	Nil	6,841

(1) In fiscal 2011, salary for Frank Oakes in fiscal 2011 included base annual salary of $140,000 through December 31, 2010 and $250,000 thereafter, and a bonus of $60,000. "Other Compensation" includes $1,000 for Directors' fees and $18,494 for health insurance and contributions to a 401(k) Plan.
(2) "Other Compensation" for Scott Davis is for consulting fees paid for his service as Chief Financial Officer.
(3) In fiscal 2011, salary for Darrell Brookstein includes base annual salary of $135,000 through December 31, 2010 and $185,000 thereafter, and a bonus of $42,000. "Other Compensation" includes $1,000 for Directors' fees and $17,567 for health insurance and contributions to a 401(k) Plan. Fiscal 2010 payments total $40,500 in consultant fees.
(4) "Other Compensation" for Daniel Morse in fiscal 2011 includes $1,000 for Directors' fees and $53,750 for consultant fees. Fiscal 2010 payments total $26,028 in consultant fees.
(5) "Other Compensation" for Malcolm Gefter in fiscal 2011 includes $1,000 for Directors' fees and $15,999 for consultant fees. Fiscal 2010 payments total $4,121 in consultant fees.
(6) "Other Compensation" for David Hill in fiscal 2011 includes $1,000 for Directors' fees and $5,000 for consultant fees.
(7) "Other Compensation" for Harvey Wright in fiscal 2011 totals $350 for Directors' fees.
(8) "Other Compensation" for Ben Catalano in fiscal 2011 totals $2,000 for consultant fees.
(9) "Other Compensation" for Kerry Beamish is for consulting fees paid for his service as Chief Financial Officer.

The Company has established a formal 401(k) Plan to provide retirement benefits to eligible officers and employees. Employees may enter the Plan after they have been employed by the Company for 3 consecutive months. Stellar contributes a flat 3% of eligible compensation for each Plan participant at the end of the Plan Year.

Other than the funds contributed under the Company's 401(k) Plan, no other funds were set aside or accrued by the Company during Fiscal 2011 to provide pension, retirement or similar benefits for Directors or Executive Officers.

PERFORMANCE SHARE PLAN

Under the merger agreement between Stellar and Stellar CA, the Company allotted 10,000,000 common shares under a Performance Share Plan. The purpose of the Plan was to encourage the development of the Company's products and business by distributing shares to key management, employees, and consultants upon the meeting of certain milestones. These milestones are as follows:

1. Completion of method development for commercial-scale manufacture of IMG KLH with applicable good GMP as a pharmaceutical intermediate, evidenced by completion of three GMP lots meeting all quality and product release specifications required for stability studies and process

validation;

2. Compilation and regulatory submittal of all required CMC data compiled in CTD format and evidenced by filing as a DMF with the USFDA; and

3. Completion of preclinical toxicity and immunogenicity testing of IMG KLH and Subunit KLH in rodent and non-rodent species as evidenced by acceptance by study protocols and completion reports available to support customer United States FDA and EMEA filings.

As each milestone is met as determined by the Company's Board of Directors, one-third of the Performance Shares will be released to the Plan members. In January 2011, it was determined that the successful completion of preclinical toxicity and immunogenicity testing of Stellar KLH/IMG and Subunit KLH in rodent and non-rodent species completed the milestone number 3 above. Therefore, the first one-third of the Performance Shares totaling 3,333,335 common shares were issued to the Plan members on January 31, 2011. The name of the Plan members, the number of shares issued, and the balance of shares remaining under the Performance Plan are given below:

Table No. 9
Performance Shares

Plan Member	Total Performance Shares Reserved for Issuance (1)	Shares Issued January 31, 2011 (First Milestone)	Balance Reserved for Future Issuance
Frank R. Oakes	3,583,333	1,250,000	2,333,333
Darrell Brookstein	2,166,667	666,667	1,500,000
Daniel E. Morse, Ph.D.	2,000,000	666,667	1,333,333
Andrew Saxon	500,000	166,667	333,333
Rodrick Conde	100,000	33,333	66,667
Barndon Lincicum	100,000	33,333	66,667
Malcolm Gefter	200,000	66,667	133,333
John Sundsmo, Ph.D.	500,000	166,667	33,333
Catharine Brisson, Ph.D.	200,000	66,667	133,333
Herbert S. Chow, Ph.D.	500,000	166,667	333,333
Jan Haynes	150,000	50,000	100,000
Total	**10,000,000**	**3,333,335**	**6,666,665**

(1) Subsequent to the initial performance share allocations, 166,667 performance shares initially allocated to Frank R. Oakes for future distribution were reassigned to Darrell Brookstein.

Board Practices

The Board of Directors' mandate is to manage or supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company.

The Company's corporate governance practices are the responsibility of the Board, the members of which are elected by and are accountable to the shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day to day management of the Company. The Board and senior management consider good corporate governance to be central to the effective and efficient operation of the Company.

The Board is specifically responsible for approving long-term strategic plans and annual operating plans and budgets recommended by management. Board consideration and approval is also required for all material contracts, business transactions and all debt and equity financing proposals. The Board also takes responsibility for identifying the principal risks of the Company's business and for ensuring these risks are effectively monitored and mitigated to the extent reasonably practicable. In keeping with its overall responsibility for the stewardship of the Company, the Board is also responsible for the integrity of the Company's internal control and management information systems and for the Company's policies respecting corporate disclosure and communications.

The Board delegates to management, through the Chief Executive Officer and President, responsibility for meeting defined corporate objectives, implementing approved strategic and operating plans, carrying on the Company's business in the ordinary course, managing the Company's cash flow, evaluating new business opportunities, recruiting staff and complying with applicable regulatory requirements. The Board also looks to management to furnish recommendations respecting corporate objectives, long-term strategic plans and annual operating plans. The Board monitors the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board and committees.

The Board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience. When new directors are appointed, they receive orientation, commensurate with their previous experience, on the Company's business and on director responsibilities. Board members are encouraged to communicate with management, auditors and technical consultants; to keep themselves current with industry trends and developments and changes in legislation with management's assistance, and to attend related industry seminars and visit the Company's operations.

The Board as a whole has the responsibility of determining the compensation for the CEO and CFO and of determining compensation for directors and senior management. The CEO is prohibited from being present while compensation of the CEO is being determined.

To determine compensation payable, the directors review compensation paid to directors, CEO's and CFO's of companies of similar size and stage of development in similar industries and determine an appropriate compensation reflecting the need to provide incentive and compensation for the time and effort expended by the directors, CEO and CFO while taking into account the financial and other resources of the Company. In setting the compensation, the directors annually review the performance of the CEO and CFO in light of the Company's objectives and consider other factors that may have impacted the success of the Company in achieving its objectives.

The Board is currently composed of six directors: Frank R. Oakes, Darrell Brookstein, Daniel E. Morse, Malcolm Gefter, David L. Hill, and Harvey Wright. Of the current directors, Frank R. Oakes and Darrell Brookstein are officers, and Daniel E. Morse is a former officer, therefore are not considered "independent". Malcolm Gefter and David L. Hill are deemed to be not "independent" due to their receipt of consultant fees from the Company. Harvey Wright is considered an "independent" director.

The Board does not currently have an independent Chair and, at this stage of the Company's development, the Board does not feel it is necessary to have one to ensure that the Board can function independently of management, as sufficient guidance is found in the applicable corporate and securities legislation and regulatory policies. The non-management directors exercise their responsibilities for independent oversight of management, and are provided with leadership through their position on the Board and ability to meet independently of management whenever deemed necessary. In addition, each member of the Board understands that he is entitled to seek the advice of an independent expert if he reasonably considers it warranted under the circumstances.

Audit Committee

The Company's Audit Committee operates under a written charter which is reviewed by the Board of Directors on an annual basis. A copy of the current Audit Committee Charter has been filed as an exhibit to this Registration Statement.

The audit committee will assist the board of directors (the "Board") in fulfilling its financial oversight responsibilities. The audit committee will review and consider in consultation with the auditors the financial reporting process, the system of internal control and the audit process. In performing its duties, the audit committee will maintain effective working relationships with the Board, management, and the external auditors. To effectively perform his or her role, each audit committee member must obtain an understanding of the principal responsibilities of audit committee membership as well and the Company's business, operations and risks.

Composition

The Board will appoint from among their membership an audit committee after each annual general meeting of the shareholders of the Company. The audit committee will consist of a minimum of three directors.

A majority of the members of the audit committee must not be officers, employees or control persons of the Company. Each member of the audit committee must be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the committee. At least one member of the audit committee must have accounting or related financial management expertise. The Board shall interpret the qualifications of financial literacy and financial management expertise in its business judgment and shall conclude whether a director meets these qualifications

Meetings

The audit committee shall meet in accordance with a schedule established each year by the Board, and at other times that the audit committee may determine. The audit committee shall meet at least annually with the Company's Chief Financial Officer and external auditors in separate executive sessions.

Responsibilities

The audit committee has the following responsibilities:

External Audit

The audit committee shall be directly responsible for overseeing the work of the external auditors in preparing or issuing the auditor's report, including the resolution of disagreements between management and the external auditors regarding financial reporting and audit scope or procedures.

Internal Control

The audit committee shall consider whether adequate controls are in place over annual and interim financial reporting as well as controls over assets, transactions and the creation of obligations, commitments and liabilities of the Company.

Financial Reporting

The audit committee shall review the financial statements and financial information prior to its release to the public.

Release of Financial Information

Where reasonably possible, the audit committee will review and approve all public disclosure, including news releases, containing financial information, prior to its release to the public.

Non-Audit Services

All non-audit services (being services other than services rendered for the audit and review of the financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements) which are proposed to be provided by the external auditors to the Company or any subsidiary of the Company shall be subject to the prior approval of the audit committee.

Other Responsibilities

The audit committee shall:

(a) establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters;
(b) establish procedures for the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters;
(c) ensure that significant findings and recommendations made by management and external auditor are received and discussed on a timely basis;
(d) review the policies and procedures in effect for considering officers' expenses and perquisites;
(e) perform other oversight functions as requested by the Board; and
(f) review and update this Charter and receive approval of changes to this Charter from the Board.

Reporting Responsibilities

The audit committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
(b) set and pay the compensation for any advisors employed by the audit committee; and
(c) communicate directly with the internal and external auditors.

The audit committee shall regularly update the Board about audit committee activities and make appropriate recommendations.

The current Audit Committee members are David Hill (Committee Chair), Frank Oakes, and Harvey Wright.

Staffing

The Company currently has 16 employees and 4 executive officers. All employees are located at the Company's facilities in Port Hueneme, California. The employees are located in aquaculture, research, production, and office duties. In fiscal 2010, the Company had 12 employees.

Share Ownership

The Registrant is a publicly owned Canadian corporation, the shares of which are owned by U.S. residents, Canadian residents and other foreign residents. The Registrant is not controlled by another corporation as described below.

Table No. 10 lists, as of December 15, 2011, Directors and Executive Officers who beneficially own the Registrant's voting securities and the amount of the Registrant's voting securities owned by the Directors and Executive Officers as a group.

Table No. 10
Shareholdings of Directors and Executive Officers

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common	Frank R. Oakes (1)	5,724,683	12.68%
Common	Scott Davis	Nil	-
Common	Darrell Brookstein (2)	3,081,142	6.89%
Common	Daniel E. Morse (3)	1,585,260	3.58%
Common	Malcolm L. Gefter (4)	136,666	0.31%
Common	David L. Hill (5)	8,333	0.02%
Common	Harvey S. Wright (6)	155,000	0.35%
	Total Directors/Officers	**10,691,084**	**23.04%**

(1) Of this amount, 585,171 are common shares owned by Dorothy Oakes, Mr. Oakes' spouse, of which 263,327 are currently in escrow to be released over time.. 1,216,866 represent currently exercisable share purchase options. Of these common shares, 1,240,191 are currently in escrow.
(2) Of this amount, 1,352,000 are common shares and 60,000 are common share purchase warrants held by the Brookstein Family Trust, for which Darrell Brookstein serves as co-trustee. 745,333 represent currently exercisable stock options. Of these common shares, 179,164 are currently in escrow to be released over time.
(3) Of this amount, 330,166 represent currently exercisable stock options. Of these common shares, 264,792 are currently in escrow to be released over time.
(4) Of this amount, 69,999 represent currently exercisable stock options.
(5) Of this amount, 8,333 represent currently exercisable stock options.
(6) Of this amount, 50,000 represent currently exercisable stock options.

Based upon 43,930,432 common shares outstanding as of December 15, 2011, share purchase warrants and stock options held by each beneficial holder exercisable within sixty days as detailed in Table No. 13, “Stock Options Outstanding” below.

Item 7. Major Shareholders and Related Party Transactions

The Registrant is a publicly owned Canadian corporation, the shares of which are owned by U.S. residents, Canadian residents and other foreign residents. The Registrant is not controlled by another corporation as described below. The Company's common shares are issued in registered form and the following information is taken from the records of Computershare Investor Services, 510 Burrard Street, 2nd Floor
Vancouver, British Columbia V6C 3B9.

On November 30, 2011 the shareholders' list for the Company's common shares showed 20 registered shareholders, including depositories, and 43,930,432 common shares issued and outstanding. Of the total registered shareholders, 4 are resident in Canada holding 29,091,299 common shares, or 66.2% of the total issued and outstanding; 16 shareholders are resident in the United States holding 14,839,133% of the common shares, or 33.8% of the issued and outstanding, and there are no registered shareholders resident in other nations.

The Company is aware of three persons/companies who beneficially own 5% or more of the Registrant's voting securities. Table No. 11 lists as of December 15, 2011, persons and/or companies holding 5% or more beneficial interest in the Company’s outstanding common stock.

Table No. 11
5% or Greater Shareholders

Title of Class	Name of Owner	Amount and Nature of Beneficial Ownership	Percent of Class

Common	Ernesto Echavarria (1)	7,534,166	16.34%
Common	Frank R. Oakes (2)	5,724,683	12.68%
Common	Darrell Brookstein (3)	3,081,142	6.89%

(1) Of this total, 2,083,333 represent common stock purchase warrants.
(2) Of this amount, 585,171 are common shares owned by Dorothy Oakes, Mr. Oakes' spouse. 1,216,866 represent currently exercisable share purchase options.
(3) Of this amount, 1,352,000 are common shares and 60,000 are common shares purchase warrants held by the Brookstein Family Trust, for which Darrell Brookstein serves as co-trustee. 745,333 represent currently exercisable stock options.

Based upon 43,930,432 common shares outstanding as of December 15, 2011, share purchase warrants and stock options held by each beneficial holder exercisable within sixty days as detailed in Table No. 13, “Stock Options Outstanding” below.

No shareholders of the Company have different voting rights from any other shareholder.

RELATED PARTY TRANSACTIONS

During fiscal 2011, the Company paid $Nil (2010 - $40,500; 2009 - $Nil) to Darrell Brookstein, an officer and director, in consulting fees.

During fiscal 2011, the Company paid $26,398 (2010 - $Nil; 2009 - $Nil) in professional fees to Cross Davis & Company, an accounting firm for which Scott Davis, Chief Financial Officer, is a partner.

During fiscal 2011, the Company paid $10,620 (2010 - $6,841; 2009 - $Nil) in professional fees to K. Beamish & Associates Inc., an accounting firm controlled by Kerry Beamish, a former officer.

During fiscal 2011, the Company paid $53,750 (2010 - $26,028; 2009 - $Nil) to Daniel Morse, an officer and director, in consulting fees.

During fiscal 2011, the Company paid $15,999 (2010 - $4,121; 2009 - $Nil) to Malcolm Gefter, a director, in consulting fees.

During fiscal 2011, the Company paid $5,000 (2010 - $Nil; 2009 - $Nil) to David Hill, a director, in consulting fees.

During fiscal 2011, the Company paid $2,000 (2010 - $Nil; 2009 - $Nil) to Ben Catalano, a former director, in consulting fees.

During fiscal 2009, Frank Oakes, an officer and director, provided a loan of $15,000 to the Company in order to retire convertible notes payable. The Company repaid the loan during fiscal 2010.

During fiscal 2002, the Company entered into a royalty agreement with Frank Oakes, an officer and director. Under the agreement, Mr. Oakes assigned certain patent rights to the Company in exchange for 5% of gross receipts in excess of $500,000 annual from products using this invention. The Company's current operations utilize this invention. The royalties for the year ended August 31, 2011 were $Nil (2010 - $Nil; 2009 - $Nil).

As of August 31, 2011, the Company owed $26,034 (2010 - $15,750) to officers and directors for consulting fees and expense reimbursements.

Item 8. Financial Information

The financial statements as required under ITEM #18 are attached hereto and found immediately following the text of this Registration Statement. The audit report of D+H Group LLP, Chartered Accountants, is included herein immediately preceding the financial statements and schedules.

Change to International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The first period reported under IFRS by the Company will be the three month period ended November 30, 2011, and the Company's first fiscal year end date under IFRS will be the fiscal year ended August 31, 2012. Under the rules issued by the Securities and Exchange Commission, registrants are allowed to file their financial statements prepared under IFRS.

Current Legal Proceedings

On August 27, 2008, the Company was notified by the California Regional Water Quality Control Board ("CRWQCB") through a Notice of Violations that it could be subject to minimum statutory penalties for violations to its NPDES waste discharge permit dating from 2001. The Company contested this claim that it violated the terms of its waste discharge permit by written protest on the basis that the alleged violations were as a result of elevated constituent levels in the source water used in the Company's operations from a third party and not from Stellar's operations. The CRWQCB has issued a revised NPDES Waste Discharge Permit to the Company which includes "intake credits" for the elevated constituent levels. The Company filed its written response to the requested that any penalties, which could amount to up to $69,000, be waived. It is expected that the Company's request will be granted, but since filing its response, the Company has not received any additional response from the Agency.

Other than the CRWQCB issue discussed above, the Company knows of no material, active or pending, legal proceedings against them; nor is the Company involved as a plaintiff in any other material proceeding or pending litigation. The Company knows of no active or pending proceedings against anyone that might materially adversely affect an interest of the Company.

Dividends

The Company has not declared any dividends on its common shares since inceptions and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain future earnings, if any, for use in its operations and the expansion of its business.

Significant Changes to Financial Condition

Since August 31, 2011, the end of the most recent fiscal year, 2,318,600 common stock purchase warrants were exercised for gross proceeds of $830,719. There have been no other significant changes to the Company's financial position.

Item 9. Offer and Listing of Securities

As of August 31, 2011, the end of the Company's most recent fiscal year, the authorized capital of the Company consisted of an unlimited number of Common Shares without par value. There were 41,611,832 Common Shares outstanding as of August 31, 2011 and 43,930,432 Common Shares issued and outstanding as of December 15, 2011.

NATURE OF TRADING MARKET

The Company's common shares trade on the TSX Venture Exchange in Vancouver, British Columbia, Canada under the stock symbol is “KLH”. The CUSIP number is 85855A 10 4. The Company's common shares are not registered to trade in the United States in the form of American Depository Receipts (ADR's) or similar certificates.

Table No. 12 lists the volume of trading and high, low and closing sale prices on the TSX Venture Exchange for the Company's common shares for:

- each of the last six months ending November 30, 2011;
- each of the last nine fiscal quarters ending the three months ended November 30, 2011; and
- each of the last four fiscal years since the initiation of trading ending August 31, 2011.

The Company commenced trading on the TSX Venture Exchange under the name “CAG Capital Inc.” on Aug. 29, 2008. From June 18, 2009 until April 19, 2010, the Company’s shares were suspended from trading by the TSX Venture Exchange for review, approval and completion of the Company’s Qualifying Transaction as per exchange Capital Pool Company regulations.

Table No. 12
TSX Venture Exchange
Common Shares Trading Activity

	- Sales- Canadian Dollars		
Period	High	Low	Close
November 2011	$ 0.69	$ 0.365	$ 0.48
October 2011	$ 0.46	$ 0.29	$ 0.405
September 2011	$ 0.60	$ 0.35	$ 0.38
August 2011	$ 0.67	$ 0.465	$ 0.55
July 2011	$ 0.68	$ 0.50	$ 0.60
June 2011	$ 0.68	$ 0.50	$ 0.54
Three Months Ended 11/30/11	$ 0.69	$ 0.29	$ 0.48
Three Months Ended 8/31/11	$ 0.68	$ 0.465	$ 0.55
Three Months Ended 5/31/11	$ 1.09	$ 0.57	$ 0.67
Three Months Ended 2/28/11	$ 1.50	$ 0.98	$ 1.00
Three Months Ended 11/30/10	$ 1.19	$ 0.31	$ 1.10
Three Months Ended 8/31/10	$ 0.35	$ 0.20	$ 0.32
Three Months Ended 5/31/10	$ 0.40	$ 0.19	$ 0.245
Three Months Ended 2/28/10		Suspended from Trading	
Three Months Ended 11/30/09		Suspended from Trading	
Fiscal Year Ended 8/31/11	$ 1.50	$ 0.31	$ 0.55
Fiscal Year Ended 8/31/10	$ 1.19	$ 0.19	$ 0.32
Fiscal Year Ended 8/31/09	$ 0.24	$ 0.055	$ 0.11
Fiscal Year Ended 8/31/08		No Trades	

Current Trading Market

The Company's common stock is currently listed and trading on the TSX Venture Exchange (“TSX-V”).

The TSX-V was created through the acquisition of the Canadian Venture Exchange by the Toronto Stock Exchange. The Canadian Venture Exchange was a result of the merger between the Vancouver Stock Exchange and the Alberta Stock Exchange which took place on November 29, 1999. On August 1, 2001, the Toronto Stock Exchange completed its purchase of the Canadian Venture Exchange from its member firms and renamed the Exchange the TSX Venture Exchange. The TSX-V currently operates as a complementary but independent exchange from its parent.

The initial roster of the TSX-V was made up of venture companies previously listed on the Vancouver Stock Exchange or the Alberta Stock Exchange and later incorporated junior listings from the Toronto, Montreal and Winnipeg Stock Exchanges. The TSX-V is a venture market as compared to the TSX Exchange which is Canada’s senior market and the Montreal Exchange which is Canada’s market for derivatives products.

The TSX-V is a self-regulating organization owned and operated by the TSX Group. It is governed by representatives of its member firms and the public.

The TSX Group acts as a business link between TSX Venture Exchange members, listed companies and investors. TSX-V policies and procedures are designed to accommodate companies still in their formative stages and recognize those that are more established. Listings are predominately small and medium sized companies.

Regulation of the TSX Venture Exchange, its member firms and its listed companies is the responsibility of Investment Industry Regulatory Organization of Canada ("IIROC"). IIROC is a not-for-profit, independent Canadian self-regulatory organization that, among other things, oversees trading in exchanges and marketplaces.

IIROC administers, oversees and enforces the Universal Market Integrity Rules ("UMIR"). To ensure compliance with UMIR, IIROC monitors real-time trading operations and market-related activities of marketplaces and participants, and also enforces compliance with UMIR by investigating alleged rule violations and administering any settlements and hearings that may arise in respect of such violations.

Investors in Canada are protected by the Canadian Investor Protection Fund ("CIPF"). The CIPF is a private trust fund established to protect customers in the event of the insolvency of a member of any of the following Self-Regulatory Organizations: the TSX Venture Exchange, the Montreal Exchange, the TSX, the Toronto Futures Exchange and the IIROC.

Item 10. Additional Information

Share Capital

The Company has financed its operations through the issuance of common shares through private placements, the exercise of warrants issued in the private placements, and the exercise of stock options. The changes in the Company's share capital during the last 3 fiscal years are as follows:

No common shares were issued in the fiscal year ended August 31, 2009.

During the fiscal year ended August 31, 2010, a net total of 26,386,592 common shares were issued:

- 16,027,401 common shares were issued under the merger agreement between Stellar and Stellar CA.
- In April 2010, the Company completed the private placement of 11,502,732 units at a price of CDN$0.28 per unit for gross proceeds of $3,209,262 (CDN$3,220,764). Each unit consists of one common share and one-half of a common share warrant, with each warrant exercisable into a common share at a price of CDN$0.40 on or before October 9, 2011. In addition, 35,000 units were issued to an agent under the same terms as the private placement. The Company also granted 1,208,165 agent warrants exercisable on or before October 9, 2011 at a price of CDN$0.28 and paid cash finder's fees of CDN$208,174.
- 222,500 common shares were issued pursuant to the exercise of warrants for proceeds of $12,875.
- 295,200 common shares were issued pursuant to the exercise of agent's warrants for proceeds of $28,133.

In addition to the share issuances above:

- 1,661,241 common shares were repurchased from a dissident shareholder of Stellar CA for $120,803. These shares were cancelled and returned to treasury.

During the year ended August 31, 2011, a total of 14,695,140 common shares were issued:

- In September 2010, the Company completed the private placement of 3,000,000 units at a price of CDN$0.35 for gross proceeds of $1,002,497 (CDN$1,050,000). Each unit consists of one common share and one-half of a share purchase warrant, with each full warrant exercisable into one common share at a price of CDN$0.50 on or before March 28, 2012. In addition, agent's options to acquire 210,000 units were issued on the same terms of the private placement and are exercisable at a price of CDN$0.35 on or before March 28, 2012. Share issuance costs of $96,958 were paid in relation to the placement.
- In November 2010, the Company completed the private placement of 6,213,000 units at a price of CDN$0.60 per unit for gross proceeds of $3,695,784 (CDN$3,727,800). Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at a price of CDN$0.90 on or before November 14, 2011, and at CDN$1.15 per share if exercised from November 15, 2011 until on or before November 14, 2012. In addition, agent's options to acquire 345,600 units were issued under the same terms as the private placement and are exercisable at CDN$0.60 on or before November 14, 2012. Share issuance costs of $215,145 were paid in relation to the placement.
- 3,333,335 common shares were issued to officers, directors and employees pursuant to the Company's Performance Share Plan.
- 2,148,805 common shares were issued pursuant to the exercise of warrants for proceeds of $784,858.

During fiscal 2012 through December 15, 2011, 2,318,600 common shares were issued pursuant to the exercise of common stock purchase warrants for proceeds of $830,719.

Shares Issued for Assets Other Than Cash

During fiscal 2010, 16,027,401 common shares were issued under the merger agreement between Stellar and Stellar CA.

During fiscal 2011, a total of 3,333,335 common shares were issued to certain officers, employees, and consultants under the Company's Performance Share Plan.

Other than the common shares listed above, no common shares were issued for assets other than cash in the most recent three fiscal years.

ESCROW SHARES

Certain of the Company's common shares are subject to escrow agreements as follows:

Capital Pool Company (CPC) Escrow Agreement

Under an agreement between the Company and Computershare Investor Services as Escrow Agent dated April 29, 2011, 2,500,000 common shares held by insiders were held in escrow pursuant to the Company's original CPC listing agreement pursuant to the rules of the TSX Venture Exchange. Upon Exchange acceptance of the CPC Qualifying Transaction, the common shares are to be released under the following schedule:

Release Dates	Percentage of Total Escrowed Shares to be Released	Total Number of Escrowed Shares to be Released
Date of Final Exchange Bulletin	10%	250,000
6 months following Bulletin	1/6 of remaining escrow shares	375,000
12 months following Bulletin	1/5 of remaining escrow shares	375,000
18 months following Bulletin	1/4 of remaining escrow shares	375,000
24 months following Bulletin	1/3 of remaining escrow shares	375,000
30 months following Bulletin	1/2 of remaining escrow shares	375,000
36 months following Bulletin	all of remaining escrow shares	375,000

The final Exchange Bulletin was issued on April 16, 2010. As of December 15, 2011, 1,125,000 common shares remained in escrow under this agreement. Darrell Brookstein, current officer and director, had 625,000 common shares originally subject to the CPC escrow agreement. As of December 15, 2011, Mr. Brookstein had 93,750 remaining in escrow under the CPC Escrow Agreement.

Merger Escrow Agreement

Under a separate escrow agreement dated April 7, 2010 between the Company and Computershare Investor Services as Escrow Agent related to the merger agreement, 4,119,386 common shares owned by insiders (of the 10,000,000 issued to all shareholders of Stellar CA pursuant to the merger agreement) were held in escrow. Upon closing of the merger agreement, 10% of the common shares were released from escrow, with 15% released on every 6 month anniversary thereafter.

The insiders with common shares subject to the merger escrow agreement are as follows:

Name of Insider	Original Number of Shares Subject to Escrow	Current Number of Shares Remaining as of December 15, 2011
Frank R. Oakes	2,755,979	1,240,191
Daniel E. Morse	588,427	264,792
Dorothy Oakes	585,171	263,327
Darrell Brookstein	189,809	85,414
Total	4,119,386	1,853,724

Shares Held By Company

-No Disclosure Necessary-

Stock Options

Stock Options to purchase securities from Registrant can be granted to Officers, Directors, Employees and other Service Providers of the Company on terms and conditions acceptable to the regulatory authorities in Canada, notably the TSX Venture Exchange.

The Company has a Fixed Share Option Plan (the "Plan") which was approved by the Board of Directors on September 4, 2009, and as amended December 13, 2011. Under the Plan, stock options may be issued to qualified Officers, Directors, Employees and Consultants. The number of common shares reserved for issuance under the Plan is 8,785,000.

The exercise price of an option will be set by the Board at the time such option is allocated under the Plan, and cannot be less than the Discounted Market Price as assigned by the policies on the TSX Venture Exchange. Where the exercise price of the stock option is based on a discounted market price, a four month hold period will apply to all shares issued under each option, commencing from the date of grant.

An option granted under the Plan can be exercisable for a maximum of 10 years from the Effective Date. The exercise price of an option may be amended only if at least six months have elapsed since the later of the date of commencement of the term of the option, the date the common shares commenced trading on the TSX-V, and the date of the last amendment to the exercise price. An option must be outstanding for at least one year before the Company may extend its term. Unless otherwise determined by the Board of Directors, an option will terminate 365 days after an optionee ceases to be a director, officer, employee, or consultant of the Company or ceases to be employed to provide Investor Relations Activities to the Company. In the event of the death of an optionee, the option will only be exercisable within 12 months of such death but in any event no longer than the term of such option. All options are exercisable only by the Optionee to whom they are granted and will not be assignable or transferrable.

The Board of Directors has the discretion to set the vesting schedule for options granted. Currently, options granted under the Plan are subject to the following vesting schedule:

(a) One-third shall vest immediately;

(b) One-third shall vest 12 months from the Effective Date; and

(c) One-third shall vest 18 months from the Effective Date.

A copy of the Plan as amended dated December 13, 2011 has been filed as an exhibit to this 20-F Registration Statement.

The names and titles of the Directors/Executive Officers of the Registrant to whom outstanding stock options have been granted and the numbers of common shares subject to such options are set forth in Table No. 13 as of December 15, 2011, as well as the number of options granted to Directors and all employees as a group.

Table No. 13
Stock Options Outstanding

Name	Number of Options	Number of Options Currently Vested	CDN$ Exercise Price	Expiration Date
Frank R. Oakes	1,075,000	1,075,000	$0.28	April 9, 2017
President and CEO	425,600	141,866	0.65	August 8, 2018
Darrell H. Brookstein	620,000	620,000	$0.28	April 9, 2017
Executive Vice-President	376,000	125,333	0.65	August 8, 2018
Daniel Morse, Ph.D.	290,000	290,000	$0.28	April 9, 2017
Director	120,500	40,166	0.65	August 8, 2018
Malcolm Gefter, Ph.D.	70,000	46,666	$0.28	July 13, 2017
Director	70,000	23,333	0.65	August 8, 2018
David L. Hill, Ph.D.	25,000	8,333	$0.65	August 8, 2018
Director				
Harvey Wright	50,000	50,000	$0.28	April 9, 2017
Director				
Employees/Consultants	430,000	430,000	$0.28	April 9, 2017
	75,000	75,000	0.25	May 17, 2017
	70,000	46,666	0.28	June 17, 2017
	20,000	13,333	0.28	June 28, 2017
	70,000	46,666	0.64	October 25, 2017
	85,000	28,333	1.00	February 10, 2018
	70,000	23,333	1.00	March 8, 2018
	312,500	104,166	0.65	August 8, 2018
	5,000	1,666	0.50	September 26, 2018
Total Officers and Directors	**3,122,100**	**2,420,697**		
Total Employees/ Consultants	**1,137,500**	**769,163**		
Total Officers/Directors/ Employees and Consultants	4,259,600	3,189,860		

Common Stock Warrants

Table No. 12 lists, as of December 15, 2011, share purchase warrants outstanding, the exercise price, and the expiration date of the share purchase warrants.

Table No. 14
Share Purchase Warrants Outstanding

Number of Share Purchase Warrants Outstanding	Exercise Price/share	Expiration Date
1,500,000	CDN$0.50	March 28, 2012
210,000	CDN$0.35	March 28, 2012
6,213,000	CDN$1.15	November 14, 2012
345,600	CDN$0.60	November 14, 2012
TOTAL 8,268,600		

American Depository Receipts. Not applicable.
Other Securities to be Registered. Not applicable

Resolutions/Authorization/Approvals

-No Disclosure Necessary-

Memorandum and Articles of Association

Stellar Biotechnologies, Inc. was incorporated on June 12, 2007 in Canada under the *Canada Business Corporations Act* under the name China Growth Capital Inc. The Company was originally classified as a Capital Pool Corporation ("CPC") and changed its name to CAG Capital Inc. ("CAG") on April 15, 2008. On November 25, 2009, the Company was continued into British Columbia under the *British Columbia Business Corporations Act* (the "Act"). On April 7, 2010, the Company changed its name to Stellar Biotechnologies Inc. and completed its qualifying transaction through a reverse merger transaction with Stellar Biotechnologies Inc. ("Stellar CA"), a corporation incorporated under the laws of the State of California on September 9, 1999.

There are no restrictions on the business the company may carry on in the Articles of Incorporation.

Under the Company's articles any director or senior officer that has a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profits that accrue to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the Act. A director is not allowed to vote on any transaction or contract with the Company in which he has a disclosable interest unless all directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution. A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the Act.

Part 16 of the Company's articles address the duties of the directors, while Part 8 discusses the Borrowing Powers. The Company may, if authorized by the directors:

a) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

b) issue bonds, debentures, and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as the directors consider appropriate;

c) guarantee the repayment of money by any other person or the performance of any obligation of any other person;

d) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

There are no age limit requirements pertaining to the retirement or non-retirement of directors and a director need not be a shareholder of the Company. At every annual general meeting and in every unanimous resolution contemplated by Part 10.2 of the Articles:

a) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set under these Articles; and

b) all the directors cease to hold office immediately before the election or appointment of directors, but are eligible for re-election or re-appointment.

The directors are entitled to the remuneration for acting as directors, if any, as the directors may from time to time determine. If the directors so decide, the remuneration of the directors, if any, will be determined by shareholders. The Company must reimburse each director for the reasonable expenses that he or she may incur in and about the business of the Company.

No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason. If the director performs any processional or other service for the Company that is in the opinion of the directors are outside the ordinary duties of a director, he or she may be paid remuneration fixed by the directors, or at the option of the directors, fixed by ordinary resolution, and such remuneration will be in addition to any other remuneration that he or she may be entitled to receive.

Part 21 deals with indemnification and payment of expenses of eligible parties, which are defined as:

a) is or was a director, alternate director or officer in the Company;

b) is or was a director, alternate director or officer of another corporation

   (i) at a time when the corporation is or was an affiliate of the Company; or

   (ii) at the request of the Company; or

c) at the request of the Company, is or was, or holds or held a position equivalent to that of, a director, alternate director or officer of a partnership, trust, joint venture or other unincorporated entity;

and includes, except in the definition of "eligible proceeding" and under the Act, the heirs and personal or other legal representatives of that individual.

Subject to the Act, the Company must indemnify each eligible party and the heirs and legal personal representatives of each eligible party against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Subject to any restrictions in the Act, the Company may agree to indemnify and may indemnify any person (including an eligible party) against all eligible penalties and pay expenses incurred in connection with the performance of services by that person for the Company. Subject to the Act, the failure of any eligible party of the Company to comply with the Act or the Company Articles or, if applicable, any former *Companies Act* or former Articles does not, of itself, invalidate any indemnity to which he or she is entitled under this Part 21.

The majority required for the passage of a special resolution or a special separate resolution shall be 2/3 of the votes cast on the resolution.

The rights, preferences and restrictions attaching to each class of the Company's shares are as follows:

The authorized share structure of the Company consists of an unlimited number of common shares without par value. Holders of common stock are entitled to one vote for each share held of record on all matters to be acted upon by the shareholders. Directors may from time to time declare and authorize payment of such dividends, if any, as they deem advisable and need not give notice of such declaration to any shareholder.

Subject to the Act, the Company may by ordinary resolution (or a resolution of the directors in the case of Part 9.1(c) or 9.1(f):

(a) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares;

(b) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established;

(c) subdivide or consolidate all or any of its unissued, or full paid issued, shares;

(d) if the Company is authorized to issue shares of a class of shares with par value:

(i) decrease the par value of those shares; or

(ii) if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;

(e) change all or any of the unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued without par value into shares with par value;

(f) alter the identifying name of any of its shares; or

(g) otherwise alter its shares or authorized share structure when required or permitted to do so by the Act where it does not specify by a special resolution;

and, if applicable, alter its Notice of Articles and Articles accordingly.

The Company may by resolution of the directors authorize an alteration to its Notice of Articles in order to change its name or change any translation of that name.

The Company may at any time pay a reasonable commission or allow a reasonable discount to any person in consideration of that person's purchase or agreement to purchase shares of the Company from the Company or any other person's procurement or agreement to procure purchasers for shares of the Company. The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

An annual general meeting shall be held once every calendar year at such time (not being more than 15 months after the annual reference date for the preceding calendar year) at such time and place as may be determined by the Directors. The Directors may, at any time, call a meeting of shareholders.

There are no limitations upon the rights to own securities.

There are no provisions that would have the effect of delaying, deferring, or preventing a change in control of the Company.

There is no special ownership threshold above which an ownership position must be disclosed.

A copy of the Company's Articles has been filed as an exhibit to this 20-F Registration Statement.

Shareholder Rights Plan

The Board of Directors adopted a Shareholder Rights Plan (the "Rights Plan") on December 13, 2011. The Rights Plan is subject to approval of the TSX Venture Exchange and the shareholders within 6 months of adoption. It is scheduled to be submitted to shareholders for ratification at the Annual General and Special Meeting scheduled for January 17, 2012.

The Rights Plan is intended to provide for the fair treatment of Shareholders in connection with any take-over bid for the Company and is designed to provide the Board and the Shareholders with more time to fully consider any unsolicited take-over bid for the Company without undue pressure. Furthermore, the Rights Plan will allow the Board to pursue, if appropriate, other alternatives to maximize shareholder value and to allow additional time for competing bids to emerge.

Purpose of the Plan

The objectives of the Rights Plan are to ensure, to the extent possible, that all Shareholders are treated equally and fairly in connection with any take-over bid for the Company. Take-over bids may be structured to be coercive or may be initiated at a time when the Board will have a difficult time preparing an adequate response to the offer. Accordingly, such offers do not always result in Shareholders receiving equal or fair treatment or full or maximum value for their investment. Under current Canadian securities legislation, a take-over bid is required to remain open for 35 days, a period of time which may be insufficient for the directors to:

(i) evaluate a take-over bid (particularly if it includes share or trust unit consideration);
(ii) explore, develop and pursue alternatives which are superior to the take-over bid and which could maximize Shareholder value; and
(iii) make reasoned recommendations to the Shareholders.

The Rights Plan discourages discriminatory, coercive or unfair take-overs of the Company and gives the Board time if, under the circumstances, the Board determines it is appropriate to take such time, to pursue alternatives to maximize Shareholder value in the event an unsolicited take-over bid is made for all or a portion of the outstanding Common Shares. As set forth below, the Rights Plan discourages coercive hostile take-over bids by creating the potential that any Common Shares which may be acquired or held by such a bidder will be significantly diluted. The potential for significant dilution to the holdings of such a bidder can occur as the Rights Plan provides that all holders of Common Shares who are not related to the bidder will be entitled to exercise rights issued to them under the Rights Plan and to acquire Common Shares at a substantial discount to prevailing market prices. The bidder or the persons related to the bidder will not be entitled to exercise any Rights (defined below) under the Rights Plan. Accordingly, the Rights Plan will encourage potential bidders to make take-over bids by means of a Permitted Bid (as defined below) or to approach the Board to negotiate a mutually

acceptable transaction. The Permitted Bid provisions of the Rights Plan are designed to ensure that in any take-over bid for outstanding Common Shares of the Shareholders, all Shareholders are treated equally and are given adequate time to properly assess such take-over bid on a fully informed basis.

The Rights Plan is not being proposed to prevent a take-over of the Company, to secure the continuance of management or the directors of the Company in their respective offices or to deter fair offers for the Common Shares.

Term
Provided the Rights Plan is approved at the Annual General and Special Meeting scheduled for January 17, 2012, the Rights Plan (unless terminated earlier) will remain in effect until the close of business on the day immediately following the date of the Company's annual meeting of Shareholders in 2014 unless the term of the Rights Plan is extended beyond such date by resolution of Shareholders at such meeting.

Issuance of Rights
The Rights Plan provides that one right (a "Right") will be issued by the Company pursuant to the Rights Plan in respect of each Voting Share outstanding as of the close of business (Vancouver time) (the "Record Time") on the Effective Date. "Voting Shares" include the Common Shares and any other shares of the Company entitled to vote generally in the election of all directors. One Right will also be issued for each additional Voting Share issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time, subject to the earlier termination or expiration of the Rights as set out in the Rights Plan. As of the Effective Date, the only Voting Shares outstanding will be the Common Shares. The issuance of the Rights is not dilutive and will not affect reported earnings or cash flow per Common Share until the Rights separate from the underlying Common Shares and become exercisable or until the exercise of the Rights. The issuance of the Rights will not change the manner in which Shareholders trade their Common Shares.

Certificates and Transferability
Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for Common Shares issued after the Record Time. Rights are also attached to Common Shares outstanding on the Effective Date, although share certificates issued prior to the Effective Date will not bear such a legend. Shareholders are not required to return their certificates in order to have the benefit of the Rights. Prior to the Separation Time, Rights will trade together with the Common Shares and will not be exercisable or transferable separately from the Common Shares. From and after the Separation Time, the Rights will become exercisable, will be evidenced by Rights Certificates and will be transferable separately from the Common Shares.

Separation of Rights
The Rights will become exercisable and begin to trade separately from the associated Common Shares at the "Separation Time" which is generally (subject to the ability of the Board to defer the Separation Time) the close of business on the tenth trading day after the earliest to occur of:

1. the first date of public announcement that a person or group of affiliated or associated persons or persons acting jointly or in concert has become an "Acquiring Person", meaning that such person or group has a "Permitted Bid" or a "Competing Permitted Bid" (as defined below); (i) acquisitions of Voting Shares in respect of which the Board has waived the application of the Rights Plan; or (ii) other specified exempt acquisitions and pro rata acquisitions in which shareholders participate on a *pro rata* basis;

2. the date of commencement of, or the first public announcement of an intention of any person (other than the Company or any of its subsidiaries) to commence a take-over bid (other than a Permitted Bid or a Competing Permitted Bid) where the Voting Shares subject to the bid owned by that person (including affiliates, associates and others acting jointly or in concert therewith) would constitute 20% or more of the outstanding Voting Shares; and

3. the date upon which a Permitted Bid or Competing Permitted Bid ceases to qualify as such.

Promptly following the Separation Time, separate certificates evidencing rights ("Rights Certificates") will be mailed to the holders of record of the Voting Shares as of the Separation Time and the Rights Certificates alone will evidence the Rights.

Rights Exercise Privilege
After the Separation Time, each Right entitles the holder thereof to purchase one Common Share at an initial "Exercise Price" equal to three times the "Market Price" at the Separation Time. The Market Price is defined as the average of the daily closing prices per share of such securities on each of the 20 consecutive trading days through and including the trading day immediately preceding the Separation Time. Following a transaction which results in a person become an Acquiring Person (a "Flip-In Event"), the Rights entitle the holder thereof to receive, upon exercise, such number of Common Shares which have an aggregate Market Price (as of the date of the Flip-In Event) equal to twice the then Exercise Price of the Rights for an amount in cash equal to the Exercise Price. In such event, however, any Rights beneficially owned by an Acquiring Person (including affiliates, associates and other acting jointly or in concert therewith), or a transferee of any such person, will be null and void. A Flip-In Event does not include acquisitions approved by the Board or acquisitions pursuant to a Permitted Bid or Competing Permitted Bid.

Permitted Bid Requirements
A bidder can make a take-over bid and acquire Voting Shares without triggering a Flip-In Event under the Rights Plan if the take-over bid qualifies as a Permitted Bid.

The requirements of a "Permitted Bid" include the following:

- the take-over bid must be made by means of a take-over bid circular;
- the take-over bid is made to all holders of Voting Shares on the books of the Company, other than the offeror;
- no Voting Shares are taken up or paid for pursuant to the take-over bid unless more than 50% of the Voting Shares held by Independent Shareholders: (i) shall have been deposited or tendered pursuant to the take-over bid and not withdrawn; and (ii) have previously been or are taken up at the same time;
- no Voting Shares are taken up or paid for pursuant to the take-over bid prior to the close of business on the date that is no earlier than the later of: (i) 35 days after the date of the take-over bid (the minimum period required under securities law); and (ii) 60 days following the date of the take-over bid;
-

Voting Shares may be deposited pursuant to such take-over bid at any time during the period of time between the date of the take-over bid and the date on which Voting Shares may be taken up and paid for and any Voting Shares deposited pursuant to the take-over bid may be withdrawn until taken up and paid for; and

if on the date on which Voting Shares may be taken up and paid for under the take-over bid, more than 50% of the Voting Shares held by Independent Shareholders have been deposited or tendered pursuant to the take-over bid and not withdrawn, the offeror makes a public announcement of that fact and the take-over bid is extended to remain open for deposits and tenders of Voting Shares for not less than 10 business days from the date of such public announcement.

The Rights Plan also allows for a Competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all of the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days (the minimum period required under Canadian securities laws).

Permitted Lock-Up Agreements

A person will not become an Acquiring Person by virtue of having entered into an agreement (a "Permitted Lock-Up Agreement") with a Shareholder whereby the Shareholder agrees to deposit or tender Voting Shares to a take-over bid (the "Lock-Up Bid") made by such person, provided that the agreement meets certain requirements including:

1. the terms of the agreement are publicly disclosed and a copy of the agreement is publicly available not later than the date of the Lock-Up Bid or, if the Lock-Up Bid has not been made prior to the date on which such agreement is entered into, not later than the date of such agreement;

2. the Shareholder who has agreed to tender Voting Shares to the Lock-Up Bid made by the other party to the agreement is permitted to terminate its obligation under the agreement, and to terminate any obligation with respect to the voting of such Voting Shares, in order to tender Voting Shares to another take-over bid or transaction where: (i) the offer price or value of the consideration payable under the other take-over bid or transaction is greater than the price or value of the consideration per unit at which the Shareholder has agreed to deposit or tender Voting Shares to the Lock-Up Bid, or is greater than a specified minimum which is not more than 7% higher than the price or value of the consideration per unit at which the Shareholder has agreed to deposit or tender Voting Shares under the Lock-Up Bid; and (ii) if the number of Voting Shares offered to be purchased under the Lock-Up Bid is less than all of the Voting Shares held by Shareholders (excluding Voting Shares held by the offeror), the other take-over bid or transaction would, if successful, result in all of the Shareholder's Voting Shares being purchased under the other take-over bid or transaction;

3. no break-up fees, top-up fees, or other penalties that exceed in the aggregate the greater of 2.5% of the price or value of the consideration payable under the Lock-Up Bid and 50% of the increase in consideration resulting from another take-over bid or transaction shall be payable by the Shareholder if the Shareholder fails to deposit or tender Voting Shares to the Lock-Up Bid; and

4. any right to match a period of delay to give the person who made the Lock-up Bid an opportunity to match a higher price contained in another take-over bid or transaction, or other similar limitation on a Shareholder's right to withdraw Voting Shares from the agreement, must not preclude the Shareholder from withdrawing Voting Shares from the Lock-up Bid in order to tender Voting Shares to another take-over bid or to support another transaction that in either case will provide greater value to the Shareholder than the Lock-up Bid or which would result in all of the Shareholder's Voting Shares being purchased.

Waiver and Redemption

If a potential offeror does not desire to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the Board to make a take-over bid by way of a take-over bid circular sent to all holders of Voting Shares on terms which the Board considers fair to all Shareholders. In such circumstances, the Board may waive the application of the Rights Plan thereby allowing such bid to proceed without dilution to the offeror. Any waiver of the application of the Rights Plan in respect of a particular take-over bid shall also constitute a waiver of any other take-over bid which is made by means of a take-over bid circular to all holders of Voting Shares while the initial take-over bid is outstanding. The Board may also waive the application of the Rights Plan in respect of a particular Flip-in Event that has occurred through inadvertence. With the prior consent of the holders of Voting Shares, the Board may, prior to the occurrence of a Flip-in Event that would occur by reason of an acquisition of Voting Shares otherwise than pursuant to the foregoing, waive the application of the Rights Plan to such Flip-in Event.

The Board may, with the prior consent of the holders of Voting Shares, at any time prior to the occurrence of a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of $0.0001 per Right. Rights are deemed to be redeemed following completion of a Permitted Bid, a Competing Permitted Bid or a take-over bid in respect of which the Board has waived the application of the Rights Plan.

Protection against Dilution

The Exercise Price, the number and nature of securities which may be purchased upon the exercise of Rights and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution in the event of dividends, subdivisions, consolidations, reclassifications or other changes in the outstanding Shares, pro rata distributions to holders of Shares and other circumstances where adjustments are required to appropriately protect the interests of the holders of Rights.

Exemptions for Investment Managers

Investment managers (for client accounts), trust companies (acting in their capacity as trustees or administrators), statutory bodies whose business includes the management of funds (for employee benefit plans, pension plans, or insurance plans of various public bodies) and administrators or trustees of registered pension plans or funds acquiring greater than 20% of the Voting Shares are exempted from triggering a Flip-in Event, provided they are not making, either alone or jointly or in concert with any other person, a take-over bid.

Duties of the Board

The adoption of the Rights Plan will not in any way lessen or affect the duty of the Board to act honestly and in good faith with a view to the best interests of the Company. The Board, when a take-over bid or similar offer is made, will continue to have the duty and power to take such actions and make such recommendations to Shareholders as are considered appropriate.

Amendment

The Company may make amendments to the Rights Plan at any time to correct any clerical or typographical error and may make amendments which are required to maintain the validity of the Rights Plan due to changes in any applicable legislation, regulations or rules. The Company may, with the prior approval of Shareholders (or the holders of Rights if the Separation Time has occurred), supplement, amend, vary, rescind or delete any of the provisions of the Rights Plan.

Voting Requirements

The approval of the Rights Plan must be confirmed by a majority of the votes cast by Shareholders in person or by proxy at the Meeting. The Company is not aware of any Shareholder who will be ineligible to vote on the approval of the Rights Plan at the Meeting.

A copy of this Rights Plan has been filed as an exhibit to this Registration Statement.

Material Contracts

1. Under an agreement dated August 14, 2002 between the Company and Frank Oakes, Mr. Oakes agreed to assign certain patent rights to the Company in exchange for 5% of gross receipts in excess of $500,000 annually from products using this invention. A copy of this agreement has been filed as an exhibit to this Registration Statement.

2. Pursuant to an employment agreement dated October 21, 2009 between the Company and Frank Oakes, Frank Oakes was retained to act as President and Chief Executive Officer of Stellar, effective January 1, 2010, at an annual salary of $100,000. Benefits also include two weeks vacation and optional coverage under the Company's group health plan. A copy of this agreement has been filed as an exhibit to this Registration Statement.

3. Pursuant to a consulting agreement dated August 15, 2004 between the Company and Daniel E. Morse, Daniel Morse agreed to provide consulting services to the Company from time to time as specified by Stellar. Stellar agrees to pay Dr. Morse $3,945.42 per month for his services, and the agreement shall remain in full force and effect until notice of intent to terminate is given by either party, which many be given by either party at any time. A copy of this agreement has been filed as an exhibit to this Registration Statement.

4. Pursuant to an employment agreement dated October 21, 2009 between the Company and Daniel E. Morse, Daniel Morse was retained to act as Executive Vice President, Science and Technology of Stellar, effective January 1, 2010 at an annual salary of $100,000. Benefits also include two weeks vacation and optional coverage under the Company's group health plan. A copy of this agreement has been filed as an exhibit to this Registration Statement.

5. Pursuant to a service agreement dated January 1, 2012 between the Company and Daniel E. Morse, Daniel Morse agreed to act as a member of the Company's Scientific Advisory Board. In consideration for his services he is to be paid an annual fee of $4,000 per year of service, payable quarterly. In addition, Dr. Morse is to receive stock options to purchase 50,000 common shares effective immediately, with additional stock options to purchase 50,000 common shares at the anniversary of each successive term of service, for two subsequent years. All stock options are subject to the Company's Non-Qualified Stock Option Agreement. The Service Agreement is for a term of one year, renewable automatically for one year periods for up to three years, with a right to termination by either party without cause upon thirty day's written notice. A copy of this agreement has been filed as an exhibit to this Registration Statement.

6. Pursuant to an employment agreement dated January 8, 2010 between the Company and Darrell Brookstein, Darrell Brookstein was retained to act as Executive Vice – President, Financial and Business Development at an annual salary of $135,000. Benefits also include two weeks vacation and optional coverage under the Company's group health plan. A copy of this agreement has been filed as an exhibit to this Registration Statement.

7. Pursuant to a consulting agreement dated July 10, 2009 between the Company and Darrell Brookstein, Darrell Brookstein is to be paid a fee of US$7,000 for each one month period of service until September 10, 2009, increasing to US$10,000 per month thereafter. The consulting agreement is for an initial term of six months, renewable at the mutual agreement of both parties. A copy of this agreement has been filed as an exhibit to this Registration Statement.

8. Pursuant to a service agreement between the Company and Malcolm Gefter dated June 15, 2010, Mr. Gefter, a Director of the Company, was appointed as a member of the Advisory Board to assist the Company in evaluation of its research and development and business activities. In consideration for his services Mr. Gefter is to be paid an annual fee of $4,000 per year of service, payable quarterly. In addition, Mr. Gefter is to receive stock options to purchase 50,000 common shares effective immediately, with additional stock options to purchase 50,000 common shares at the anniversary of each successive term of service, for two subsequent years. All stock options are subject to the Company's Fixed Share Option Plan and the policies of the TSXV. The Service Agreement is for a term of one year, renewable automatically for one year periods for up to three years, with a right to termination by either party without cause upon thirty day's written notice. A copy of this agreement has been filed as an exhibit to this Registration Statement.

9. Pursuant to a consulting agreement between the Company and Malcolm Gefter dated June 15, 2010, Mr. Gefter will receive an annual retainer of US $12,000 per year of service, payable in twelve monthly installments, plus an hourly fee of US$300 for services in excess of his role as Advisory Board Member. Pursuant to the terms of the Consulting Agreement, Mr. Gefter will also receive stock options to purchase 20,000 common shares effective immediately, with subsequent grants of 20,000 stock options at the anniversary date of each successive term. The Consulting Agreement is for a term of one year, renewable automatically for additional one year periods for up to three years, with a right to termination by either party without cause upon thirty day's written notice. A copy of this agreement has been filed as an exhibit to this Registration Statement.

10. Under two sublease agreements between the Company and the Port Hueneme Surplus Property Authority and a lease agreement between the Company and Beachport Center., the Company leases three buildings and facilities in Port Hueneme, California. The combined monthly base rents total $7,071 effective November 1, 2010, for a term of 5 years with rents adjusted by the CPI index every November 1st. The Company has an option to extend the lease for an additional five years. Copies of these lease agreements have been filed as exhibits to this Registration Statement.

11. Under a promissory note agreement between the Company and Frank Oakes dated September 9, 2009, Mr. Oakes agreed to loan the Company the sum of $15,000. A copy of this agreement has been filed as an exhibit to this Registration Statement.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to non-resident holders of the Company's securities, except as discussed in ITEM 10, ”Taxation" below.

Restrictions on Share Ownership by Non-Canadians: There are no limitations under the laws of Canada or in the organizing documents of Stellar on the right of foreigners to hold or vote securities of Stellar, except that the Investment Canada Act may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of the Company by a "non-Canadian". The threshold for acquisitions of control is generally defined as being one-third or more of the voting shares of the Company. "Non-Canadian" generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

TAXATION

The following summary of the material Canadian federal income tax consequences are stated in general terms and are not intended to be advice to any particular shareholder. Each prospective investor is urged to consult his or her own tax advisor regarding the tax consequences of his or her purchase, ownership and disposition of shares of Common Stock. The tax consequences to any particular holder of common stock will vary according to the status of that holder as an individual, trust, corporation or member of a partnership, the jurisdiction in which that holder is subject to taxation, the place where that holder is resident and, generally, according to that holder’s particular circumstances.

This summary is applicable only to holders who are resident in the United States, have never been resident in Canada, deal at arm’s length with the Company, hold their common stock as capital property and who will not use or hold the common stock in carrying on business in Canada. Special rules, which are not discussed in this summary, may apply to a United States holder that is an issuer that carries on business in Canada and elsewhere.

This summary is based upon the provisions of the Income Tax Act of Canada and the regulations thereunder (collectively, the "Tax Act" or “ITA”)and the Canada-United States Tax Convention (the “Tax Convention”) as at the date of the Annual Report and the current administrative practices of Canada Customs and Revenue Agency. This summary does not take into account provincial income tax consequences.

Management urges each holder to consult his own tax advisor with respect to the income tax consequences applicable to him in his own particular circumstances.

CANADIAN INCOME TAX CONSEQUENCES

Disposition of Common Stock

The summary below is restricted to the case of a holder (a “Holder”) of one or more common shares (“Common Shares”) who for the purposes of the Tax Act is a non-resident of Canada, holds his Common Shares as capital property and deals at arm’s length with the Company.

Dividends

A Holder will be subject to Canadian withholding tax (“Part XIII Tax”) equal to 25%, or such lower rates as may be available under an applicable tax treaty, of the gross amount of any dividend paid or deemed to be paid on his Common Shares. Under the Tax Convention, the rate of Part XIII Tax applicable to a dividend on Common Shares paid to a Holder who is a resident of the United States is, if the Holder is a company that beneficially owns at least 10% of the voting stock of the Company, 5% and, in any other case, 15% of the gross amount of the dividend. The Company will be required to withhold the applicable amount of Part XIII Tax from each dividend so paid and remit the withheld amount directly to the Receiver General for Canada for the account of the Holder.

Disposition of Common Shares

A Holder who disposes of Common Shares, including by deemed disposition on death, will not be subject to Canadian tax on any capital gain thereby realized unless the common Share constituted “taxable Canadian property” as defined by the Tax Act. Generally, a common share of a public corporation will not constitute taxable Canadian property of a Holder unless he held the common share as capital property used by him carrying on a business in Canada, or he or persons with whom he did not deal at arm’s length alone or together held or held options to acquire, at any time within the 60 months preceding the disposition, 25% or more of the issued shares of any class of the capital stock of the Company.

A Holder who is a resident of the United States and realizes a capital gain on disposition of Common Shares that was taxable Canadian property will nevertheless, by virtue of the Treaty, generally be exempt from Canadian tax thereon unless (a) more than 50% of the value of the Common Shares is derived from, or from an interest in, Canadian real estate, including Canadian mineral resources properties, (b) the Common Shares formed part of the business property of a permanent establishment that the Holder has or had in Canada within the 12 months preceding disposition, or (c) the Holder (i) was a resident of Canada at any time within the ten years immediately preceding the disposition, and for a total of 120 months during any period of 20 consecutive years, preceding the disposition, and (ii) owned the Common Shares when he ceased to be resident in Canada.

A Holder who is subject to Canadian tax in respect of a capital gain realized on disposition of Common Shares must include one half of the capital gain (“taxable capital gain”) in computing his taxable income earned in Canada. The Holder may, subject to certain limitations, deduct one half of any capital loss (“allowable capital loss”) arising on disposition of taxable Canadian property from taxable capital gains realized in the year of disposition in respect to taxable Canadian property and, to the extent not so deductible, from such taxable capital gains of any of the three preceding years or any subsequent year.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a discussion of material United States Federal income tax consequences, under the law, generally applicable to a U.S. Holder (as defined below) of common shares of the Company. This discussion does not cover any state, local or foreign tax consequences.

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended ("the Code"), Treasury Regulations, published Internal Revenue Service ("IRS) rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possible on a retroactive basis, at any time. In addition, the discussion does not consider the potential effects, both adverse and beneficial, or recently proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time. The discussion is for general information only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of common shares of the Company. Each holder and prospective holder of common shares of the Company is advised to consult their own tax advisors about the federal, state, local, and foreign tax consequences of purchasing, owning and disposing of common shares of the Company applicable to their own particular circumstances.

U.S. Holders

As used herein, a ("U.S. Holder") includes a holder of common shares of the Company who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, an estate whose income is taxable in the United States irrespective of source or a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described in Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to special provisions of Federal income tax law, such as tax-exempt organizations, qualified retirement plans, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a "functional currency" other than the U.S. dollar, shareholders who hold common shares as part of a straddle, hedging or conversion transaction, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services.

This summary is limited to U.S. Holders who own common shares as capital assets. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares.

Distribution on Common Shares of the Company

U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares of the Company are required to include in gross income for United States Federal income tax purposes the gross amount of such distributions equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that the Company has current or accumulated earnings and profits, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder's United States Federal Income tax liability or, alternatively, individuals may be deducted in computing the U.S. Holder's United States Federal taxable income by those individuals who itemize deductions. (See more detailed discussion at "Foreign Tax Credit" below). To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital up to the U.S. Holder's adjusted basis in the common shares and thereafter as gain from the sale or exchange of the common shares. Dividend income will be taxed at marginal tax rates applicable to ordinary income while preferential tax rates for long-term capital gains are applicable to a U.S. Holder which is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder which is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale of other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss.

Dividends paid on the common shares of the Company will not generally be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations. A U.S. Holder which is a corporation may, under certain circumstances, be entitled to a 70% deduction of the United States source portion of dividends received from the Company (unless the Company qualifies as a "foreign personal holding company" or a "passive foreign investment company", as defined below) if such U.S. Holder owns shares representing at least 10% of the voting power and value of the Company. The availability of this deduction is subject to several complex limitations which are beyond the scope of this discussion.

Under current Treasury Regulations, dividends paid on the Company's common shares, if any, generally will not be subject to information reporting and generally will not be subject to U.S. backup withholding tax. However, dividends and the proceeds from a sale of the Company's common shares paid in the U.S. through a U.S. or U.S. related paying agent (including a broker) will be subject to U.S. information reporting requirements and may also be subject to the 31% U.S. backup withholding tax, unless the paying agent is furnished with a duly completed and signed Form W-9. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

Foreign Tax Credit

For individuals whose entire income from sources outside the United States consists of qualified passive income, the total amount of creditable foreign taxes paid or accrued during the taxable year does not exceed $300 ($600 in the case of a joint return) and an election is made under section 904(j), the limitation on credit does not apply.

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of common shares of the Company may be entitled, at the option of the U.S. Holder, to either a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States Federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. This election is made on a year-by-year basis and applies to all foreign income taxes (or taxes in lieu of income tax) paid by (or withheld from) the U.S. Holder during the year. There are significant and complex limitations which apply to the credit, among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's United States income tax liability that the U.S. Holder's foreign source income bears to his/her or its worldwide taxable income in the determination of the application of this limitation. The various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as "passive income", "high withholding tax interest", "financial services income", "shipping income", and certain other classifications of income. Dividends distributed by the Company will generally constitute "passive income" or, in the case of certain U.S. Holders, "financial services income" for these purposes. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific and management urges holders and prospective holders of common shares of the Company to consult their own tax advisors regarding their individual circumstances.

Disposition of Common Shares of the Company

A U.S. Holder will recognize gain or loss upon the sale of common shares of the Company equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder's tax basis in the common shares of the Company. Preferential tax rates apply to long-term capital gains of U.S. Holders, which are individuals, estates or trusts. This gain or loss will be capital gain or loss if the common shares are capital assets in the hands of the U.S. Holder, which will be a short-term or long-term capital gain or loss depending upon the holding period of the U.S. Holder. Gains and losses are netted and combined according to special rules in arriving at the overall capital gain or loss for a particular tax year. Deductions for net capital losses are subject to significant limitations. For U.S. Holders, which are not corporations, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted, but individuals may not carry back capital losses. For U.S. Holders, which are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years from the loss year and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted.

Other Considerations

In the following circumstances, the above sections of the discussion may not describe the United States Federal income tax consequences resulting from the holding and disposition of common shares of the Company.

Foreign Personal Holding Company

If at any time during a taxable year more than 50% of the total combined voting power or the total value of the Company's outstanding shares is owned, actually or constructively, by five or fewer individuals who are citizens or residents of the United States and 60% (50% after the first tax year) or more of the Company's gross income for such year was derived from certain passive sources (e.g. from interest income received from its subsidiaries), the Company would be treated as a "foreign personal holding company." In that event, U.S. Holders that hold common shares of the Company would be required to include in gross income for such year their allocable portions of such passive income to the extent the Company does not actually distribute such income.

The Company does not believe that it currently has the status of a "foreign personal holding company". However, there can be no assurance that the Company will not be considered a foreign personal holding company for the current or any future taxable year.

Foreign Investment Company

If 50% or more of the combined voting power or total value of the Company's outstanding shares are held, actually or constructively, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31), and the Company is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that the Company might be treated as a "foreign investment company" as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging common shares of the Company to be treated as ordinary income rather than capital gains.

Passive Foreign Investment Company

As a foreign corporation with U.S. Holders, the Company could potentially be treated as a passive foreign investment company ("PFIC"), as defined in Section 1297 of the Code, depending upon the percentage of the Company's income which is passive, or the percentage of the Company's assets which is held for the purpose of producing passive income.

Certain United States income tax legislation contains rules governing PFICs, which can have significant tax effects on U.S. shareholders of foreign corporations. These rules do not apply to non-U.S. shareholders. Section 1297 (a) of the Code defines a PFIC as a corporation that is not formed in the United States and, for any taxable year, either (i) 75% or more of its gross income is "passive income", which includes interest, dividends and certain rents and royalties or (ii) the average percentage, by fair market value (or, if the company is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of "passive income" is 50% or more. The taxation of a US shareholder who owns stock in a PFIC is extremely complex and is therefore beyond the scope of this discussion. Management urges US persons to consult with their own tax advisors with regards to the impact of these rules.

Controlled Foreign Corporation

A Controlled Foreign Corporation (CFC) is a foreign corporation more than 50% of whose stock by vote or value is, on any day in the corporation's tax year, owned (directly or indirectly) by U.S. Shareholders. If more than 50% of the voting power of all classes of stock entitled to vote is owned, actually or constructively, by citizens or residents of the United States, United States domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom own actually or constructively 10% or more of the total combined voting power of all classes of stock of the Company could be treated as a "controlled foreign corporation" under Subpart F of the Code. This classification would affect many complex results, one of which is the inclusion of certain income of a CFC, which is subject to current U.S. tax. The United States generally taxes United States Shareholders of a CFC currently on their pro rata shares of the Subpart F income of the CFC. Such United States Shareholders are generally treated as having received a current distribution out of the CFC's Subpart F income and are also subject to current U.S. tax on their pro rata shares of the CFC's earnings invested in U.S. property. The foreign tax credit described above may reduce the U.S. tax on these amounts.

In addition, under Section 1248 of the Code, gain from the sale or exchange of shares by a U.S. Holder of common shares of the Corporation which is or was a United States Shareholder at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of earnings and profits of the Company (accumulated in corporate tax years beginning after 1962, but only while the shares were held and while the Company was "controlled") attributable to the shares sold or exchanged. If a foreign corporation is both a PFIC and a CFC, the foreign corporation generally will not be treated as a PFIC with respect to the United States Shareholders of the CFC. This rule generally will be effective for taxable years of United States Shareholders beginning after 1997 and for taxable years of foreign corporations ending with or within such taxable years of United States Shareholders. The PFIC provisions continue to apply in the case of PFIC that is also a CFC with respect to the U.S. Holders that are less than 10% shareholders. Because of the complexity of Subpart F, a more detailed review of these rules is outside of the scope of this discussion.

The amount of any backup withholding will not constitute additional tax and will be allowed as a credit against the U.S. Holder's federal income tax liability.

Filing of Information Returns. Under a number of circumstances, United States Investor acquiring shares of the Company may be required to file an information return with the Internal Revenue Service Center where they are required to file their tax returns with a duplicate copy to the Internal Revenue Service Center, Philadelphia, PA 19255. In particular, any United States Investor who becomes the owner, directly or indirectly, of 10% or more of the shares of the Company will be required to file such a return. Other filing requirements may apply, and management urges United States Investors to consult their own tax advisors concerning these requirements.

Statement by Experts

The Company's auditors for its financial statements as at August 31, 2011, 2010, and 2009 was D+H Group LLP, Chartered Accountants. Their audit report is included with the related financial statements and their consent has been filed as an exhibit to this Registration Statement.

Documents on Display

All documents incorporated in this 20-F Registration Statement may be viewed at the Company's United States offices located at 332 E. Scott Street, Port Hueneme, California.

Item 11. Disclosures about Market Risk

The Company conducts a portion of its business with companies located outside the United States, and may be subject to foreign currency fluctuations. The Company does not currently conduct any hedging or other active strategies to reduce or mitigate these risks, as management has determined there is limited sensitivity to foreign exchange rates and pose limited risks to the Company's operations and overall financial condition.

Item 12. Description of Other Securities

Not Applicable

Part II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable

Item 14. Modifications of Rights of Securities Holders and Use of Proceeds

Not Applicable

Item 15. Controls and Procedures

Not Applicable

Item 16. Reserved

Item 16A. Audit Committee Financial Expert

Not Applicable

Item 16B. Code of Ethics

Not Applicable

Item 16C. Principal Accountant Fees and Services

Not Applicable

Item 16D. Exemptions from Listing Standards for Audit Committees

Not Applicable

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Not Applicable

Item 16F. Change in Registrant's Certifying Accountant

Not Applicable

Item 16G. Corporate Governance

Not Applicable

Part III

Item 17. Financial Statements

The Company's financial statements are stated in United States Dollars ($) and are prepared in accordance with Canadian GAAP, the application of which, in the case of the Company, conforms in all material respects for the years presented with US GAAP, except as disclosed in Note 16 to the financial statements.

The financial statements as required under ITEM #17 are attached hereto and found immediately following the text of this Annual Report. The audit report of D+H Group LLP, Chartered Accountant, is included herein immediately preceding the financial statements.

Item 18. Financial Statements

The Company has elected to provide financial statements pursuant to ITEM #17.

Item 19. Exhibits

(A1) The financial statements thereto as required under ITEM #17 are attached hereto and found immediately following the text of this Annual Report. The audit report of D+H Group LLP, Chartered Accountants, for the audited financial statements is included herein immediately preceding the audited financial statements.

Audited Financial Statements

Independent Auditors Report of D+H Group LLP, dated November 30, 2011.

Balance Sheets at August 31, 2011 and 2010.

Statements of Operations for the years ended August 31, 2011, 2010, and 2009.

Statements of Cash Flows for the years ended August 31, 2011, 2010, and 2009.

Notes to Financial Statements

(B) Index to Exhibits:

1. Certificate of Incorporation, Certificates of Name Change, Articles of Incorporation, Articles of Amalgamation and By-Laws:
   a) Certificate of Incorporation dated June 12, 2007
   b) Certificate of Amendment dated April 15, 2008.
   c) Certificate of Continuation (British Columbia) dated November 5, 2009.
   d) Certificate and Articles of Incorporation of Stellar CA dated September 13, 1999.
   e) Certificate of Amendment for Stellar CA dated October 1, 2001.
   f) Certificate of Name Change dated April 7, 2010.
   g) Notice of Articles dated April 7, 2009.
   h) Articles effective November 20, 2009.

2. Instruments defining the rights of holders of the securities being registered
   See Exhibit Number 1

3. Voting Trust Agreements - N/A

4. Material Contracts
   a) Patent Assignment Agreement between the Company and Frank Oakes dated August 14, 2002.
   b) Employment Agreement between the Company and Frank Oakes dated October 21, 2009.
   c) Consulting Agreement between the Company and Daniel E. Morse dated August 15, 2004.
   d) Employment Agreement between the Company and Daniel E. Morse dated October 21, 2009.
   e) Service Agreement between the Company and Daniel E. Morse dated January 1, 2012.
   f) Employment Agreement between the Company and Darrell Brookstein dated January 8, 2010.
   g) Consulting Agreement between the Company and Darrell Brookstein dated July 10, 2009.
   h) Service Agreement between the Company and Malcolm Gefter dated June 15, 2010.
   i) Consulting Agreement between the Company and Malcolm Gefter dated June 15, 2010.

   j) Sublease Agreement between the Company and the Port Hueneme Surplus Property Authority dated October 2, 2000.
   k) Sublease Agreement between the Company and the Port Hueneme Surplus Property Authority dated March 21, 2005.
   l) Lease Agreement between the Company and Beachport Center dated March 29, 2011.
   m) Promissory Note between the Company and Frank Oakes dated September 9, 2009.
5. List of Foreign Patents - N/A
6. Calculation of earnings per share - N/A
7. Explanation of calculation of ratios - N/A
8. List of Subsidiaries
   · Stellar Biotechnologies Inc. ("Stellar CA") incorporated in California on September 9, 1999.
9. Statement pursuant to the instructions to Item 8.A.4, regarding the financial statements filed in registration statements for initial public offerings of securities – N/A
10. Other Documents

a) Consent of D+H Group LLP, Chartered Accountants, dated January 31, 2012
b) Copy of Share Option Plan as Amended December 13, 2011
c) Shareholder's Rights Plan dated December 13, 2011.
d) Performance Share Plan dated April 9, 2010
e) CPC Escrow Agreement dated April 29, 2008.
f) Escrow Agreement dated April 7, 2010.
g) Notice of Annual General Meeting scheduled for January 17, 2012
h) Copy of Management Information Circular for the Annual General Meeting of Shareholders dated December 17, 2011
i) Form of Proxy for the Annual General Meeting of Shareholders to be held on January 17, 2012.

Stellar
BIOTECHNOLOGIES
Sustainable KLH Technologies for Growing Markets

Consolidated Financial Statements
Years Ended August 31, 2011, 2010 and 2009

(In US Dollars)

D+H Group LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Stellar Biotechnologies, Inc.

We have audited the accompanying consolidated financial statements of Stellar Biotechnologies, Inc., which comprise the consolidated balance sheets as at August 31, 2011 and 2010, the consolidated statements of income (loss), comprehensive income (loss), and deficit and consolidated statements of cash flows for the years ended August 31, 2011, 2010 and 2009, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stellar Biotechnologies, Inc. as at August 31, 2011 and 2010, and the results of its operations and its cash flows for the years ended August 31, 2011, 2010 and 2009 in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.
November 30, 2011

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+ Understanding, Advising, Guiding

Stellar Biotechnologies, Inc

Consolidated Balance Sheets
(in US Dollars)

	August 31, 2011	August 31, 2010
Assets:		
Current assets:		
Cash and cash equivalents	**$ 4,145,492**	$ 2,003,296
Accounts receivable	**39,021**	568,495
Prepaid expenses	**36,604**	22,940
	4,221,117	2,594,731
Property, plant and equipment *(Note 6)*	**338,224**	89,577
Licensing rights *(Note 7)*	**173,810**	200,000
Deposits	**17,500**	8,766
	$ 4,750,651	$ 2,893,074
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 159,137**	$ 420,610
Shareholders' Equity:		
Share capital *(Note 10)*	**9,213,640**	2,610,682
Contributed surplus *(Note 10)*	**3,472,627**	870,412
Deficit	**(8,094,753)**	(1,008,630)
	4,591,514	2,472,464
	$ 4,750,651	$ 2,893,074

Nature of Operations *(Note 1)*
Commitments *(Note 8)*
Subsequent Events *(Note 14)*

On behalf of the Board:

Director Signed: *"Frank Oakes"*

Director Signed: *"Daniel Morse"*

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

Stellar Biotechnologies, Inc

Consolidated Statements of Income (Loss), Comprehensive Income (Loss), and Deficit
(in US Dollars)

	Years Ended August 31,		
	2011	2010	2009
		Note 3c & 15	*Note 3c & 15*
Revenues:			
Contract income	**$ 60,000**	$ 310,000	$ 310,000
Commercial sales	**18,988**	299,700	140,529
Grant revenue	**618,199**	245,137	459,221
	697,187	854,837	909,750
Cost of Sales, Contracts and Grants:			
Cost of sales and contracts	**101,986**	142,855	107,437
Costs of biological assets *(Note 2j)*	**311,411**	-	-
Grant costs	**595,686**	243,233	532,317
	1,009,083	386,088	639,754
Gross Margin (Loss)	**(311,896)**	468,749	269,996
Expenses:			
Salaries, wages and benefits	**797,263**	333,710	175,028
Research and development	**906,518**	352,780	96,543
Legal and professional services	**283,122**	218,141	42,132
Stock-based compensation *(Note 10e)*	**4,007,116**	340,122	-
General and administration	**747,883**	276,111	105,914
Amortization	**87,325**	13,273	14,561
Interest	-	3,734	-
Allocation of costs to grant costs	**(41,170)**	(95,206)	(170,685)
	6,788,057	1,442,665	263,493
Other Income:			
Retirement of convertible debt *(Note 11)*	-	230,964	-
Foreign exchange gain	**3,333**	151,779	-
Interest income	**11,297**	2,802	-
	14,630	385,545	-
Income (Loss) Before Income Tax	**(7,085,323)**	(588,371)	6,503
Income tax expense *(Note 12)*	**800**	1,600	800
Net Income (Loss) and Comprehensive Income (Loss) for the Year	**(7,086,123)**	(589,971)	5,703
Deficit, beginning of year	**(1,008,630)**	(418,659)	(424,362)
Deficit, end of year	**$ (8,094,753)**	$ (1,008,630)	$ (418,659)
Earnings (Loss) per share –basic and diluted	**$ (0.19)**	$ (0.04)	$ 0.01
Weighted average number of common shares outstanding	**38,087,574**	15,600,359	530,100

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

Stellar Biotechnologies, Inc

Combined Statements of Cash Flows
(in US Dollars)

	Years Ended August 31,		
	2011	2010	2009
		Note 3c & 15	*Note 3c & 15*
Cash Flows From (Used In) Operating Activities:			
Net Income (Loss) for the year	**$ (7,086,123)**	$ (589,971)	$ 5,703
Items not affecting cash:			
Amortization	**87,325**	13,273	14,561

Stock-based compensation	**4,007,116**	340,122	-
Foreign exchange gain	**(3,333)**	(151,779)	-
Retirement of convertible debt	-	(230,964)	-
Changes in non-cash working capital items:			
Accounts receivable	**532,807**	(283,794)	(259,570)
Prepaid expenses	**(13,664)**	(21,497)	(23,165)
Accounts payable and accrued liabilities	**(140,670)**	192,383	24,616
Cash used in operating activities	**(2,616,542)**	(732,227)	(237,855)
Cash Flows From (Used In) Financing Activities:			
Proceeds from exercise of warrants	**784,858**	41,008	-
Share subscription proceeds	**4,729,524**	3,209,262	-
Share issuance costs	**(312,103)**	(340,665)	-
Repurchase dissenting shareholder shares	**(125,025)**	-	-
Related party advances (repayments)	-	(15,000)	36,070
Payment of deposits	**(8,734)**	-	(362)
Deferral (payment) of deferred salaries	-	(100,500)	100,500
Assets assumed on recapitalization	-	56,848	-
Repayment of convertible debt	-	(35,000)	-
Cash provided by financing activities	**5,068,520**	2,815,953	136,208
Cash Flows From (Used In) Investing Activities:			
Acquisition of property, plant and equipment	**(309,782)**	(88,877)	-
Cash used in investing activities	**(309,782)**	(88,877)	-
Change in cash and cash equivalents during the year	**2,142,196**	1,994,849	(101,647)
Cash and cash equivalents – beginning of year	**2,003,296**	8,447	110,094
Cash and cash equivalents – end of year	**$ 4,145,492**	$ 2,003,296	$ 8,447
Supplemental disclosure of non-cash transactions *(Note 13)*			
Cash	**$ 3,226,553**	$ 2,003,296	$ 8,447
Cash equivalents	**918,939**	-	-
Cash and cash equivalents	**$ 4,145,492**	$ 2,003,296	$ 8,447

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

Stellar Biotechnologies, Inc

Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

1. Nature of Operations

Stellar Biotechnologies, Inc. (“the Company”, formerly CAG Capital Inc.) is listed on the TSX Venture Exchange (‘the Exchange”) as a Tier 2 issuer under the trading symbol KLH since April 19, 2010 (formerly under CAG.P).

On April 12, 2010, the Company completed a reverse merger transaction as described in Note 3.

- Stellar Biotechnologies, Inc. (“Stellar CA”) was incorporated under the laws of the State of California, USA on September 9, 1999 and commenced operations on December 15, 1999 when it acquired the assets of Agua Dulce Partners, Inc., East Pacific Pearl Company, L.P. and Channel Islands Ocean Farms, L.P. Stellar CA’s office is located in Port Hueneme, California, USA.

- The Company was incorporated as China Growth Capital Inc. pursuant to the provisions of the *Canada Business Corporations Act* on June 12, 2007 and was classified as a Capital Pool Company as defined in Policy 2.4 of the Exchange. On January 17, 2008, the Company amended its articles to remove the private company restrictions and the restrictions against the transfer of its shares respectively. On April 15, 2008, the Company changed its name to CAG Capital Inc. (“CAG”). On November 25, 2009, the Company was continued under the *British Columbia Business Corporations Act* and removed from acting under the *Canada Business Corporations Act.* On April 7, 2010, the Company changed its name to Stellar Biotechnologies, Inc.

The Company’s business is to commercially produce and market Keyhole Limpet Hemocyanin (“KLH”) as well as to develop new technology related to culture and production of KLH and KLH subunit (“KLHsu”) formulations. The Company markets KLH and KLHsu formulations to customers in the United States and Europe.

The Company has received grants for the development of new technology from the National Institutes of Health, National Cancer Institute (“NIH”), the National Science Foundation (“NSF”), and Internal Revenue Service (“IRS”) qualifying therapeutic discover project grants.

These consolidated financial statements are in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) prepared on a going concern basis. The going concern basis contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. For the year ended August 31, 2011, the Company reported a loss of $7,086,123 (2010 - $589,971, 2009 - income $5,703), an accumulated deficit of $8,094,753 (2010 - $1,008,630, 2009 - $418,659) and working capital of $4,061,980 (2010 - $2,174,121). As at August 31, 2011, the Company has remaining revenues available under the NSF grants, including the Technology Enhancement for Commercial Partnerships (“TECP”) program of approximately $540,000. The Company also anticipates ongoing contract income and commercial sales.

Stellar Biotechnologies, Inc
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

2. Significant Accounting Policies

a) Principles of Consolidation

The consolidated financial statements have been prepared in accordance with Canadian GAAP and include the accounts of the Company and its wholly-owned subsidiary Stellar CA. Intercompany balances and transactions are eliminated on consolidation.

b) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The Company has made estimates for allowance of doubtful accounts, amortization and impairment of property, plant and equipment and licensing rights, stock-based compensation, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities, and accrued liabilities for the years ended August 31, 2011, 2010 and 2009. Actual results could differ from these estimates.

c) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings (loss) per common share is recognized from the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

d) Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using inputs that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-compensation, the fair value of the Company's stock and the risk-free interest rate.

For directors and employees, the fair value of options is measured at the date of grant while for non-employees the fair value of options is measured at the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date of grant if the options are fully vested and non-forfeitable. The fair value of the options at the measurement date is accrued and charged to operations on a straight-line basis over the vesting period, with the offsetting credit to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Stellar Biotechnologies, Inc
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

2. Significant Accounting Policies (continued)

e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on the straight-line method based on the following rates which approximate the useful life of the assets:

Aquaculture system	10-20%
Tools and equipment	20%
Leasehold improvements	10-14%
Laboratory	10-20%
Computer and office equipment	20%
Vehicles	20%

Maintenance and repairs are charged to operations as incurred.

f) Cash and Cash Equivalents

Cash equivalents consist of demand deposits with financial institutions, money market accounts, and highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

g) Future Income Taxes

Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and losses carried forward. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period of substantive enactment. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be realized, it provides a valuation allowance against the excess.

h) Financial Instruments - Recognition and Measurement

Financial assets and financial liabilities, including derivatives, are recognized on the balance sheet when the Company becomes a party to contractual provisions of the financial instrument or a derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the Company's income (loss) for the period. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized holding gains and losses including changes in foreign exchange rates being recognized in other comprehensive income ("OCI") upon adoption.

2. Significant Accounting Policies (continued)

h) Financial Instruments - Recognition and Measurement (continued)

The Company has designated each of its significant categories of financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

The fair value of the Company's financial instruments is believed to equal the carrying amounts due to the short terms to maturity.

Fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and
Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The Company's fair value of cash and cash equivalents under the fair value hierarchy is measured using Level 1 inputs.

i) Long-lived Asset Impairment

Long-lived assets are reviewed when changes in events and circumstances suggest their carrying value has become impaired. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In any event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

j) Biological Assets

Biological assets include an allocation of aquaculture and production costs for both limpet colonies and KLH products in process. The cost of such biological assets is recorded as a period expense until such time as it is probable that future economic benefits associated with the assets will flow to the Company. These costs are recorded as cost of sales and contracts or grant costs to the extent they relate to KLH sales, establishment and maintenance of dedicated limpet colonies under contract or KLH produced under grant programs. The remaining amounts are expensed as costs of biological assets.

2. Significant Accounting Policies (continued)

k) Research and Development

The Company is involved in research and development. Research costs, including materials and salaries of employees directly involved in research efforts, are expensed as incurred. Development costs are expensed in the period incurred, unless they meet criteria to technical, market and financial feasibility, in which case they are deferred and amortized over the estimated life of related products. Research and development expenses are shown as a separate line item on the consolidated statements of income (loss), comprehensive income (loss), and deficit. As at August 31, 2011, 2010 and 2009, the Company had no deferred development costs.

l) Foreign Currency Translation

The Company's primary currency of measurement and reporting is the US dollar, its functional currency. Monetary assets and liabilities denominated in currencies other than the US dollar ("foreign currencies") are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the transaction date. Revenues and expenses, denominated in foreign currencies are translated in US dollars at transaction date rates with the exception of amortization which is translated at historical rates. Gains and losses arising from the translation of monetary assets and liabilities in foreign currencies are included in the results of operations.

m) Commercial Sales Revenue Recognition

The Company recognizes commercial sales revenue when KLH product is delivered assuming there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectability is reasonably assured. In limited circumstance, the Company retains ownership until the product is received and inspected by the customer; revenue is recognized upon satisfaction of these conditions. The Company documents arrangements with customers with purchase orders and sales agreements.

Commercial sales revenue includes sales made under supply agreements with customers for a fixed price per gram of KLH products based on quantities ordered, including those produced from the customer's dedicated limpet colonies. The supply agreements are on a non-exclusive basis except within that customer's field of use.

n) Grant Revenue Recognition

The Company has taken the income approach to recognizing grant revenue. The Company recognizes grant revenue when there is reasonable assurance that the Company will comply with the conditions attached, the benefits have been earned and it is reasonably assured of collection. An appropriate amount in respect to earned revenue will be recognized as revenue in the period that the Company is assured of fulfilling the grant requirements. Grant advances received prior to revenue recognition are recorded as deferred revenue.

o) Contract Revenue Recognition

Contract revenue is recognized when reasonable assurance exists regarding measurement and collectability. An appropriate amount in respect to earned revenue will be recognized as revenue in the period that the Company is assured of fulfilling the contract requirements.

2. Significant Accounting Policies (continued)

Contract revenue is earned on both the initial set up fee for establishment of limpet colonies dedicated to meet the needs of the customer and monthly fees to maintain those dedicated limpet colonies. The Company also has the right to use raw material produced from dedicated limpet colonies at no cost with prior written consent.

Contract revenue is earned from research collaboration agreements whereby revenue is earned through sharing access to the Company's KLH manufacturing methods and analytical data as well as when certain project milestones are met. The customer and the Company will jointly own the rights to practice the resulting intellectual properties within specified fields of use.

p) Intangible Asset

An intangible asset is an asset, other than a financial asset, that lacks physical substance. The Company records intangible assets at its historical cost. The Company amortizes intangible assets over their useful life to the Company, unless the life is determined to be indefinite in which case no amortization is recorded until such time as the asset is no longer indefinite.

q) Recent Accounting Pronouncements

i) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations*; 1601 – *Consolidated Financial Statements;* and 1602 – *Non-Controlling Interests*. These sections replace the former CICA Handbook Sections 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections are the Canadian GAAP equivalent to IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements.*

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1692 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Management is in the process of evaluating the impact of these standards on the Company's financial statements.

3. Merger Transaction

On April 12, 2010, CAG issued 10,000,000 shares to Stellar CA shareholders completing the reverse takeover of the Company which resulted in Stellar CA acquiring control of CAG. As a result of the reverse takeover, the Company changed its name from CAG Capital Inc. to Stellar Biotechnologies, Inc. There was a dissenting shareholder of Stellar CA who did not exchange his shares for 1,661,241 shares of the Company. As a result, the company purchased those shares in order to cancel and return them to treasury. The Company paid $125,025, (approximately $0.075 per share) and the shares were returned to treasury on September 29, 2010.

Some of these shares are subject to escrow restrictions described in Note 11. There are also 10,000,000 performance shares set aside as described in Note 10(e).

Stellar Biotechnologies, Inc
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

3. Merger Transaction (continued)

The acquisition has been treated for accounting purposes as a recapitalization, in accounting for this transaction:

a) Stellar CA is the purchaser and parent company for accounting purposes. Accordingly, its net assets are included in the consolidated balance sheets at its historical book value.

b) Control of the net assets and business of CAG Capital, Inc. was acquired on April 12, 2010. The transaction has been accounted as a purchase of the assets and liabilities of the Company, which have been recorded at their fair values, as follows:

Cash	$	84,012
Receivables and prepaids		125,432
Accrued liability		(152,596)
Net assets assumed	$	56,848

c) The consolidated statements of loss, comprehensive loss and deficit and cash flows include the results of operations and cash flows of Stellar CA from inception and of the Company from April 13, 2010.

4. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its KLH technologies and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. Further information relating to liquidity risk is disclosed in Note 5.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents and accounts receivables.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

There were no changes in the Company's approach to capital management during the year ended August 31, 2011.

The Company is not subject to externally imposed capital requirements during the years ended August 31, 2011 and 2010. The Company was in compliance with the externally imposed capital requirements in 2009.

Stellar Biotechnologies, Inc
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

5. Management of Financial Risk

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result in market interest rates. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions included in the Company's cash and cash equivalents are subject to a floating rate of interest.

The interest rate risks on cash are not considered significant.

Foreign Exchange Risk

The Company incurs operating expenses and capital expenditures mostly in US dollars, with some operating expenses incurred in Canadian dollars which are subject to foreign currency fluctuations. The fluctuation of the US dollar in relation to Canadian dollars will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currently risks. At August 31, 2011, the US dollar was equal to 1.0223 Canadian dollars.

Balances at August 31, 2011 are as follows:

(in US Dollars)

	Canadian Dollar	US Dollar Equivalent
Cash and cash equivalents	$ 397,253	$ 406,112
Account receivable	2,380	2,433
Prepaid expenses	12,905	13,193
Accounts payable and accrued liabilities	(72,585)	(74,204)
	$ 339,953	$ 347,534

Based on the net exposures as at August 31, 2011 and assuming that all other variables remain constant, a 10% fluctuation on the US dollar against the Canadian dollar would result in the Company's net loss being approximately $35,000 higher (or lower).

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, cash equivalents and accounts receivable. Management's assessment of the Company's credit risk for cash and cash equivalents is low as cash and cash equivalents are held in financial institutions believed to be credit worthy. The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations.

5. Management of Financial Risk (continued)

Approximately 88% of the Company's commercial sales and contract income during the year ended August 31, 2011 were from one customer (2010 - 92% from two customers, 2009 - 77% from two customers). Approximately 79% of the grant revenue during the year ended August 31, 2011 was received from IRS grants with the remaining 21% from NSF (2010 - 100% from NSF, 2009 - 56% from NSF and 44% from NIH).

Approximately 25% of the Company's accounts receivables at August 31, 2011 were from two customers (2010 - 84% from two customers), and 75% were from the NSF grants (2010 - 16%).

While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company estimates its maximum credit risk for accounts receivable at the amount recorded on the balance sheet.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company attempts to manage liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at August 31, 2011, the Company had a cash and cash equivalents balance of $4,145,492 (2010 - $2,003,296, 2009 - $8,447) to settle current liabilities of $159,137 (2010 - $420,610, 2009 - $165,367).

6. Property, Plant and Equipment

	Cost	Accumulated Amortization	**August 31, 2011 Net Book Value**
Aquaculture system	$ 47,770	$ 43,543	**$ 4,227**
Laboratory	62,033	62,033	-
Computer and office equipment	33,195	6,684	**26,511**
Tools and equipment	340,286	72,295	**267,991**
Vehicles	10,997	1,100	**9,897**
Leasehold improvements	59,107	29,509	**29,598**
	$ 553,388	$ 215,164	**$ 338,224**

	Cost	Accumulated Amortization	**August 31, 2010 Net Book Value**
Aquaculture system	$ 43,241	$ 43,241	**$** -
Laboratory	62,033	62,033	-
Computer and office equipment	16,628	1,826	**14,802**
Tools and equipment	93,689	18,914	**74,775**
Leasehold improvements	28,015	28,015	-
	$ 243,606	$ 154,029	**$ 89,577**

(in US Dollars)

7. Licensing Rights

During 2010 the Company paid a $200,000 license fee to a customer for licensing rights outside the customer's field of use. The customer and the Company will jointly own the rights to practice the resulting intellectual properties within specified fields of use. The license rights are amortized over the useful life of seven years and $26,190 amortization was recorded for the year ended August 31, 2011.

8. Commitments

The Company leases three buildings and facilities under sublease agreements with the Port Hueneme Surplus Property Authority. On September 1, 2010, the Company exercised its option to extend the three buildings and facilities sublease agreements. The monthly base rents total $7,071 effective November 1, 2010, for a term of 5 years with rents adjusted by the CPI index every November 1st. The Company has an option to extend the lease for another five years.

The Company also leases office facilities effective July 1, 2011 for a term of three years with the option to extend for an additional two years. Rent is $5,126 per month with 3% cost of living increases each year during the initial three-year term and the Company must pay a portion of the common area maintenance.

Future minimum lease payments are as follows:

	August 31, 2011	August 31, 2010
For The Year Ending August 31,		
2011	**$ -**	$ 7,458
2012	**146,676**	-
2013	**148,531**	-
2014	**139,328**	-
2015	**84,852**	-
2016	**14,142**	
Thereafter	-	-
	$ 533,529	$ 7,458

Rent expense on these lease agreements for the year ended August 31, 2011 was $99,894 (2010 - $89,491, 2009 - $89,129).

The Company has purchase order commitments totalling approximately $184,000 at August 31, 2011, for contract manufacturing organizations (2010 - $117,000, 2009 - $Nil).

9. Related Party Transactions

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Related Party Transactions (continued)

For the year ended August 31, 2011, the Company had the following transactions with related parties:

a) Paid or accrued salaries expense of $565,061 (2010 - $164,375, 2009 - $65,800) to directors and officers of the Company;

b) Paid or accrued consulting fees of $78,099 (2010 - $66,528, 2009 - $Nil) to directors and officers of the Company;

c) Paid or accrued consulting fees of $2,000 (2010 - $Nil, 2009 - $Nil) to a former director of the Company;

d) Paid or accrued professional fees of $26,398 (2010 - $Nil, 2009 - $Nil) to an officer of the Company;

e) Paid or accrued professional fees of $10,620 (2010 - $6,841, 2009 - $Nil) to a former officer of the Company.

As at August 31, 2011, the Company owed $26,034 (2010 - $15,750) to directors and officers of the Company for consulting fees and expense reimbursements which are included in accounts payable and accrued liabilities on the consolidated balance sheets. The Company received $35,000 loans bearing interest of 6% annually during the year ended August 31, 2010, and proceeds were used to retire convertible notes payable. The loan was repaid by August 31, 2010.

On August 14, 2002, the Company entered into an agreement to pay royalties to an officer in exchange for assignment of patent rights to the Company. The royalty is 5% of gross receipts in excess of $500,000 annually from products using this invention. The Company's current operations utilize this invention. The royalties for the year ending August 31, 2011 were $Nil (2010 - $Nil, 2009 - $Nil).

10. Share Capital

Authorized: unlimited common shares without par value.

	Number of Shares	**Amount**	**Contributed Surplus**
Balance, as at August 31, 2009	530,100	$ 305,128	$ 100
Proceeds from exercise of warrants	222,500	12,875	-

(in US Dollars)

Adjustment to record the issued common shares of the legal parent at the time of reverse takeover	16,027,401	-	-
Accrued settlement of dissenting shareholder	(1,661,241)	(120,803)	-
Fair value of net assets of parent at time of reverse takeover	-	56,848	-
Private Placement, net proceeds (c)	11,502,732	2,328,501	530,190
Proceeds from exercise of agent warrants	295,200	28,133	-
Stock-based compensation	-	-	340,122

10. Share Capital (continued)

	Number of Shares	Amount	Contributed Surplus
Balance, as at August 31, 2010	26,916,692	$ 2,610,682	$ 870,412
Private Placement, net proceeds (a)	3,000,000	853,191	75,806
Warrant valuation (a)	-	(226,716)	226,716
Private Placement, net proceeds (b)	6,213,000	3,109,409	379,015
Warrant valuation (b)	-	(1,571,185)	1,571,185
Issuance of performance shares (e)	3,333,335	3,400,000	-
Stock-based compensation (e)	-	-	607,116
Proceeds from exercise of warrants	2,148,805	784,858	-
Transfer to share capital on exercise of warrants		257,623	(257,623)
Final settlement of dissenting shareholder	-	(4,222)	-
Balance, as at August 31, 2011	41,611,832	$ 9,213,640	$ 3,472,627

Private Placements Issued During the Year Ended August 31, 2011

(a) In September 2010, the Company issued 3,000,000 units at a price of CDN$0.35 per unit for gross proceeds of $1,002,497 (CDN$1,050,000). Each unit is comprised of one common share of the Company and one half share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of CDN$0.50 exercisable on or before March 28, 2012. The warrants were valued at $226,716. Agent's options were issued to acquire 210,000 units of the Company (valued at $75,806) under the same terms of the private placement and are exercisable at CDN$0.35 on or before March 28, 2012. The company paid $96,958 of share issuance costs in relation to the private placement.

(b) In November 2010, the Company issued 6,213,000 units at a price of CDN$0.60 per unit for gross proceeds of $3,695,784 (CDN$3,727,800). Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a purchase price of CDN$0.90 per share on or before November 14, 2011, and CDN$1.15 per share if exercisable from November 15, 2011, and on or before November 14, 2012. The warrants were valued at $1,571,185. Agent's options were issued to acquire 345,600 units of the Company (valued at $379,015) under the same terms of the private placement and are exercisable at CDN$0.60 on or before November 14, 2012. The common shares are subject to the Exchange four month hold policy which ended on March 16, 2011. The Company paid $215,145 of share issuance costs in relation to the private placement.

Private Placements Issued During the Year Ended August 31, 2010

(c) In April 2010, the Company issued 11,502,732 units at a price of CDN$0.28 per unit for gross proceeds of $3,209,262 (CDN$3,220,764). Each unit is comprised of one common share of the Company and one half share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of CDN$0.40 exercisable on or before October 9, 2011. Included in the private placement was a corporate finance fee of 35,000 units issued to an agent under the same terms of the private placement. The Company granted 1,208,165 agent warrants exercisable on or before October 9, 2011 at a price of CDN$0.28 and paid cash finder's fees of CDN$208,174. The warrants were valued at $530,190.

10. Share Capital (continued)

Escrow Shares

(d) An aggregate of 2,500,000 common shares were held in escrow pursuant to an Escrow Agreement dated April 29, 2008. Of these shares, as at August 31, 2011, 1,500,000 shares remain in escrow.

Of the 10,000,000 common shares issued pursuant to the reverse takeover, an aggregate of 4,119,386 common shares were held in escrow pursuant to an Escrow Agreement dated April 7, 2010. The shares are subject to release provisions, with 10% being released upon closing of the reverse takeover and the balance as to 15% every six months. Of these shares, as at August 31, 2011, 2,471,632 remain in escrow. The remaining 5,880,614 common shares are subject to resale restrictions over a period of three years, with 10% being free-trading, and the remaining shares subject to resale restrictions, as to 15% becoming free-trading every six months.

Performance Shares

(in US Dollars)

(e) There are 10,000,000 performance shares set aside for officers, directors and employees of Stellar CA 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. During the year ended August 31, 2011, the Company reached the first performance share milestone and issued 3,333,335 shares (issued at a value of $3,400,000) of the Company to the individuals named in the Performance Share Plan. The issuance of performance shares was recorded as stock-based compensation.

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
		CDN $
Balance, as at August 31, 2009	-	$ -
Assumed - RTO of CAG	7,259,531	$ 0.38
Exercised	(295,200)	$ 0.10
Expired	(4,800)	$ 0.10
Balance, as at August 31, 2010	6,959,531	$ 0.37
Granted	8,268,600	$ 0.80
Exercised	(2,148,805)	$ 0.37
Balance, as at August 31, 2011	13,079,326	$ 0.65

10. Share Capital (continued)

A summary of Stellar CA's warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
		US $
Balance, as at August 31, 2009	400,000	$ 0.34
Granted	100,000	$ 0.01
Exercised	(222,500)	$ 0.06
Expired	(277,500)	$ 0.45
Balance, as at August 31, 2011 and 2010	-	$ -

The following table summarizes information about the warrants outstanding as at August 31, 2011:

CDN Exercise Price	Number of Warrants	Expiry Date
CDN $		
$0.40	4,189,616	October 9, 2011*(Note 15)*
$0.28	621,110	October 9, 2011*(Note 15)*
$0.50	1,500,000	March 28, 2012
$0.35	210,000	March 28, 2012
		November 14, 2011/
$0.90/$1.15	6,213,000	November 14, 2012
$0.60	345,600	November 14, 2012
	13,079,326	

Options

The Company has a stock option plan ("the Plan") to be administered by the Board of Directors, which has the discretion to grant options for up to a maximum of 20% of the issued and outstanding share capital amount and subject to a maximum of 5,900,000 shares. The exercise price of an option is subject to a minimum of $0.10 per share, not less than the closing price (less applicable discount) on the Exchange on the last trading day preceding the grant date. However, all of the stock options which have been granted are subject to the following vesting schedule:

(a) One-third shall vest immediately;

(b) One-third shall vest 12 months from the Effective Date; and

(c) One-third shall vest 18 months from the Effective Date.

10. Share Capital (continued)

Options (continued)

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

	Number of Options	Weighted Average Exercise Price
		CDN $
Balance, as at August 31, 2009	-	$ -
Assumed - RTO Stellar	2,465,000	$ 0.28
Granted	235,000	$ 0.27
Balance, as at August 31, 2010	2,700,000	$ 0.28
Granted	1,554,600	$ 0.68
Balance, as at August 31, 2011	4,254,600	$ 0.43

The following table summarizes information about the options under the Plan outstanding and exercisable as at August 31, 2011:

CDN Exercise Price	Number of Options	Exercisable at August 31, 2011	Expiry Date
$0.28	2,465,000	1,643,333	April 9, 2017
$0.25	75,000	50,000	May 17, 2017
$0.28	70,000	46,667	June 17, 2017
$0.28	20,000	13,334	June 28, 2017
$0.28	70,000	46,667	July 13, 2017
$0.64	70,000	23,333	October 25, 2017
$1.00	85,000	28,333	February 10, 2018
$1.00	70,000	23,333	March 8, 2018
$0.65	1,329,600	443,200	August 8, 2018
	4,254,600	2,318,200	

Stellar Biotechnologies, Inc
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

10. Share Capital (continued)

Options (continued)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options. The estimated fair value of the stock options granted during the prior year was determined using a Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010	2009
Expected dividend yield	0%	0%	-
Expected stock price volatility	110%	105%	-
Risk free rate	1.94-3.08%	2.66-3.24%	-
Expected life of options	7 years	7 years	-

The average fair value of stock options awarded during 2011, 2010, and 2009 was $0.51, $0.23 and $Nil respectively.

11. Retirement of Convertible Debt

The Company was party to a series of agreements with a customer including loan agreements, a KLH supply agreement, and a shareholder agreement providing a call option to purchase all of the Company stock, collectively called the "Intercompany Agreements". On October 2, 2009, all of the Intercompany Agreements were terminated upon payment of $35,000. This resulted in income upon retirement of convertible debt for the difference between the loan balances and the termination payment.

12. Income Taxes

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities as of August 31, 2011 and 2010, are as follows:

	August 31,	August 31,

(in US Dollars)

	2011	2010
Future tax assets:		
Non-capital loss carry-forwards	**$ 1,742,800**	$ 243,600
Research and development tax credits	**166,600**	23,900
Nontaxable grant recapture	**-**	166,300
Share issuance costs	**94,000**	60,200
Property, plant and equipment	**-**	33,400
Future tax liabilities:		
Federal benefit of state taxes	**(125,100)**	(27,100)
Property, plant and equipment	**(14,500)**	-
Less: valuation allowance	**(1,863,800)**	(500,300)
Net future income tax asset (liability)	**$ -**	$ -

12. Income Taxes (continued)

The income taxes shown in the statement of loss, comprehensive loss and deficit differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	August 31, 2011	August 31, 2010	August 31, 2009
Combined federal and provincial tax rates	**28.5%**	29.5%	30.0%
Expected income tax (recovery)/expense	**$ (2,019,300)**	$ (173,600)	$ 1,900
Non-deductible stock-based compensation	**1,141,000**	100,300	-
Effect of income tax rate differences	**(284,200)**	400	-
Foreign rate differences	**(107,500)**	(23,100)	700
Other	**(115,500)**	(11,500)	(1,800)
Unrecognized benefit of loss carry forwards	**1,386,300**	109,100	-
Income tax expense	**$ 800**	$ 1,600	$ 800

As at August 31, 2011, the Company had accumulated Canadian non-capital losses of approximately CDN$1,662,200 and U.S. net operating losses of approximately $3,158,300 which can be carried forward and charged against future taxable income. A valuation has been provided for these future income tax assets as there is no reasonable assurance the potential benefit of these losses will be realized. These losses expire principally in 2027 through 2031 as follows:

Year	Consolidated
2027	$ 21,500
2028	55,800
2029	274,800
2030	417,800
2031	4,050,600
	$ 4,820,500

13. Supplemental Disclosure of Non-Cash Transactions

Supplemental disclosure of non-cash financing and investing activities include the following:

	August 31, 2011	August 31, 2010	August 31, 2009
Financing activities:			
Share issuance costs – agent's options	**$ 454,821**	$ 166,402	$ -
Warrant valuations on private placements	**1,797,901**	528,502	-
Transfer to share capital on exercise of warrants	**257,623**	-	-
Cash paid during the period for taxes	**800**	1,600	800
Cash paid during the period for interest	**-**	3,734	-

(in US Dollars)

14. Subsequent Events

Subsequent to August 31, 2011, the Company:

a) Granted incentive stock options to an employee to purchase 5,000 common shares, exercisable at a price of CDN$0.50 per share for a period of seven years.

b) Issued 2,318,600 common shares upon the exercise of warrants for gross proceeds of $830,719.

15. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

16. Differences Between Canadian and United States Generally Accepted Accounting Principles

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Material variations in the accounting principles, practices and methods used in preparing these financial statements from principles, practices and methods accepted in the United States ("U.S. GAAP"), and that impact financial statement line items, are described below.

Consolidated Balance Sheets	Note reference	2011	2010
Derivative liability - Canadian GAAP		$ -	$ -
Fair value and related adjustments	(a)	1,525,061	799,321
Derivative liability - US GAAP		1,525,061	799,321
al - Canadian GAAP		9,213,640	2,610,682
Adjust warrants valued under CDN GAAP	(a)	167,086	-
Exercised warrants under CDN GAAP	(a)	(257,623)	-
Exercised warrants under US GAAP	(a)	270,295	-
Share capital - US GAAP		9,393,398	2,610,682

16. Differences Between Canadian and United States Generally Accepted Accounting Principles (continued)

Consolidated Balance Sheets	Note reference	2011	2010
Contributed surplus - Canadian GAAP		$ 3,472,627	$ 870,412
Exercised warrants under CDN GAAP	(a)	257,623	-
Fair value and related adjustments	(a)	(2,782,912)	(530,190)
Contributed surplus – US GAAP		947,338	340,222
Deficit - Canadian GAAP		8,094,753	1,008,630
Net historical adjustments – US GAAP		269,131	-
Current year adjustments - US GAAP	(a)	(1,089,601)	269,131
Deficit - US GAAP		7,274,283	1,277,761

Consolidated Statements of Loss and Comprehensive Loss	Note reference	2011	2010	2009
Profit (Loss) and Comprehensive Profit (Loss) for the Year - Canadian GAAP		$ (7,086,123)	$ (589,971)	$ 5,703
Change in fair value of warrants	(a)	1,089,601	(269,131)	-
Profit (Loss) and Comprehensive Profit (Loss) for the Year – US GAAP		(5,996,522)	(859,102)	5,703
Earnings (Loss) per share – basic and diluted		(0.16)	(0.06)	0.01

(a) Derivative Liability

US GAAP requires that share purchase warrants with an exercise price in a currency other than the Company’s functional currency requires them to be classified as long-term liabilities and measured at fair value with changes in fair value recognized in the consolidated statements of loss.

(b) Consolidated Statements of Changes in Shareholders’ Equity

US GAAP requires the inclusion of a consolidated statement of changes in shareholders’ equity for each year a statement of loss and comprehensive loss is presented. Shareholders’ equity under US GAAP is as follows:

Stellar Biotechnologies, Inc
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2011, 2010 and 2009
(in US Dollars)

16. Differences Between Canadian and United States Generally Accepted Accounting Principles (continued)

	Common Shares				
	Number of shares	Amount	Contributed surplus	Deficit	Total Shareholders' Equity
Balance at August 31, 2008	$ 530,100	$ 305,128	$ 100	$ (424,362)	$ (119,134)
Net income for the year	-	-	-	5,703	5,703
Balance at August 31, 2009	530,100	305,128	100	(418,659)	(113,431)
Issued on exercise of warrants	222,500	12,875	-	-	12,875
Adjustment for reverse takeover	16,027,401	-	-	-	-
Fair value of net assets of parent	-	56,848	-	-	56,848
Settlement of dissenting shareholder	(1,661,241)	(120,803)	-	-	(120,803)
Issued pursuant to private placement	11,502,732	2,328,501	-	-	2,328,501
Proceeds from exercise of agent warrants	295,200	28,133	-	-	28,133
Stock-based compensation	-	-	340,122	-	340,122
Loss for the year	-	-	-	(859,102)	(859,102)
Balance at August 31, 2010	26,916,692	2,610,682	340,222	(1,277,761)	1,673,143
Issued pursuant to private placements	9,213,000	4,129,686	-	-	4,129,686
Warrant valuation	-	(1,797,901)	-	-	(1,797,901)
Issuance of performance shares	3,333,335	3,400,000	-	-	3,400,000
Proceeds from exercise of warrants	2,148,805	784,858	-	-	784,858
Transfer to share capital from derivative liability on exercise of warrants	-	270,295	-	-	270,295
Final settlement of dissenting shareholder	-	(4,222)	-	-	(4,222)
Stock-based compensation	-	-	607,116	-	607,116
Loss for the year	-	-	-	(5,996,522)	(5,996,522)
Balance at August 31, 2011	41,611,832	9,393,398	947,338	(7,274,283)	3,066,453

(c) Research and Development Costs

Under Canadian GAAP, research and development costs are charged as an expense in the period incurred except in circumstances where the market and feasibility of the product have been established, and recovery of development costs can reasonably be regarded as assured, in which case such costs are capitalized. US GAAP requires that these expenditures be expensed in the year incurred. The Company has not capitalized any development costs during the years ended August 31, 2011 and 2010.

(d) Investment Tax Credits

Canadian GAAP requires that investment tax credits relating to development costs be accounted for as a reduction of development costs. US GAAP requires such amounts to be accounted for as a reduction of income tax expense. There is no impact on the US GAAP loss for the year as a result of this GAAP difference.

Signature Page

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Stellar Biotechnologies Inc.
Registrant

Dated: February 1, 2012

Signed: /s/ *"Frank Oakes"*
Frank Oakes,
President and CEO

Industry Canada Industrie Canada

Certificate of Incorporation

Canada Business Corporations Act

Certificat de constitution

Loi canadienne sur les sociétés par actions

China Growth Capital Inc.	678860-2
Name of corporation-Dénomination de la société	Corporation number-Numéro de la société

I hereby certify that the above-named corporation, the articles of incorporation of which are attached, was incorporated under the *Canada Business Corporations Act.*

Je certifie que la société susmentionnée, dont les statuts constitutifs sont joints, a été constituée en société en vertu de la *Loi canadienne sur les sociétés par actions.*

Richard G. Shaw
Director - Directeur

June 12, 2007 / le 12 juin 2007

Date of Incorporation - Date de constitution

Canada

Industry Canada | Industrie Canada

Canada Business Corporations Act | Loi canadienne sur les sociétés par actions

ELECTRONIC TRANSACTION REPORT

ARTICLES OF INCORPORATION (SECTION 6)

RAPPORT DE LA TRANSACTION ÉLECTRONIQUE

STATUTS CONSTITUTIFS

(ARTICLE 6)

Processing Type - Mode de Traitement: E-Commerce/Commerce-É

1. **Name of Corporation - Dénomination de la société**

China Growth Capital Inc.

2. **The province or territory in Canada where the registered office is to be situated - La province ou le territoire au Canada où se situera le siège social**

BC

3. **The classes and any maximum number of shares that the corporation is authorized to issue - Catégories et le nombre maximal d'actions que la société est autorisée à émettre**

The annexed schedule is incorporated in this form.
L'annexe ci-jointe fait partie intégrante de la présente formule.

4. **Restrictions, if any, on share transfers - Restrictions sur le transfert des actions, s'il y a lieu**

The annexed schedule is incorporated in this form.
L'annexe ci-jointe fait partie intégrante de la présente formule.

5. **Number (or minimum and maximum number) of directors - Nombre (ou nombre minimal et maximal) d'administrateurs**

Minimum: 3 Maximum: 15

6. **Restrictions, if any, on business the corporation may carry on - Limites imposées à l'activité commerciale de la société, s'il y a lieu**

The annexed schedule is incorporated in this form.
L'annexe ci-jointe fait partie intégrante de la présente formule.

7. **Other provisions, if any - Autres dispositions, s'il y a lieu**

The annexed schedule is incorporated in this form.
L'annexe ci-jointe fait partie intégrante de la présente formule.

8. **Incorporators - Fondateurs**

Name(s) - Nom(s)	Address (including postal code) - Adresse (inclure le code postal)	Signature
WILLIAM BENJAMIN CATALANO	7936 LAKEFIELD DR., BURNABY, BRITISH COLUMBIA, CANADA, V5E 3W8	WILLIAM B. CATALANO

Canada

Item 3 - Shares / Rubrique 3 - Actions

An unlimited number of one class of shares to be designated as Common Shares.

The rights, privileges, restrictions and conditions attaching to the common shares (the "Common Shares") are as follows:

1.1 Dividends

1.1.1 Subject to the prior rights of the holders of the Preference Shares, the holders of the Common Shares shall have the right to receive such dividends (if any) as the directors in their discretion may declare.

1.2 Dissolution

1.2.1 Subject to the prior rights of the holders of the Preference Shares, the holders of the Common Shares shall have the right on liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or other distribution for the purpose of winding-up its affairs, to receive the remaining assets of the Corporation.

1.3 Voting Rights

1.3.1 The holders of the Common Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Corporation, other than separate meetings of the holders of another class or series of shares, and to vote at any such meeting on the basis of one (1) vote for each Common Share held.

Item 4 - Restrictions on Share Transfers / Rubrique 4 - Restrictions sur le transfert des actions

No transfer of any shares shall be effective without the previous consent of the directors of the corporation expressed by a resolution passed by the board of directors or by an instrument or instruments signed by at least 75% of the directors.

Item 6 - Restrictions - Business / Rubrique 6 - Restrictions - activité commerciale

None

Item 7 - Other Provisions / Rubrique 7 - Autres dispositions

(a) At any time or times, the Corporation may purchase the whole or any part of its outstanding shares and such shares shall be cancelled upon such purchase;

(b) The purchase of shareholders of the Corporation exclusive of persons who are in its employment and exclusive of persons who, having been formerly in the employment of the Corporation, were, while in that employment to be, shareholders of the Corporation, is limited to not more than fifty (50), two (2) or more persons who are the joint registered owners of one (1) or more shares being counted as one (1) shareholder; and

(c) The Corporation shall not make a distribution to the public of any of its securities.

Industry Canada Industrie Canada

Certificate of Amendment

Canada Business Corporations Act

Certificat de modification

Loi canadienne sur les sociétés par actions

CAG Capital Inc. 678860-2

Name of corporation-Dénomination de la société | Corporation number-Numéro de la société

I hereby certify that the articles of the above-named corporation were amended:

a) under section 13 of the *Canada Business Corporations Act* in accordance with the attached notice;

b) under section 27 of the *Canada Business Corporations Act* as set out in the attached articles of amendment designating a series of shares;

c) under section 179 of the *Canada Business Corporations Act* as set out in the attached articles of amendment;

d) under section 191 of the *Canada Business Corporations Act* as set out in the attached articles of reorganization;

Je certifie que les statuts de la société susmentionnée ont été modifiés:

☐ a) en vertu de l'article 13 de la *Loi canadienne sur les sociétés par actions*, conformément à l'avis ci-joint;

☐ b) en vertu de l'article 27 de la *Loi canadienne sur les sociétés par actions*, tel qu'il est indiqué dans les clauses modificatrices ci-jointes désignant une série d'actions;

☑ c) en vertu de l'article 179 de la *Loi canadienne sur les sociétés par actions*, tel qu'il est indiqué dans les clauses modificatrices ci-jointes;

☐ d) en vertu de l'article 191 de la *Loi canadienne sur les sociétés par actions*, tel qu'il est indiqué dans les clauses de réorganisation ci-jointes;

Richard G. Shaw
Director - Directeur

April 15, 2008 / le 15 avril 2008
Date of Amendment - Date de modification

Canada

Industry Canada | Industrie Canada

Canada Business Corporations Act | Loi canadienne sur les sociétés par actions

ELECTRONIC TRANSACTION REPORT | **RAPPORT DE LA TRANSACTION ÉLECTRONIQUE**

ARTICLES OF AMENDMENT (SECTIONS 27 OR 177) | CLAUSES MODIFICATRICES (ARTICLES 27 OU 177)

Processing Type - Mode de traitement: E-Commerce/Commerce-É

1. Name of Corporation - Dénomination de la société	2. Corporation No. - N° de la société
China Growth Capital Inc.	678860-2

3. **The articles of the above-named corporation are amended as follows:**
Les statuts de la société mentionnée ci-dessus sont modifiés de la façon suivante:

The corporation changes its name to:
CAG Capital Inc.

Date	Name - Nom	Signature	Capacity of - en qualité
2008-04-15	WILLIAM BENJAMIN CATALANO		DIRECTOR

Canada

BRITISH COLUMBIA
The Best Place on Earth

Number: C0867178

CERTIFICATE
OF
CONTINUATION

BUSINESS CORPORATIONS ACT

I Hereby Certify that CAG CAPITAL INC., which was duly registered as an extraprovincial company under the laws of British Columbia with certificate number A0075344, has continued into British Columbia from the Jurisdiction of CANADA, under the Business Corporations Act, with the name CAG CAPITAL INC. on November 25, 2009 at 03:15 PM Pacific Time.

Issued under my hand at Victoria, British Columbia
On November 25, 2009

RON TOWNSHEND
Registrar of Companies
Province of British Columbia
Canada

2146640

State of California

OFFICE OF THE SECRETARY OF STATE

SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the attached transcript of 1 page(s) has been compared with the record on file in this office, of which it purports to be a copy, and that it is full, true and correct.

THE GREAT SEAL OF THE STATE OF CALIFORNIA
EUREKA

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

SEP 13 1999

Bill Jones

Secretary of State

Sec/State Form CE-107 (rev. 9/98)

OSP 98 13524

ENDORSED - FILED
IN THE OFFICE OF THE
SECRETARY OF STATE
OF THE STATE OF CALIFORNIA

SEP -9 1999

BILL JONES, SECRETARY OF STATE

2146640

ARTICLES OF INCORPORATION
OF
STELLAR BIOTECHNOLOGIES, INC.

ONE: The name of this Corporation is Stellar Biotechnologies, Inc.

TWO: The purpose of this Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business, or the practice of a profession permitted to be incorporated by the California Corporations Code.

THREE: The name and address in this state of the Corporation's initial agent for service of process is John McMullen, 1700 Callas Court, Oxnard, California 93035.

FOUR: The total number of shares which the Corporation is authorized to issue is ten thousand (10,000).

FIVE: The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law. This Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the Corporations Code) for breach of duty to the Corporation and its shareholders through Bylaw provisions or through agreements with the agents, or both, in excess of the indemnification otherwise permitted by Section 317 of the Corporations Code, subject to the limits on such excess indemnification set forth in Section 204 of the Corporations Code.

Dated: September 7, 1999

JOHN McMULLEN
Sole Incorporator

I declare that I am the person who executed the above Articles of Incorporation and such instrument is my act and deed.

JOHN McMULLEN

OFFICE OF THE SECRETARY OF STATE

A0572134

State of California

SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the attached transcript of 1 page(s) has been compared with the record on file in this office, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

OCT 1 2001

Bill Jones

Secretary of State

Sec/State Form CE-107 (rev. 9/98)

OSP 01 55134

A0572134

ENDORSED - FILED
in the office of the Secretary of State
of the State of California

OCT 01 2001

BILL JONES, Secretary of State

CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION OF STELLAR BIOTECHNOLOGIES, INC.

JOHN McMULLEN and FRANK OAKES certify that:

1. They are the President and Secretary, respectively, of Stellar Biotechnologies, Inc., a California corporation.

2. The text of Article FOUR of the articles of incorporation is amended to read:

> "The Corporation is authorized to issue One Million (1,000,000) shares of Common Stock of one class. Upon amendment of this Article, each outstanding share is split into one hundred (100) shares."

3. The amendment herein set forth has been duly approved by the Board of Directors.

4. The amendment herein set forth has been duly approved by the required vote of the shareholders in accordance with Section 902 of the Corporations Code. The Corporation has only one class of shares and the number of outstanding shares is five thousand one (5,001). The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required to approve the amendment herein set forth was more than fifty percent (50%).

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this Certificate are true and correct of our own knowledge.

Dated: Sept 12, 2001

JOHN McMULLEN

FRANK OAKES

RG19871

BRITISH COLUMBIA
The Best Place on Earth

Number: C0867178

CERTIFICATE
OF
CHANGE OF NAME

BUSINESS CORPORATIONS ACT

I Hereby Certify that CAG CAPITAL INC. changed its name to STELLAR BIOTECHNOLOGIES, INC. on April 7, 2010 at 12:46 PM Pacific Time.

Issued under my hand at Victoria, British Columbia
On April 7, 2010

RON TOWNSHEND
Registrar of Companies
Province of British Columbia
Canada

BRITISH COLUMBIA
The Best Place on Earth

Ministry of Finance
BC Registry Services

Mailing Address:
PO BOX 9431 Stn Prov Govt.
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard St.
Victoria BC
250 356-8626

CERTIFIED COPY
Of a Document filed with the Province of British Columbia Registrar of Companies

RON TOWNSHEND
April 7, 2010

Notice of Articles

BUSINESS CORPORATIONS ACT

This Notice of Articles was issued by the Registrar on: April 7, 2010 12:46 PM Pacific Time

Incorporation Number: **C0867178**

Recognition Date and Time: *Continued into British Columbia on November 25, 2009 03:15 PM Pacific Time*

NOTICE OF ARTICLES

Name of Company:

STELLAR BIOTECHNOLOGIES, INC.

REGISTERED OFFICE INFORMATION

Mailing Address:
7936 LAKEFIELD DRIVE
BURNABY BC V5E 3W8
CANADA

Delivery Address:
7936 LAKEFIELD DRIVE
BURNABY BC V5E 3W8
CANADA

RECORDS OFFICE INFORMATION

Mailing Address:
7936 LAKEFIELD DRIVE
BURNABY BC V5E 3W8
CANADA

Delivery Address:
7936 LAKEFIELD DRIVE
BURNABY BC V5E 3W8
CANADA

DIRECTOR INFORMATION

Last Name, First Name, Middle Name:
CATALANO, W. BENJAMIN

Mailing Address:
7936 LAKEFIELD DRIVE
BURNABY BC V5E 3W8
CANADA

Delivery Address:
7936 LAKEFIELD DRIVE
BURNABY BC V5E 3W8
CANADA

Last Name, First Name, Middle Name:
JI, ALAN G.

Mailing Address:
2166 CHISIN STREET
SAN JOSE CA 95121
UNITED STATES

Delivery Address:
2166 CHISIN STREET
SAN JOSE CA 95121
UNITED STATES

Last Name, First Name, Middle Name:
BROOKSTEIN, DARRELL

Mailing Address:
3833 CHIPPEWA CT.
SAN DIEGO CA 92117
UNITED STATES

Delivery Address:
3833 CHIPPEWA CT.
SAN DIEGO CA 92117
UNITED STATES

Last Name, First Name, Middle Name:
WOODWARD, MARTIN J.C.

Mailing Address:
935 SHAVINGTON STREET
NORTH VANCOUVER BC V7L 1K6
CANADA

Delivery Address:
935 SHAVINGTON STREET
NORTH VANCOUVER BC V7L 1K6
CANADA

AUTHORIZED SHARE STRUCTURE

1.	No Maximum	Common Shares	Without Par Value
			Without Special Rights or Restrictions attached

BUSINESS CORPORATIONS ACT

ARTICLES

OF

STELLAR BIOTECHNOLOGIES, INC.
(the "Company")

TABLE OF CONTENTS

BUSINESS CORPORATIONS ACT

ARTICLES

OF

STELLAR BIOTECHNOLOGIES, INC.
(the "Company")

Number:

PART 1

INTERPRETATION

Definitions

1.1 In these Articles, unless the context otherwise requires:

(a) "**Act**" means the *Business Corporations Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

(b) "**board of directors**", "**directors**" and "**board**" mean the directors or sole director of the Company for the time being;

(c) "**Interpretation Act**" means the *Interpretation Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

(d) "**legal personal representative**" means the personal or other legal representative of the shareholder;

(e) "**registered address**" of a shareholder means the shareholder's address as recorded in the central securities register;

(f) "**seal**" means the seal of the Company, if any;

(g) "**share**" means a share in the share structure of the Company; and

(h) "**special majority**" means the majority of votes described in § 11.2 which is required to pass a special resolution.

Act and Interpretation Act Definitions Applicable

1.2 The definitions in the Act and the definitions and rules of construction in the Interpretation Act, with the necessary changes, so far as applicable, and except as the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the Act and a definition or rule in the Interpretation Act relating to a term used in these Articles, the definition in the Act will prevail. If there is a conflict or inconsistency between these Articles and the Act, the Act will prevail.

PART 2

SHARES AND SHARE CERTIFICATES

Authorized Share Structure

2.1 The authorized share structure of the Company consists of shares of the class or classes and series, if any, described in the Notice of Articles of the Company.

Form of Share Certificate

2.2 Each share certificate issued by the Company must comply with, and be signed as required by the Act.

Shareholder Entitled to Certificate or Acknowledgment

2.3 Each shareholder is entitled, without charge, to (a) one share certificate representing the shares of each class or series of shares registered in the shareholder's name or (b) a non-transferable written acknowledgment of the shareholder's right to obtain such a share certificate, provided that in respect of a share held jointly by several persons, the Company is not bound to issue more than one share certificate or acknowledgment and delivery of a share certificate or an acknowledgment to one of several joint shareholders or to a duly authorized agent of one of the joint shareholders will be sufficient delivery to all.

Delivery by Mail

2.4 Any share certificate or non-transferable written acknowledgment of a shareholder's right to obtain a share certificate may be sent to the shareholder by mail at the shareholder's registered address and neither the Company nor any director, officer or agent of the Company is liable for any loss to the shareholder because the share certificate or acknowledgement is lost in the mail or stolen.

Replacement of Worn Out or Defaced Certificate or Acknowledgement

2.5 If a share certificate or a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate is worn out or defaced, the Company must, on production of the share certificate or acknowledgment, as the case may be, and on such other terms, if any, as are deemed fit:

(a) cancel the share certificate or acknowledgment; and

(b) issue a replacement share certificate or acknowledgment.

Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgment

2.6 If a share certificate or a non-transferable written acknowledgment of a shareholder's right to obtain a share certificate is lost, stolen or destroyed, the Company must issue a replacement share certificate or acknowledgment, as the case may be, to the person entitled to that share certificate or acknowledgment, if it receives:

(a) proof satisfactory to it of the loss, theft or destruction; and

(b) any indemnity the directors consider adequate

Splitting Share Certificates

2.7 If a shareholder surrenders a share certificate to the Company with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as the share certificate so surrendered, the Company must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

Certificate Fee

2.8 There must be paid to the Company, in relation to the issue of any share certificate under §2.5, §2.6 or §2.7, the amount, if any, not exceeding the amount prescribed under the Act, determined by the directors.

Recognition of Trusts

2.9 Except as required by law or statute or these Articles, no person will be recognized by the Company as holding any share upon any trust, and the Company is not bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as required by law or statute or these Articles or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

PART 3

ISSUE OF SHARES

Directors Authorized

3.1

Subject to the Act and the rights, if any, of the holders of issued shares of the Company, the Company may allot, issue, sell or otherwise dispose of the unissued shares, and issued shares held by the Company, at the times, to the persons, including directors, in the manner, on the terms and conditions and for the consideration (including any premium at which shares with par value may be issued) that the directors may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.

Commissions and Discounts

3.2 The Company may at any time pay a reasonable commission or allow a reasonable discount to any person in consideration of that person's purchase or agreement to purchase shares of the Company from the Company or any other person's procurement or agreement to procure purchasers for shares of the Company.

Brokerage

3.3 The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

Conditions of Issue

3.4 Except as provided for by the Act, no share may be issued until it is fully paid. A share is fully paid when:

(a) consideration is provided to the Company for the issue of the share by one or more of the following:

(i) past services performed for the Company;

(ii) property;

(iii) money; and

(b) the value of the consideration received by the Company equals or exceeds the issue price set for the share under §3.1.

Share Purchase Warrants and Rights

3.5 ubject to the Act, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the directors determine, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

PART 4

SHARE REGISTERS

Central Securities Register

4.1 As required by and subject to the Act, the Company must maintain in British Columbia a central securities register and may appoint an agent to maintain such register. The directors may appoint one or more agents, including the agent appointed to keep the central securities register, as transfer agent for shares or any class or series of shares and the same or another agent as registrar for shares or such class or series of shares, as the case may be. The directors may terminate such appointment of any agent at any time and may appoint another agent in its place.

PART 5

SHARE TRANSFERS

Registering Transfers

5.1 A transfer of a share must not be registered unless the Company or the transfer agent or registrar for the class or series of shares to be transferred has received:

(a) except as exempted by the Act, a duly signed proper instrument of transfer in respect of the share;

(b) if a share certificate has been issued by the Company in respect of the share to be transferred, that share certificate;

(c) if a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate has been issued by the Company in respect of the share to be transferred, that acknowledgment;

and

(d) such other evidence, if any, as the Company or the transfer agent or registrar for the class or series of share to be transferred may require to prove the title of the transferor or the transferor's right to transfer the share, the due signing of the instrument of transfer and the right of the transferee to have the transfer registered.

Form of Instrument of Transfer

5.2 The instrument of transfer in respect of any share of the Company must be either in the form, if any, on the back of the Company's share certificates of that class or series or in some other form that may be approved by the directors.

Transferor Remains Shareholder

5.3 Except to the extent that the Act otherwise provides, the transferor of a share is deemed to remain the holder of it until the name of the transferee is entered in a securities register of the Company in respect of the transfer.

Signing of Instrument of Transfer

5.4 If a shareholder, or the shareholder's duly authorized attorney, signs an instrument of transfer in respect of shares registered in the name of the shareholder, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents to register the

number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified, all the shares represented **by the share certificates or set out in the written acknowledgments deposited with the instrument of transfer:**

(a) in the name of the person named as transferee in that instrument of transfer; or

(b) if no person is named as transferee in that instrument of transfer, in the name of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

Enquiry as to Title Not Required

5.5 Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the person named in the instrument of transfer as transferee or, if no person is named as transferee in the instrument of transfer, of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares transferred, of any interest in such shares, of any share certificate representing such shares or of any written acknowledgment of a right to obtain a share certificate for such shares.

Transfer Fee

5.6 There must be paid to the Company, in relation to the registration of a transfer, the amount, if any, determined by the directors.

PART 6

TRANSMISSION OF SHARES

Legal Personal Representative Recognized on Death

6.1 In case of the death of a shareholder, the legal personal representative of the shareholder, or in the case of shares registered in the shareholder's name and the name of another person in joint tenancy, the surviving joint holder, will be the only person recognized by the Company as having any title to the shareholder's interest in the shares. Before recognizing a person as a legal personal representative of a shareholder, the Company shall receive the documentation required by the Act.

Rights of Legal Personal Representative

6.2 The legal personal representative of a shareholder has the same rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles, provided the documents required by the Act and the directors have been deposited with the Company. This §6.2 does not apply in the case of the death of a shareholder with respect to shares registered in the name of the shareholder and the name of another person in joint tenancy.

PART 7

PURCHASE, REDEEM OR OTHERWISE ACQUIRE SHARES

Company Authorized to Purchase, Redeem or Otherwise Acquire Shares

7.1 Subject to §7.2, the special rights or restrictions attached to the shares of any class or series and the Act, the Company may, if authorized by the directors, purchase, redeem or otherwise acquire any of its shares at the price and upon the terms determined by the directors.

Purchase When Insolvent

7.2 The Company must not make a payment or provide any other consideration to purchase, redeem or otherwise acquire any of its shares if there are reasonable grounds for believing that:

(a) the Company is insolvent; or

(b) making the payment or providing the consideration would render the Company insolvent.

Sale and Voting of Purchased, Redeemed or Otherwise Acquired Shares

7.3 If the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell, gift or otherwise dispose of the share, but, while such share is held by the Company, it:

(a) is not entitled to vote the share at a meeting of its shareholders;

(b) must not pay a dividend in respect of the share; and

(c) must not make any other distribution in respect of the share.

Company Entitled to Purchase, Redeem or Otherwise Acquire Share Fractions

7.4 The Company may, without prior notice to the holders, purchase, redeem or otherwise acquire for fair value any and all outstanding share fractions of any class or kind of shares in its authorized share structure as may exist at any time and from time to time. Upon the Company delivering the purchase funds and confirmation of purchase or redemption of the share fractions to the holders' registered or last known address, or if the Company has a transfer agent then to such agent for the benefit of and forwarding to such holders, the Company shall thereupon amend its central securities register to reflect the purchase or redemption of such share fractions and if the Company has a transfer agent, shall direct the transfer agent to amend the central securities register accordingly. Any holder of a share fraction, who upon receipt of the funds and confirmation of purchase or redemption of same, disputes the fair value paid for the fraction, shall have the right to apply to the court to request that it set the price and terms of payment and make consequential orders and give directions the court considers appropriate, as if the Company were the "acquiring person" as contemplated by Division 6, Compulsory Acquisitions, under the Act and the holder were an "offeree" subject to the provisions contained in such Division, *mutatis mutandis*.

PART 8

BORROWING POWERS

8.1 The Company, if authorized by the directors, may:

(a) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

(b) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as the directors consider appropriate;

(c) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and

(d) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

8.2 The powers conferred under this Part 8 shall be deemed to include the powers conferred on a company by Division VII of the *Special Corporations Powers Act* being chapter P-16 of the Revised Statutes of Quebec, 1988, and every statutory provision that may be substituted therefor or for any provision therein.

PART 9

ALTERATIONS

Alteration of Authorized Share Structure

9.1 Subject to §9.2 and the Act, the Company may by ordinary resolution (or a resolution of the directors in the case of §9.1(c) or §9.1(f)):

(a) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares;

(b) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established;

(c) subdivide or consolidate all or any of its unissued, or fully paid issued, shares;

(d) if the Company is authorized to issue shares of a class of shares with par value:

(i) decrease the par value of those shares; or

(ii) if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;

(e) change all or any of its unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;

(f) alter the identifying name of any of its shares; or

(g) otherwise alter its shares or authorized share structure when required or permitted to do so by the Act where it does not specify by a special resolution;

and, if applicable, alter its Notice of Articles and Articles accordingly.

Special Rights or Restrictions

9.2 Subject to the Act and in particular those provisions of the Act relating to the rights of holders of outstanding shares to vote if their rights are prejudiced or interfered with, the Company may by ordinary resolution:

(a) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, whether or not any or all of those shares have been issued; or

(b) vary or delete any special rights or restrictions attached to the shares of any class or series of shares, whether or not any or all of those shares have been issued,

and alter its Notice of Articles and Articles accordingly.

Change of Name

9.3 The Company may by resolution of the directors authorize an alteration to its Notice of Articles in order to change its name or adopt or change any translation of that name.

Other Alterations

9.4 If the Act does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by ordinary resolution alter these Articles.

PART 10

MEETINGS OF SHAREHOLDERS

Annual General Meetings

10.1 Unless an annual general meeting is deferred or waived in accordance with the Act, the Company must hold its first annual general meeting within 18 months after the date on which it was incorporated or otherwise recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the directors.

Resolution Instead of Annual General Meeting

10.2 If all the shareholders who are entitled to vote at an annual general meeting consent in writing by a unanimous resolution to all of the business that is required to be transacted at that annual general meeting, the annual general meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this § 10. 2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

Calling of Meetings of Shareholders

10.3 The directors may, at any time, call a meeting of shareholders.

Notice for Meetings of Shareholders

10.4 The Company must send notice of the date, time and location of any meeting of shareholders (including, without limitation, any notice specifying the intention to propose a resolution as an exceptional resolution, a special resolution or a special separate resolution, and any notice to consider approving an amalgamation into a foreign jurisdiction, an arrangement or the adoption of an amalgamation agreement, and any notice of a general meeting, class meeting or series meeting), in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

(a) if the Company is a public company, 21 days;

(b) otherwise, 10 days.

Record Date for Notice

10.5 The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the Act, by more than four months. The record date must not precede the date on which the meeting is held by fewer than:

(a) if the Company is a public company, 21 days;

(b) otherwise, 10 days.

If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

Record Date for Voting

10.6 The directors may set a date as the record date for the purpose of determining shareholders entitled to vote at any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the Act, by more than four months. If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

Failure to Give Notice and Waiver of Notice

10.7 The accidental omission to send notice of any meeting of shareholders to, or the non-receipt of any notice by, any of the persons entitled to notice does not invalidate any proceedings at that meeting. Any person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive that entitlement or may agree to reduce the period of that notice. Attendance of a person at a meeting of shareholders is a waiver of entitlement to notice of the meeting unless that person attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

Notice of Special Business at Meetings of Shareholders

10.8 If a meeting of shareholders is to consider special business within the meaning of § 11. 1, the notice of meeting must:

(a) state the general nature of the special business; and

(b) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:

(i) at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice; and

(ii) during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

Place of Meetings

10.9 In addition to any location in British Columbia, any general meeting may be held in any location outside British Columbia approved by a resolution of the directors.

PART 11

PROCEEDINGS AT MEETINGS OF SHAREHOLDERS

Special Business

11.1 At a meeting of shareholders, the following business is special business:

(a) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting;

(b) at an annual general meeting, all business is special business except for the following:

(i) business relating to the conduct of or voting at the meeting;

(ii) consideration of any financial statements of the Company presented to the meeting;

(iii) consideration of any reports of the directors or auditor;

(iv) the setting or changing of the number of directors;

(v) the election or appointment of directors;

(vi) the appointment of an auditor;

(vii) the setting of the remuneration of an auditor;

(viii) business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution;

(ix) any other business which, under these Articles or the Act, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

Special Majority

11.2 The majority of votes required for the Company to pass a special resolution at a general meeting of shareholders is two-thirds of the votes cast on the resolution.

Quorum

11.3 Subject to the special rights or restrictions attached to the shares of any class or series of shares, and to § 11.4, the quorum for the transaction of business at a meeting of shareholders is at least one person who is, or who represents by proxy, one or more shareholders who, in the aggregate, hold at least five (5%) of the issued shares entitled to be voted at the meeting.

One Shareholder May Constitute Quorum

11.4 If there is only one shareholder entitled to vote at a meeting of shareholders:

(a) the quorum is one person who is, or who represents by proxy, that shareholder, and

(b) that shareholder, present in person or by proxy, may constitute the meeting.

Persons Entitled to Attend Meeting

11.5 In addition to those persons who are entitled to vote at a meeting of shareholders, the only other persons entitled to be present at the meeting are the directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company, any persons invited to be present at the meeting by the directors or by the chair of the meeting and any persons entitled or required under the Act or these Articles to be present at the meeting; but if any of those persons does attend the meeting, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

Requirement of Quorum

11.6 No business, other than the election of a chair of the meeting and the adjournment of the meeting, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

Lack of Quorum

11.7 If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present:

(a) in the case of a general meeting requisitioned by shareholders, the meeting is dissolved, and

(b) in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

Lack of Quorum at Succeeding Meeting

11.8 If, at the meeting to which the meeting referred to in § 11.7(b) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the person or persons present and being, or representing by proxy, two or more shareholders entitled to attend and vote at the meeting shall be deemed to constitute a quorum.

Chair

11.9 The following individual is entitled to preside as chair at a meeting of shareholders:

(a) the chair of the board, if any; or

(b) if the chair of the board is absent or unwilling to act as chair of the meeting, the president, if any.

Selection of Alternate Chair

11.10 If, at any meeting of shareholders, there is no chair of the board or president present within 15 minutes after the time set for holding the meeting, or if the chair of the board and the president are unwilling to act as chair of the meeting, or if the chair of the board and the president have advised the secretary, if any, or any director present at the meeting, that they will not be present at the meeting, the directors present may choose either one of their number or the solicitor of the Company to be chair of the meeting. If all of the directors present decline to take the chair or fail to so choose or if no director is present or the solicitor of the Company declines to take the chair, the shareholders entitled to vote at the meeting who are present in person or by proxy may choose any person present at the meeting to chair the meeting.

Adjournments

11.11 The chair of a meeting of shareholders may, and if so directed by the meeting must adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

Notice of Adjourned Meeting

11.12 It is not necessary to give any notice of an adjourned meeting of shareholders or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given as in the case of the original meeting.

Decisions by Show of Hands or Poll

11.13 Subject to the Act, every motion put to a vote at a meeting of shareholders will be decided on a show of hands unless a poll, before or on the declaration of the result of the vote by show of hands, is directed by the chair or demanded by any shareholder entitled to vote who is present in person or by proxy.

Declaration of Result

11.14 The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the chair or demanded under § 11. 13, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

Motion Need Not be Seconded

11.15 No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of any meeting of shareholders is entitled to propose or second a motion.

Casting Vote

11.16 In case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair may be entitled as a shareholder.

Manner of Taking Poll

11.17 Subject to § 11. 18, if a poll is duly demanded at a meeting of shareholders:

(a) the poll must be taken:

(i) at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs; and

(ii) in the manner, at the time and at the place that the chair of the meeting directs;

(b) the result of the poll is deemed to be the decision of the meeting at which the poll is demanded; and

(c) the demand for the poll may be withdrawn by the person who demanded it.

Demand for Poll on Adjournment

11.18 A poll demanded at a meeting of shareholders on a question of adjournment must be taken immediately at the meeting.

Chair Must Resolve Dispute

11.19 In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of the meeting must determine the dispute, and the determination of the chair made in good faith is final and conclusive.

Casting of Votes

11.20 On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

No Demand for Poll on Election of Chair

11.21 No poll may be demanded in respect of the vote by which a chair of a meeting of shareholders is elected**.**

Demand for Poll Not to Prevent Continuance of Meeting

11.21 The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

Retention of Ballots and Proxies

11.22 The Company must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting, and, during that period, make them available for inspection during normal business hours by any shareholder or proxyholder entitled to vote at the meeting. At the end of such three month period, the Company may destroy such ballots and proxies.

PART 12

VOTES OF SHAREHOLDERS

Number of Votes by Shareholder or by Shares

12.1 Subject to any special rights or restrictions attached to any shares and to the restrictions imposed on joint shareholders under §12.3:

(a) on a vote by show of hands, every person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote; and

(b) on a poll, every shareholder entitled to vote on the matter has one vote in respect of each share entitled to be voted on the matter and held by that shareholder and may exercise that vote either in person or by proxy.

Votes of Persons in Representative Capacity

12.2 A person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if, before doing so, the person satisfies the chair of the meeting, or the directors, that the person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

Votes by Joint Holders

(a) any one of the joint shareholders may vote at any meeting of shareholders, personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it; or

(b) if more than one of the joint shareholders is present at any meeting of shareholders, personally or by proxy, and more than one of them votes in respect of that share, then only the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted.

Legal Personal Representatives as Joint Shareholders

12.4 Two or more legal personal representatives of a shareholder in whose sole name any share is registered are, for the purposes of § 12.3, deemed to be joint shareholders registered in respect of that share.

Representative of a Corporate Shareholder

12.5 If a corporation, that is not a subsidiary of the Company, is a shareholder, that corporation may appoint a person to act as its representative at any meeting of shareholders of the Company, and:

(a) for that purpose, the instrument appointing a representative must be received:

(i) at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice for the receipt of proxies, or if no number of days is specified, two business days before the day set for the holding of the meeting or any adjourned meeting; or

(ii) at the meeting or any adjourned meeting, by the chair of the meeting or adjourned meeting or by a person designated by the chair of the meeting or adjourned meeting;

(b) if a representative is appointed under this § 12.5:

(i) the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder; and

(ii) the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in person at the meeting.

Evidence of the appointment of any such representative may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

Proxy Provisions Do Not Apply to All Companies

12.6 If and for so long as the Company is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply, then § 12.7 to § 12.15 are not mandatory, however the directors of the Company are authorized to apply all or part of such sections or to adopt alternative procedures for proxy form, deposit and revocation procedures to the extent that the directors deem necessary in order to comply with securities laws applicable to the Company.

Appointment of Proxy Holders

12.7 Every shareholder of the Company entitled to vote at a meeting of shareholders may, by proxy, appoint one or more (but not more than two) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy.

Alternate Proxy Holders

12.8 A shareholder may appoint one or more alternate proxy holders to act in the place of an absent proxy holder.

Proxy Holder Need Not Be Shareholder

12.9 A proxy holder need not be a shareholder of the Company.

Deposit of Proxy

12.10 A proxy for a meeting of shareholders must:

(a) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice, or if no number of days is specified, two business days before the day set for the holding of the meeting or any adjourned meeting; or

(b) unless the notice provides otherwise, be received, at the meeting or any adjourned meeting, by the chair of the meeting or adjourned meeting or by a person designated by the chair of the meeting or adjourned meeting.

A proxy may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages, including through Internet or telephone voting or by email, if permitted by the notice calling the meeting or the information circular for the meeting.

Validity of Proxy Vote

12.11 A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received:

(a) at the registered office of the Company, at any time up to and including the last business day before the day set for the holding of the meeting or any adjourned meeting at which the proxy is to be used; or

(b) at the meeting or any adjourned meeting by the chair of the meeting or adjourned meeting, before any vote in respect of which the proxy has been given has been taken.

Form of Proxy

12.12 A proxy, whether for a specified meeting or otherwise, must be either in the following form or in any other form approved by the directors or the chair of the meeting:

[name of company]
(the "Company")

The undersigned, being a shareholder of the Company, hereby appoints [name] or, failing that person, [name], as proxy holder for the undersigned to attend, act and vote for and on behalf of the undersigned at the meeting of shareholders of the Company to be held on [month, day, year] and at any adjournment of that meeting.
Number of shares in respect of which this proxy is given (if no number is specified, then this proxy if given in respect of all shares registered in the name of the undersigned):

Signed [month, day, year]
[Signature of shareholder]
[Name of shareholder—printed]

Revocation of Proxy

12.13 Subject to § 12.14, every proxy may be revoked by an instrument in writing that is received:

(a) at the registered office of the Company at any time up to and including the last business day before the day set for the holding of the meeting or any adjourned meeting at which the proxy is to be used; or

(b) at the meeting or any adjourned meeting, by the chair of the meeting or adjourned meeting, before any vote in respect of which the proxy has been given has been taken.

Revocation of Proxy Must Be Signed

12.14 An instrument referred to in § 12.13 must be signed as follows:

(a) if the shareholder for whom the proxy holder is appointed is an individual, the instrument must be signed by the shareholder or the shareholder's legal personal representative or trustee in bankruptcy;

(b) if the shareholder for whom the proxy holder is appointed is a corporation, the instrument must be signed by the corporation or by a representative appointed for the corporation under § 12.5.

Production of Evidence of Authority to Vote

12.15 The chair of any meeting of shareholders may, but need not, inquire into the authority of any person to vote at the meeting and may, but need not, demand from that person production of evidence as to the existence of the authority to vote.

PART 13

DIRECTORS

First Directors; Number of Directors

13.1 The first directors are the persons designated as directors of the Company in the Notice of Articles that applies to the Company when it is recognized under the Act. The number of directors, excluding additional directors appointed under § 14.8, is set at:

(a) subject to §(b) and §(c), the number of directors that is equal to the number of the Company's first directors;

(b) if the Company is a public company, the greater of three and the most recently set of:

(i) the number of directors set by a resolution of the directors (whether or not previous notice of the resolution was given); and

(ii) the number of directors in office pursuant to § 14.4;

(c) if the Company is not a public company, the most recently set of:

(i) the number of directors set by a resolution of the directors (whether or not previous notice of the resolution was given); and

(ii) the number of directors in office pursuant to § 14.4.

Change in Number of Directors

13.2 If the number of directors is set under § 13.1(b)(i) or § 13.1(c)(i):

(a) the shareholders may elect or appoint the directors needed to fill any vacancies in the board of directors up to that number; or

(b) if the shareholders do not elect or appoint the directors needed to fill any vacancies in the board of directors up to that number then the directors, subject to §14.8, may appoint directors to fill those vacancies.

Directors' Acts Valid Despite Vacancy

13.3 An act or proceeding of the directors is not invalid merely because fewer than the number of directors set or otherwise required under these Articles is in office.

Qualifications of Directors

13.4 A director is not required to hold a share as qualification for his or her office but must be qualified as required by the Act to become, act or continue to act as a director.

Remuneration of Directors

13.5 The directors are entitled to the remuneration for acting as directors, if any, as the directors may from time to time determine. If the directors so decide, the remuneration of the directors, if any, will be determined by the shareholders.

Reimbursement of Expenses of Directors

13.6 The Company must reimburse each director for the reasonable expenses that he or she may incur in and about the business of the Company.

Special Remuneration for Directors

13.7 If any director performs any professional or other services for the Company that in the opinion of the directors are outside the ordinary duties of a director, he or she may be paid remuneration fixed by the directors, or at the option of the directors, fixed by ordinary resolution, and such remuneration will be in addition to any other remuneration that he or she may be entitled to receive.

Gratuity, Pension or Allowance on Retirement of Director

13.8 Unless otherwise determined by ordinary resolution, the directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or to his or her spouse or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

PART 14

ELECTION AND REMOVAL OF DIRECTORS

Election at Annual General Meeting

14.1 At every annual general meeting and in every unanimous resolution contemplated by §10.2:

(a) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set under these Articles; and

(b) all the directors cease to hold office immediately before the election or appointment of directors under §(a), but are eligible for re-election or re-appointment.

Consent to be a Director

14.2 No election, appointment or designation of an individual as a director is valid unless:

(a) that individual consents to be a director in the manner provided for in the Act;

(b) that individual is elected or appointed at a meeting at which the individual is present and the individual does not refuse, at the meeting, to be a director; or

(c) with respect to first directors, the designation is otherwise valid under the Act.

Failure to Elect or Appoint Directors

14.3 If:

(a) the Company fails to hold an annual general meeting, and all the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by § 10. 2, on or before the date by which the annual general meeting is required to be held under the Act; or

(b) the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by § 10. 2, to elect or appoint any directors, then each director then in office continues to hold office until the earlier of:

(c) when his or her successor is elected or appointed; and

(d) when he or she otherwise ceases to hold office under the Act or these Articles.

Places of Retiring Directors Not Filled

14.4 If, at any meeting of shareholders at which there should be an election of directors, the places of any of the retiring directors are not filled by that election, those retiring directors who are not re-elected and who are asked by the newly elected directors to continue in office will, if willing to do so, continue in office to complete the number of directors for the time being set pursuant to these Articles but their term of office shall expire when new directors are elected at a meeting of shareholders convened for that purpose. If any such election or continuance of directors does not result in the election or continuance of the number of directors for the time being set pursuant to these Articles, the number of directors of the Company is deemed to be set at the number of directors actually elected or continued in office.

Directors May Fill Casual Vacancies

14.5 Any casual vacancy occurring in the board of directors may be filled by the directors.

Remaining Directors Power to Act

14.6 The directors may act notwithstanding any vacancy in the board of directors, but if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of calling a meeting of shareholders for the purpose of filling any vacancies on the board of directors or, subject to the Act, for any other purpose.

Shareholders May Fill Vacancies

14.7 If the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board of directors.

Additional Directors

14.8 Notwithstanding § 13.1 and § 13.2, between annual general meetings or by unanimous resolutions contemplated by § 10. 2, the directors may appoint one or more additional directors, but the number of additional directors appointed under this § 14.8 must not at any time exceed:

(a) one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office; or

(b) in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this § 14.8.

Any director so appointed ceases to hold office immediately before the next election or appointment of directors under § 14.1(a), but is eligible for re-election or re-appointment.

Ceasing to be a Director

14.9 A director ceases to be a director when:

(a) the term of office of the director expires;

(b) the director dies;

(c) the director resigns as a director by notice in writing provided to the Company or a lawyer for the Company; or

(d) the director is removed from office pursuant to § 14.10 or § 14.11.

Removal of Director by Shareholders

14.10 The Company may remove any director before the expiration of his or her term of office by special resolution. In that event, the shareholders may elect, or appoint by ordinary resolution, a director to fill the resulting vacancy. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the directors may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

Removal of Director by Directors

14.11 The directors may remove any director before the expiration of his or her term of office if the director is convicted of an indictable offence, or if the director ceases to be qualified to act as a director of a company and does not promptly resign, and the directors may appoint a director to fill the resulting vacancy.

PART 15

ALTERNATE DIRECTORS

Appointment of Alternate Director

15.1 Any director (an “appointor”) may by notice in writing received by the Company appoint any person (an “appointee”) who is qualified to act as a director to be his or her alternate to act in his or her place at meetings of the directors or committees of the directors at which the appointor is not present unless (in the case of an appointee who is not a director) the directors have reasonably disapproved the appointment of such person as an alternate director and have given notice to that effect to his or her appointor within a reasonable time after the notice of appointment is received by the Company.

Notice of Meetings

15.2 Every alternate director so appointed is entitled to notice of meetings of the directors and of committees of the directors of which his or her appointor is a member and to attend and vote as a director at any such meetings at which his or her appointor is not present.

Alternate for More than One Director Attending Meetings

15.3 A person may be appointed as an alternate director by more than one director, and an alternate director:

(a) will be counted in determining the quorum for a meeting of directors once for each of his or her appointors and, in the case of an appointee who is also a director, once more in that capacity;

(b) has a separate vote at a meeting of directors for each of his or her appointors and, in the case of an appointee who is also a director, an additional vote in that capacity;

(c) will be counted in determining the quorum for a meeting of a committee of directors once for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a directors, once more in that capacity; and

(d) has a separate vote at a meeting of a committee of directors for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, an additional vote in that capacity.

Consent Resolutions

15.4 Every alternate director, if authorized by the notice appointing him or her, may sign in place of his or her appointor any resolutions to be consented to in writing.

Alternate Director an Agent

15.5 Every alternate director is deemed to be the agent of his or her appointor.

Revocation or Amendment of Appointment of Alternate Director

15.6 An appointor may at any time, by notice in writing received by the Company, revoke or amend the terms of the appointment of an alternate director appointed by him or her.

Ceasing to be an Alternate Director

15.7 The appointment of an alternate director ceases when:

(a) his or her appointor ceases to be a director and is not promptly re-elected or reappointed;

(b) the alternate director dies;

(c) the alternate director resigns as an alternate director by notice in writing provided to the Company or a lawyer for the Company;

(d) the alternate director ceases to be qualified to act as a director; or

(e) the term of his appointment expires, or his or her appointor revokes the appointment of the alternate directors.

Remuneration and Expenses of Alternate Director

15.8 The Company may reimburse an alternate director for the reasonable expenses that would be properly reimbursed if he or she were a director, and the alternate director is entitled to receive from the Company such proportion, if any, of the remuneration otherwise payable to the appointor as the appointor may from time to time direct.

PART 16

POWERS AND DUTIES OF DIRECTORS

Powers of Management

16.1 The directors must, subject to the Act and these Articles, manage or supervise the management of the business and affairs of the Company and have the authority to exercise all such powers of the Company as are not, by the Act or by these Articles, required to be exercised by the shareholders of the Company. Notwithstanding the generality of the foregoing, the directors may set the remuneration of the auditor of the Company.

Appointment of Attorney of Company

16.2 The directors may from time to time, by power of attorney or other instrument, under seal if so required by law, appoint any person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles and excepting the power to fill vacancies in the board of directors, to remove a director, to change the membership of, or fill vacancies in, any committee of the directors, to appoint or remove officers appointed by the directors and to declare dividends) and for such period, and with such remuneration and subject to such conditions as the directors may think fit. Any such power of attorney may contain such provisions for the protection or convenience of persons dealing with such attorney as the directors think fit. Any such attorney may be authorized by the directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in him or her.

PART 17

INTERESTS OF DIRECTORS AND OFFICERS

Obligation to Account for Profits

17.1 A director or senior officer who holds a disclosable interest (as that term is used in the Act) in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the Act.

Restrictions on Voting by Reason of Interest

17.2 director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

Interested Director Counted in Quorum

17.3 A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

Disclosure of Conflict of Interest or Property

17.4 A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the Act.

Director Holding Other Office in the Company

17.5 A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to his or her office of director for the period and on the terms (as to remuneration or otherwise) that the directors may determine.

No Disqualification

17.6 No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason.

Professional Services by Director or Officer

17.7 Subject to the Act, a director or officer, or any person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and the director or officer or such person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

Director or Officer in Other Corporations

17.8 A director or officer may be or become a director, officer or employee of, or otherwise interested in, any person in which the Company may be interested as a shareholder or otherwise, and, subject to the Act, the director or officer is not accountable to the Company for any remuneration or other benefits received by him or her as director, officer or employee of, or from his or her interest in, such other person.

PART 18

PROCEEDINGS OF DIRECTORS

Meetings of Directors

18.1 The directors may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of the directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the directors may from time to time determine.

Voting at Meetings

18.2 Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting has a second or casting vote.

Chair of Meetings

18.3 The following individual is entitled to preside as chair at a meeting of directors:

(a) the chair of the board, if any;

(b) in the absence of the chair of the board, the president, if any, if the president is a director; or

(c) any other director chosen by the directors if:

(i) neither the chair of the board nor the president, if a director, is present at the meeting within 15 minutes after the time set for holding the meeting;

(ii) neither the chair of the board nor the president, if a director, is willing to chair the meeting; or

(iii) the chair of the board and the president, if a director, have advised the secretary, if any, or any other director, that they will not be present at the meeting.

Meetings by Telephone or Other Communications Medium

18.4 A director may participate in a meeting of the directors or of any committee of the directors:

(a) in person; or

(b) by telephone or by other communications medium if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other.

A director who participates in a meeting in a manner contemplated by this § 18.4 is deemed for all purposes of the Act and these Articles to be present at the meeting and to have agreed to participate in that manner.

Calling of Meetings

18.5 A director may, and the secretary or an assistant secretary of the Company, if any, on the request of a director must, call a meeting of the directors at any time.

Notice of Meetings

18.6 Other than for meetings held at regular intervals as determined by the directors pursuant to § 18.1, 48 hours' notice or such lesser notice as the Chairman in his discretion determines, acting reasonably, is appropriate in any unusual circumstances of each meeting of the directors, specifying the place, day and time of that meeting must be given to each of the directors by any method set out in §24.1 or orally or by telephone.

When Notice Not Required

18.7 It is not necessary to give notice of a meeting of the directors to a director if:

(a) the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of the directors at which that director is appointed; or

(b) the director has waived notice of the meeting.

Meeting Valid Despite Failure to Give Notice

18.8 The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director, does not invalidate any proceedings at that meeting.

Waiver of Notice of Meetings

18.9 Any director may send to the Company a document signed by him or her waiving notice of any past, present or future meeting or meetings of the directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of the directors need be given to that director and all meetings of the directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director. Attendance of a director or alternate director at a meeting of the directors is a waiver of notice of the meeting unless that director or alternate director attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

Quorum

18.10 The quorum necessary for the transaction of the business of the directors may be set by the directors and, if not so set, is deemed to be a majority of the directors or, if the number of directors is set at one, is deemed to be set at one director, and that director may constitute a meeting.

Validity of Acts Where Appointment Defective

18.11 Subject to the Act, an act of a director or officer is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

Consent Resolutions in Writing

18.12 A resolution of the directors or of any committee of the directors may be passed without a meeting:

(a) in all cases, if each of the directors entitled to vote on the resolution consents to it in writing; or

(b) in the case of a resolution to approve a contract or transaction in respect of which a director has disclosed that he or she has or may have a disclosable interest, if each of the other directors who have not made such a disclosure consents in writing to the resolution.

A consent in writing under this § 18.12 may be by signed document, fax, email or any other method of transmitting legibly recorded messages. A consent in writing may be in two or more counterparts which together are deemed to constitute one consent in writing. A resolution of the directors or of any committee of the directors passed in accordance with this § 18.12 is effective on the date stated in the consent in writing or on the latest date stated on any counterpart and is deemed to be a proceeding at a meeting of directors or of the committee of the directors and to be as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors that satisfies all the requirements of the Act and all the requirements of these Articles relating to meetings of the directors or of a committee of the directors.

PART 19

EXECUTIVE AND OTHER COMMITTEES

Appointment and Powers of Executive Committee

19.1 The directors may, by resolution, appoint an executive committee consisting of the director or directors that they consider appropriate, and this committee has, during the intervals between meetings of the board of directors, all of the directors' powers, except:

(a) the power to fill vacancies in the board of directors;

(b) the power to remove a director;

(c) the power to change the membership of, or fill vacancies in, any committee of the directors; and

(d) such other powers, if any, as may be set out in the resolution or any subsequent directors' resolution.

Appointment and Powers of Other Committees

19.2 The directors may, by resolution:

(a) appoint one or more committees (other than the executive committee) consisting of the director or directors that they consider appropriate;

(b) delegate to a committee appointed under §(a) any of the directors' powers, except:

(i) the power to fill vacancies in the board of directors;

(ii) the power to remove a director;

(iii) the power to change the membership of, or fill vacancies in, any committee of the directors; and

(iv) the power to appoint or remove officers appointed by the directors; and

(c) make any delegation referred to in §(b) subject to the conditions set out in the resolution or any subsequent directors' resolution.

Obligations of Committees

19.3 Any committee appointed under § 19.1 or § 19.2, in the exercise of the powers delegated to it, must:

(a) conform to any rules that may from time to time be imposed on it by the directors;

and

(b) report every act or thing done in exercise of those powers at such times as the directors may require.

Powers of Board

19.4 The directors may, at any time, with respect to a committee appointed under § 19.1 or §19.2:

(a) revoke or alter the authority given to the committee, or override a decision made by the committee, except as to acts done before such revocation, alteration or overriding;

(b) terminate the appointment of, or change the membership of, the committee; and

(c) fill vacancies in the committee.

Committee Meetings

19.5 Subject to §19.3(a) and unless the directors otherwise provide in the resolution appointing the committee or in any subsequent resolution, with respect to a committee appointed under § 19.1 or § 19.2:

(a) the committee may meet and adjourn as it thinks proper;

(b) the committee may elect a chair of its meetings but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their number to chair the meeting;

(c) a majority of the members of the committee constitutes a quorum of the committee; and

(d) questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in case of an equality of votes, the chair of the meeting does not have a second or casting vote.

PART 20

OFFICERS

Directors May Appoint Officers

20.1 The directors may, from time to time, appoint such officers, if any, as the directors determine and the directors may, at any time, terminate any such appointment.

Functions, Duties and Powers of Officers

20.2 The directors may, for each officer:

(a) determine the functions and duties of the officer;

(b) entrust to and confer on the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit; and

(c) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

Qualifications

20.3 No person may be appointed as an officer unless that person is qualified in accordance with the Act. One person may hold more than one position as an officer of the Company. Any person appointed as the chair of the board or as a managing director must be a director. Any other officer need not be a director.

Remuneration and Terms of Appointment

20.4 All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fee, commission, participation in profits or otherwise) that the directors thinks fit and are subject to termination at the pleasure of the directors, and an officer may in addition to such remuneration be entitled to receive, after he or she ceases to hold such office or leaves the employment of the Company, a pension or gratuity.

PART 21

INDEMNIFICATION

Definitions

21.1 In this Part 21:

(a) "**eligible party**", in relation to a company, means an individual who:

(i) is or was a director, alternate director or officer of the Company;

(ii) is or was a director, alternate director or officer of another corporation

(A) at a time when the corporation is or was an affiliate of the Company, or

(B) at the request of the Company; or

(iii) at the request of the Company, is or was, or holds or held a position equivalent to that of, a director, alternate director or officer of a partnership, trust, joint venture or other unincorporated entity;

and includes, except in the definition of "eligible proceeding", and §163(1)(c) and (d) and § 165 of the Act, the heirs and personal or other legal representatives of that individual;

(b) "**eligible penalty**" means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding;

(c) "**eligible proceeding**" means a proceeding in which an eligible party or any of the heirs and personal or other legal representatives of the eligible party, by reason of the eligible party being or having been a director, alternate director or officer of, or holding or having held a position equivalent to that of a director, alternate director or officer of, the Company or an associated corporation

(i) is or may be joined as a party; or

(ii) is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding;

(d) "**expenses**" has the meaning set out in the Act and includes costs, charges and expenses, including legal and other fees, but does not include judgments, penalties, fines or amounts paid in settlement of a proceeding; and

(e) "**proceeding**" includes any legal proceeding or investigative action, whether current, threatened, pending or completed.

Mandatory Indemnification of Eligible Parties

21.2 Subject to the Act, the Company must indemnify each eligible party and the heirs and legal personal representatives of each eligible party against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each eligible party is deemed to have contracted with the Company on the terms of the indemnity contained in this §21.2.

Indemnification of Other Persons

21.3 Subject to any restrictions in the Act, the Company may agree to indemnify and may indemnify any person (including an eligible party) against eligible penalties and pay expenses incurred in connection with the performance of services by that person for the Company.

Authority to Advance Expenses

21.4 The Company may advance expenses to an eligible party to the extent permitted by and in accordance with the Act.

Non-Compliance with Act

21.5 Subject to the Act, the failure of an eligible party of the Company to comply with the Act or these Articles or, if applicable, any former *Companies Act* or former Articles does not, of itself, invalidate any indemnity to which he or she is entitled under this Part 21.

Company May Purchase Insurance

21.6 The Company may purchase and maintain insurance for the benefit of any eligible party (or the heirs or legal personal representatives of any eligible party) against any liability incurred by any eligible party.

PART 22

DIVIDENDS

Payment of Dividends Subject to Special Rights

22.1 The provisions of this Part 22 are subject to the rights, if any, of shareholders holding shares with special rights as to dividends.

Declaration of Dividends

22.2 Subject to the Act, the directors may from time to time declare and authorize payment of such dividends as they may deem advisable.

No Notice Required

22.3 The directors need not give notice to any shareholder of any declaration under §22.2.

Record Date

22.4 The directors must set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months.

Manner of Paying Dividend

22.5 A resolution declaring a dividend may direct payment of the dividend wholly or partly in money or by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company or any other corporation, or in any one or more of those ways.

Settlement of Difficulties

22.6 If any difficulty arises in regard to a distribution under §22.5, the directors may settle the difficulty as they deem advisable, and, in particular, may:

(a) set the value for distribution of specific assets;

(b) determine that money in substitution for all or any part of the specific assets to which any shareholders are entitled may be paid to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties; and

(c) vest any such specific assets in trustees for the persons entitled to the dividend.

When Dividend Payable

22.7 Any dividend may be made payable on such date as is fixed by the directors.

Dividends to be Paid in Accordance with Number of Shares

22.8 All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

Receipt by Joint Shareholders

22.9 If several persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

Dividend Bears No Interest

22.10 No dividend bears interest against the Company.

Fractional Dividends

22.11 If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

Payment of Dividends

22.12 Any dividend or other distribution payable in money in respect of shares may be paid by cheque, made payable to the order of the person to whom it is sent, and mailed to the registered address of the shareholder, or in the case of joint shareholders, to the registered address of the joint shareholder who is first named on the central securities register, or to the person and to the address the shareholder or joint shareholders may direct in writing. The mailing of such cheque will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on presentation or the amount of tax so deducted is not paid to the appropriate taxing authority.

Capitalization of Retained Earnings or Surplus

22.13 Notwithstanding anything contained in these Articles, the directors may from time to time capitalize any retained earnings or surplus of the Company and may from time to time issue, as fully paid, shares or any bonds, debentures or other securities of the Company as a dividend representing the retained earnings or surplus so capitalized or any part thereof.

PART 23

ACCOUNTING RECORDS AND AUDITOR

Recording of Financial Affairs

23.1 The directors must cause adequate accounting records to be kept to record properly the financial affairs and condition of the Company and to comply with the Act.

Inspection of Accounting Records

23.2 Unless the directors determine otherwise, or unless otherwise determined by ordinary resolution, no shareholder of the Company is entitled to inspect or obtain a copy of any accounting records of the Company.

PART 24

NOTICES

Method of Giving Notice

24.1 Unless the Act or these Articles provide otherwise, a notice, statement, report or other record required or permitted by the Act or these Articles to be sent by or to a person may be sent by:

(a) mail addressed to the person at the applicable address for that person as follows:

(i) for a record mailed to a shareholder, the shareholder’s registered address;

(ii) for a record mailed to a director or officer, the prescribed address for mailing shown for the director or officer in the records kept by the Company or the mailing address provided by the recipient for the sending of that record or records of that class;

(iii) in any other case, the mailing address of the intended recipient;

(b) delivery at the applicable address for that person as follows, addressed to the person:

(i) for a record delivered to a shareholder, the shareholder’s registered address;

(ii) for a record delivered to a director or officer, the prescribed address for delivery shown for the director or officer in the records kept by the Company or the delivery address provided by the recipient for the sending of that record or records of that class;

(iii) in any other case, the delivery address of the intended recipient;

(c) sending the record by fax to the fax number provided by the intended recipient for the sending of that record or records of that class;

(d) sending the record by email to the email address provided by the intended recipient for the sending of that record or records of that class;

(e) physical delivery to the intended recipient.

Deemed Receipt of Mailing

24.2 A notice, statement, report or other record that is:

(a) mailed to a person by ordinary mail to the applicable address for that person referred to in §24.1 is deemed to be received by the person to whom it was mailed on the day (Saturdays, Sundays and holidays excepted) following the date of mailing;

(b) faxed to a person to the fax number provided by that person referred to in §24.1 is deemed to be received by the person to whom it was faxed on the day it was faxed; and

(c) emailed to a person to the e-mail address provided by that person referred to in §24.1 is deemed to be received by the person to whom it was e-mailed on the day that it was emailed.

Certificate of Sending

24.3 A certificate signed by the secretary, if any, or other officer of the Company or of any other corporation acting in that capacity on behalf of the Company stating that a notice, statement, report or other record was sent in accordance with §24.1 is conclusive evidence of that fact.

Notice to Joint Shareholders

24.4 A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing such record to the joint shareholder first named in the central securities register in respect of the share.

Notice to Legal Personal Representatives and Trustees

24.5 A notice, statement, report or other record may be provided by the Company to the persons entitled to a share in consequence of the death, bankruptcy or incapacity of a shareholder by:

(a) mailing the record, addressed to them:

(i) by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description; and

(ii) at the address, if any, supplied to the Company for that purpose by the persons claiming to be so entitled; or

(b) if an address referred to in §(a)(ii) has not been supplied to the Company, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

Undelivered Notices

24.6 If on two consecutive occasions, a notice, statement, report or other record is sent to a shareholder pursuant to §24.1 and on each of those occasions any such record is returned because the shareholder cannot be located, the Company shall not be required to send any further records to the shareholder until the shareholder informs the Company in writing of his or her new address.

PART 25

SEAL

Who May Attest Seal

25.1 Except as provided in §25.2 and §25.3, the Company's seal, if any, must not be impressed on any record except when that impression is attested by the signatures of:

(a) any two directors;

(b) any officer, together with any director;

(c) if the Company only has one director, that director; or

(d) any one or more directors or officers or persons as may be determined by the directors.

Sealing Copies

25.2 For the purpose of certifying under seal a certificate of incumbency of the directors or officers of the Company or a true copy of any resolution or other document, despite §25.1, the impression of the seal may be attested by the signature of any director or officer or the signature of any other person as may be determined by the directors.

Mechanical Reproduction of Seal

25.3 The directors may authorize the seal to be impressed by third parties on share certificates or bonds, debentures or other securities of the Company as they may determine appropriate from time to time. To enable the seal to be impressed on any share certificates or bonds, debentures or other securities of the Company, whether in definitive or interim form, on which facsimiles of any of the signatures of the directors or officers of the Company are, in accordance with the Act or these Articles, printed or otherwise mechanically reproduced, there may be delivered to the person employed to engrave, lithograph or print such definitive or interim share certificates or bonds, debentures or other securities one or more un-mounted dies reproducing the seal and such persons as are authorized under §25.1 to attest the Company's seal may in writing authorize such person to cause the seal to be impressed on such definitive or interim share

certificates or bonds, debentures or other securities by the use of such dies. Share certificates or bonds, debentures or other securities to which the seal has been so impressed are for all purposes deemed to be under and to bear the seal impressed on them.

Full name and signature of director

"W. Benjamin Catalano"

W. Benjamin Catalano, Director
President and Chief Executive Officer

Date: November 20, 2009

AUG 14 2002

ROYALTY AGREEMENT

THIS ROYALTY AGREEMENT is made and entered into as of August 6, 2002 (the "Effective Date") between **STELLAR BIOTECHNOLOGIES, INC., a California corporation** ("Assignee") and **FRANK OAKES, an individual** ("Assignor") with reference to the following recitals of fact:

RECITALS:

A. Assignor has assigned to Assignee all of his right, title and interest in and to the Intellectual Property embodied in the U.S. Patent Application No.: 10/124,708 (the "Patent Application"); a Non-Lethal Method for Extracting Crude Hemocyanin from Gastropod Molluscs (the "Invention") by filing the Assignment of Patent with the United States Patent and Trademark Office on August 6, 2002.

B. Subject to the terms and conditions of this Agreement, Assignor shall pay to Assignee certain royalties relating to the Patent.

NOW, THEREFORE, IT IS AGREED:

1. **Consideration**. In consideration for the Patent Assignment, Assignee shall pay to Assignor during the term of this Agreement a royalty in the amount of five percent (5%) of the gross receipts of Assignee in excess of Five Hundred Thousand Dollars ($500,000.00) for all products produced and sold by Assignee utilizing the Invention. Royalties shall be paid annually within sixty (60) days after the end of each fiscal year of Assignee during the term of this Agreement. Assignee shall not be liable for royalties upon any product utilizing the Invention which is returned by the customer for credit and Assignee shall have the right to deduct the amount of any such royalties already paid from the amount of royalties that may subsequently accrue.

2. **Necessary Aid or Information**. Assignor agrees to execute all papers that may

be reasonably necessary or desirable to enable Assignee, or its nominee, to file and prosecute the Patent Application in the United States or in such other countries as Assignee shall elect for the protection of the Invention, and Assignor shall further execute all papers that may be reasonably necessary or desirable to vest in Assignee, or its nominee, the entire right, title and interest in and to the Invention. Assignee further covenants and agrees that he will, at any time, upon reasonable request in writing by Assignor, provide any facts relating to the Invention that are known to him and will testify to the same in any litigation, arbitration or similar proceeding when requested to do so by Assignee.

3. **Accounting**. Assignee shall maintain accurate records of total gross receipts from its royalty-bearing sales during the term of this Agreement, and will permit Assignor to inspect such books upon reasonable request.

4. **Right of Termination**. Assignee shall have the right to terminate this Agreement at any time provided that it is not then in default, upon giving ninety (90) days written notice to Assignor; provided, however, that such right of termination is contingent upon (i) Assignee being then current with all royalty payments due under this Agreement, and (ii) Assignee, as of the effective date of the termination, reassigning to Assignor the Patent Application and all right, title and interest of Assignor in and to the Invention.

5. **Assignment of Claims**. Assignor hereby irrevocably assigns to Assignee all claims for damages by reason of past infringement of any business rights, patent rights or copy rights relating to the Invention with the right to sue and collect such damages and Assignor agrees to cooperate fully in any action to collect such damages.

6. **Governing Law**. This Agreement shall be governed by the laws of the State of California.

7. **Severability**. The invalidity or unenforceability of any provision of this Agreement shall not effect the validity or enforceability of any other provision of this Agreement.

8. **Modification and Assignment**. This Agreement may not be modified, except in writing signed by both parties. Except as otherwise provided in this Agreement, no party may assign his or its rights or obligations under this Agreement without the prior written consent of the other party.

ASSIGNEE: **STELLAR BIOTECHNOLOGIES, INC., a California corporation**

By_____
JOHN McMULLEN, President

By_____
FRANK OAKES, Secretary

ASSIGNOR:

_____
FRANK OAKES

Stellar Biotechnologies, Inc.

October 21, 1009
OFFER OF EMPLOYMENT

Dear Frank Oakes:

I am pleased to offer you employment with Stellar Biotechnologies Inc. (the "Company") and I look forward to your becoming a valued member of our team. Once signed by you, this letter will confirm your acceptance of the following terms and conditions:

1. Your title will be Executive Vice President — Science and Technology, reporting to the Chief Executive Officer/Board of Directors. Your duties and responsibilities will include development and implementation of the company's R&D plan, management and oversight of the R&D program and personnel.

2. Your employment is to begin no later than January 1, 2010

3. You will receive a base salary/wage of $100,000 yearly, as well as 2 weeks vacation, optional coverage under the Company's group health plan, and the other benefits that the Company provides, if any, to comparable employees.

4. This is a permanent position, and you will be expected to devote full time and best efforts to the performance of your duties. You will also be expected to give the Company your undivided loyalty, and to refrain from any other activity that might interfere with your duties to the Company or create a potential conflict of interest.

5. The Company is an at-will employer, and cannot guarantee employment for any specific duration. You are free to quit, and the Company is entitled to terminate your employment at any time, with or without cause or prior warning in accordance to California Labor Laws.

6. Your performance and wage will be reviewed on a periodic basis not less frequently than one year in duration. In addition to the salary package described, you will be reimbursed for any company-approved out-of-pocket expenses, in accordance with our written policies as may be changed from time to time with prior written notice.

7. You agree to sign and abide by the Employee Proprietary Information and Invention Assignment Agreement on or prior to the commencement of your employment. A copy of the Agreement will be provided to you.

8. You also agree to comply with the Company's rules, policies and procedures as they are issued from time to time.

9. You must provide proof of your identity and authorization to work in the United States, and fill out a form 1-9 as required by federal immigration laws.

10. This letter sets forth the entire agreement between you and the Company. Once signed by you, it will become a legally binding contract, and will supersede all prior agreements, promises, and understandings between you and the Company.

To confirm that you agree to the terms stated in this letter, please sign and date the enclosed copy of this letter and return it to me, via e-mail and fax signature copy, no later than October 30, 2009

I welcome you to the Company, and I wish you great success in your employment.

Very truly yours,

Dorothy Oakes, Human Resources Manager

I agree to the terms stated in this letter.

_____ Dated: 10/22/09

Frank Oakes

AGREEMENT
FOR
CONSULTANCY SERVICES

Agreement entered into this 15th day of August, 2004 , by and between Stellar Biotechnologies, Inc., 417 E. Hueneme Rd., Port Hueneme, CA 9304, (hereinafter referred to as "Stellar") and Dr. Daniel E. Morse (hereinafter referred to as "Consultant"), and collectively referred to as "the Parties'.

WITNESSETH:

WHEREAS, Stellar is a California Corporation engaged in research and development of marine products, and

WHEREAS, Stellar wishes to engage Consultant to perform certain duties on its behalf, and

NOW, in consideration of the foregoing premises and the mutual covenants of the Parties set forth herein, the Parties hereby agree as follows:

ARTICLE 1 - SCOPE OF WORK;

Consultant will provide consulting services to support business development as may be specified from time to time by Stellar.

ARTICLE 2— TERM AND TERMINATION

2.1 Term

This Agreement shall commence on the date first written above and shall remain in full force and effect until notice of the intent to terminate is given by either party.

2.2 Early Termination

This Agreement may be terminated at any time upon notice given by either party during the initial term of this agreement or any extension thereof.

2.3 Extension of Term

Upon written agreement of the Parties, this agreement may be extended for such additional term(s) under that same terms and conditions, as may be deemed desirable.

2.4 Continuing Obligations

Notwithstanding the termination of this Agreement, the Parties shall continue to be bound by the provisions of this Agreement with respect to matters arising and liabilities accruing during the term hereof.

3.1 Consulting Services:

Stellar shall pay to Consultant the sum of $3,945.42 per month for services as set forth in Article 1.

3.2 Other Expenses:

In addition to the amounts listed above, Stellar will reimburse consultant for its actual out-of-pocket expenses required for reasonable performance of the Work. Such expenses to be approved by Stellar in advance.

3.3 Early Termination

ARTICLE 4- NOTIFICATIONS

Notices, reports and other written communications required or permitted by this Agreement to be given or sent by one Party to the other shall be delivered by special carrier, mailed (only if it is reasonable to expect such mail will be delivered within five (5) days) to:

Consultant Address:

Dr. Daniel E Morse
128 Via Alicia
Santa Barbara, CA 931098
(805) 695-8972

Stellar Address:

Stellar Biotechnologies, Inc.
417 E. Hueneme Rd. #170
Port Hueneme, CA, 93041

Attn: Frank Oakes
Phone: (805) 488-2147
E-mail: liveoakes@aol.com

Article 11 – DATA AND CONFIDENTIALITY

5.1 Data

All plans. specifications, notes, drawings, and other materials used or produced by Consultant in performing the work under this Agreement shall remain the property Stellar.

Consultant is in no way entitled to copy or use specifications, notes, drawings, manuals and all other materials for sale or for disclosure to a third party and is not entitled to use the same materials for any purposes whatsoever beyond the project for which they were originally prepared.

5.2 Confidentiality

Consultant engages to treat all information received from Stellar, whether this information concerns drawings, designs, descriptions, specifications, lists of parts/equipment, operating manuals, and all other materials and information provided by Stellar by Stellar as Confidential, and furthermore agrees not to disclose any of said materials or information to any third party without the written approval of Stellar.

If it should be proved that a third party has unjustifiably obtained access to such information due to an intentional or negligent act or omission of either of the Parties, the responsible Party is liable for any and all losses which arise therefrom.

ARTICLE 6 – JURISDICTION AND LEGALITY

6.1 Jurisdiction

Any dispute arising under or by virtue of this Agreement or any difference in opinion between the Parties hereto concerning their rights and obligations under this Agreement shall be finally resolved by arbitration. Such arbitration proceedings shall take place in Ventura, CA, USA, in accordance with the

applicable rules of arbitration of the American Arbitration Association. The decision of the arbitration proceedings shall be final and binding upon both Parties.

6.2 Legal Adherence

Consultant and Stellar respectively agree to comply with all laws, rules and regulations, which are now or may become applicable to operations covered by this Agreement and any work connected herewith. This Agreement shall be construed and interpreted in accordance with the laws of The United States of America.

ARTICLE 7 — MISCELLANEOUS

7.1 Taxes

Consultant shall be solely responsible for any taxes levied on the work under this Agreement, including, but not limited to payroll taxes.

7.2 Entire Agreement

This Agreement represents the entire agreement between the Parties and supersedes and replaces all prior communications, written or oral, between the Parties relating to the matters covered herein.

16.5 Inurement

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Parties, notwithstanding any other provision herein.

Port Hueneme, CA
August 15, 2004

Frank Oakes
Chief Financial Officer
Stellar Biotechnologies, Inc

Dr. Daniel E. Morse

Stellar Biotechnologies, Inc.
October 21, 1009

OFFER OF EMPLOYMENT

Dear Daniel E. Morse:

I am pleased to offer you employment with Stellar Biotechnologies Inc. (the "Company") and I look forward to your becoming a valued member of our team. Once signed by you, this letter will confirm your acceptance of the following terms and conditions:

1. Your title will be Executive Vice President – Science and Technology, reporting to the Board of Directors. Your duties and responsibilities will include development and implementation of the company's R&D plan, management and oversight of the R&D program and personnel.

2. Your employment is to begin no later than January 1, 2010

3. You will receive a base salary/wage of $100,000 yearly, as well as 2 weeks vacation, optional coverage under the Company's group health plan, and the other benefits that the Company provides, if any, to comparable employees.

4. This position is a Board appointment, and you will be expected to devote all necessary time and effort required in the performance of your duties. You will also be expected to give the Company your undivided loyalty, and to refrain from any other activity that might interfere with your ability to perform your duties to the Company or create a potential conflict of interest.

5. The Company is an at-will employer, and cannot guarantee employment for any specific duration. You are free to quit, and the Company is entitled to terminate your employment at any time, with or without cause or prior warning in accordance to California Labor Laws.

6. Your performance and wage will be reviewed on a periodic basis not less frequently than one year in duration. In addition to the salary package described, you will be reimbursed for any company-approved out-of-pocket expenses, in accordance with our written policies as may be changed from time to time with prior written notice.

7. You agree to sign and abide by the Employee Proprietary Information and Invention Assignment Agreement on or prior to the commencement of your employment. A copy of the Agreement will be provided to you.

8. You also agree to comply with the Company's rules, policies and procedures as they are issued from time to time.

9. You must provide proof of your identity and authorization to work in the United States, and fill out a form I-9 as required by federal immigration laws.

10. This letter sets forth the entire agreement between you and the Company. Once signed by you, it will become a legally binding contract, and will supersede all prior agreements, promises, and understandings between you and the Company.

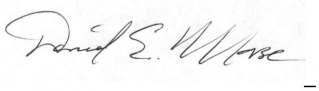
To confirm that you agree to the terms stated in this letter, please sign and date the enclosed copy of this letter and return it to me, via e-mail and fax signature copy, no later than October 30, 2009

I welcome you to the Company, and I wish you great success in your employment.

Very truly yours,

Frank Oakes, Chief Executive Officer

I agree to the terms stated in this letter.



_ Dated: October 25, 2009

Daniel E. Morse

BOARD of DIRECTORS SERVICE AGREEMENT

THIS BOARD of DIRECTORS SERVICE AGREEMENT ("Agreement") is made as of January 1, 2012, by and between Stellar Biotechnologies, Inc., a California corporation (the "Company"), and Daniel E, Morse, Ph. D.("Director").

RECITALS:

A. Company has formed an Advisory Board to assist it in evaluation of its research and development and business activities.

B. Company wishes to engage the services of Director, as a member of its Advisory Board, to provide the services set forth below, and Director wishes to provide such services.

NOW, THE REFORE, in consideration of the covenants hereinafter stated, the parties agree as follows:

1. Director's Services. Director shall provide general consulting services to Company (the "Services") as a member of its Board of Director to include:

a. Attending and participating an annual Board of Directors meeting (the meeting to last approximately two (2) days including travel; date, time and other details to he mutually agreed upon by the parties);

b. Attending (in person or telephonically) three (3) regular meetings of the Board of Directors (each meeting to last approximately 1/2 day: date, time and location to be mutually agreed upon by the parties):

c. Participating in conference calls with the Directors, the Company's executives and/or senior staff on an "on-call" basis during normal business hours: and

d. Responding promptly to any phone calls or emails sent by the Company's executives and/or senior staff

2. Director's Compensation. In consideration for entering into this Agreement and the Services rendered to the Company, the Company shall grant to Director the option to purchase Fifty Thousand (50,000) shares of Common granted with concurrently herewith and an additional Fifty Thousand (50,000) to be granted subject to approval by the Board of Directors of the Company at the beginning of each successive year of service, if the appointment to the Board of Directors is continued, for two subsequent years. The options vest pursuant to the terms and provisions of the Non-Qualified Stock Option Agreement attached hereto as Exhibit A.

b. In consideration for services provided during attendance at meetings of the board of Directors, the Company shall pay Director a an annual Honorarium of Four Thousand Dollars ($4,000.00) per year of service, payable quarterly.

c. The Company shall also reimburse Director for all reasonable out-of-pocket expenses actually incurred by Director in performance of the Services; provided, however.
that the expenses shall be first approved by Company. Director shall present to Company supporting documentation and a detailed explanation of expenses incurred.

3. Proprietary Rights.

a. Proprietary Rights Created Outside of Performance of Services. Any and all inventions, discoveries, processes, ideas, methods, designs and know-how, whether or not patentable, which Director may conceive or make either alone or in conjunction with others, prior to the term of this Agreement or during the term of this Agreement that were not developed in connection with the Services performed hereunder, shall remain the exclusive property throughout the world of Director.

b. Proprietary Rights Created in Performance of Services. All work arising from the Services performed hereunder and all materials and products developed or prepared for Company by Director in connection with the Services performed hereunder are the exclusive property throughout the world of Company, and all right, title and interest therein shall vest in Company. All documentation and other copyrightable materials developed or prepared by Director in connection with the Services performed hereunder shall be deemed to be "works made for hire" in the course of the Services rendered hereunder. To the extent that title to any works arising from the performance of the Services hereunder may not, by operation of law, vest in Company, or such works may not be considered "works made for hire," all right, title and interest therein, including, without limitation, all copyrights, are hereby irrevocably assigned to Company. Any and all inventions, discoveries, processes, ideas, methods, designs and know-how, whether or not patentable, which Director may conceive or make either alone or in conjunction with others, during the term of this Agreement, which in any way pertain to or are connected with the Services, shall be the sole and exclusive property throughout the world of Company; and Director, whenever requested to do so by Company or any subsidiary and/or affiliate thereof, at Company's expense. and without further compensation or consideration, shall promptly execute any and all applications, assignments and other instruments and perform such acts which Company shall deem necessary or advisable in order to apply for and obtain copyrights, letters, patent and other applicable statutory protection throughout the world for said inventions, ideas and discoveries, and in order to assign and convey to Company the sole and exclusive right, title and interest throughout the world in and to said inventions, discoveries, processes, ideas, methods, designs and know-how, or any applications, copyrights or patents thereof.

4. Confidentiality. All inventions, ideas and discoveries which shall become Company's property pursuant to Paragraph 3 hereof shall be held secret and confidential by Director. Further, during and after the performance by Director of the Services and the term of this Agreement, Director will not use or disclose or allow anyone else to use or disclose to any third party any "Confidential Information" (as defined below) relating to Company, its products. its research and development, its supplies or customers and the Services to be provided hereunder except as may be necessary in the performance of the Services or as may be authorized in writing in advance by an appropriate officer of Company. Director acknowledges that the foregoing limitation expressly prohibits any use or disclosure of any Confidential Information by Director pursuant to lectures or scientific or technical papers or publications. "Confidential information" includes any trade secrets, confidential information, knowledge, data or other information of Company relating to products, processes. know-how, designs, formulas, test data, customer lists, business plans, marketing plans and strategies, pricing strategies or other subject matter pertaining to any business of Company or any clients, customers, Directors, licensees or affiliates. "Confidential Information" shall not include any information which is publicly available at the time of disclosure or subsequently becomes publicly available through no fault or Director. All written information, drawings, documents and other materials prepared by Director in the performance of the Services hereunder shall be Company's sole and exclusive property, and will be delivered to Company upon expiration or termination of this Agreement, together with all Confidential Information, if any, that may have been furnished to Director hereunder.

5. Other Agreements. Director hereby represents that Director is not a party to any other agreements or commitments that would hinder Director's performance of the Services, other than those disclosed to Company in advance of the execution of this Agreement.

6. Term and Termination, This Agreement shall commence on the date hereof and, unless earlier terminated as provided below. shall continue until one (1)year from the date hereof and shall automatically renew for additional one (1) year periods for up to three (3) subsequent years unless terminated earlier in accordance with the terms of this Agreement. Either party shall have the right to terminate this Agreement without cause upon thirty (30) days' prior written notice to the other party. The provisions of Paragraphs 3 and 4 shall survive and continue after expiration or termination of this Agreement.

7. Independent Contractor, Director is an independent contractor. Director shall not be deemed for any purpose to be an employee or agent of Company, and neither party shall have the power or authority to bind the other party to any contract or obligation. Company shall not be responsible to Director or any governing body for any payroll-related taxes or insurance related to the performance of the terms of this Agreement.

8. Disclosure. Director acknowledges and agrees that Company may publicly disclose that Director is a member of Company's Advisory Board.

9. Assignment. Director may not assign any of his obligations hereunder without the prior written consent of Company, which may be withheld in its sole discretion.

10. Notices. All notification and communications hereunder shall be in writing. All notifications made to Company under this Agreement shall be made to the following address:

Stellar Biotechnologies, Inc.
332 East Scott Street
Port Hueneme, CA 93041
Attn: Frank Oakes

All notifications made to Director shall be made to Director at the address set Forth opposite Director's name on the signature page hereof.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

12. Modifications. No modification, amendment, supplement to or waiver of this Agreement shall be binding upon the parties hereto unless made in writing and duly signed by both parties.

13. Severability. In the event any one or more of the provisions of this Agreement is held to be invalid or otherwise unenforceable, the enforceability of remaining provisions shall be unimpaired.

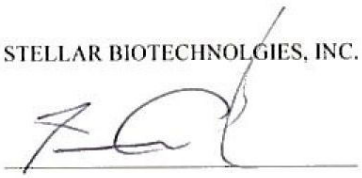
14. Entire Agreement, This Agreement contains the entire agreement between the parties, and supersedes any and all prior and contemporaneous oral and written agreements.

15. Counterparts. This Agreement may be executed in separate counterparts and shall become effective when the separate counterparts have been exchanged between the parties.

[Signatures appear on die following page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

STELLAR BIOTECHNOLGIES, INC.



DIRECTOR:

Daniel E. Morse

Address:

128 Via Alicia
Santa Barbara, CA 93455

<d_morse@lifesci.ucsb.edu>
Cell 805 252-4882

Exhibit A

Non Qualified Stock Option Agreement

Stellar Biotechnologies, Inc.

January 8, 2010

OFFER OF EMPLOYMENT

Dear Darrell Brookstein:

I am pleased to offer you employment with Stellar Biotechnologies Inc. (the "Company") and I look forward to your becoming a valued member of our team. Once signed by you, this letter will confirm your acceptance of the following terms and conditions:

1. Your title will be Executive Vice President – Financial & Business Development, reporting to the Chief Executive Officer/Board of Directors. Your duties and responsibilities will include development and implementation of the capitalization plan, management of investor relations and financial public relations.

2. Your employment is to begin upon the closing date of the Qualifying Transaction completing the merger of Stellar Biotechnologies and CAG Capital, Inc.

3. You will receive a base salary/wage of $135,000 yearly, as well as 2 weeks vacation, optional coverage under the Company's group health plan, and the other benefits that the Company provides, if any, to comparable employees.

4. This is a permanent position, and you will be expected to devote full time and best efforts to the performance of your duties. You will also be expected to give the Company your undivided loyalty, and to refrain from any other activity that might interfere with your duties to the Company or create a potential conflict of interest.

5. The Company is an at-will employer, and cannot guarantee employment for any specific duration. You are free to quit, and the Company is entitled to terminate your employment at any time, with or without cause or prior warning in accordance to California Labor Laws.

6. Your performance and wage will be reviewed on a periodic basis not less frequently than one year in duration. In addition to the salary package described, you will be reimbursed for any company-approved out-of-pocket expenses, in accordance with our written policies as may be changed from time to time with prior written notice.

7. You agree to sign and abide by the Employee Proprietary Information and Invention Assignment Agreement on or prior to the commencement of your employment. A copy of the Agreement will be provided to you.

8. You also agree to comply with the Company's rules, policies and procedures as they are issued from time to time.

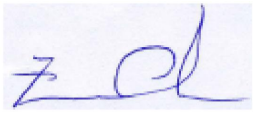
9. You must provide proof of your identity and authorization to work in the United States, and fill out a form I-9 as required by federal immigration laws.

10. his letter sets forth the entire agreement between you and the Company. Once signed by you, it will become a legally binding contract, and will supersede all prior agreements, promises, and understandings between you and the Company.

To confirm that you agree to the terms stated in this letter, please sign and date the enclosed copy of this letter and return it to me, via e-mail and fax signature copy

I welcome you to the Company, and I wish you great success in your employment.

Very truly yours,



Frank Oakes, CEO

I agree to the terms stated in this letter.

Dated:

Darrell Brookstein

AGREEMENT
FOR
CONTRACT SERVICES

Agreement entered into this 10th day of July 2009, by end between Stellar Biotechnologies Inc., 321 E. Hueneme Rd., Port Hueneme, CA 9304i (hereinafter referred to as "Stellar") and Darrell Brookstein, (hereinafter referred to as "Contract Employee"), and collectively referred to as "the Parties".

WITNESSETH:

WHEREAS, Stellar is a California Corporation engaged in research and development of pharmaceutical products, and

WHEREAS, Stellar wishes to engage the Contract Employee to perform certain duties on its behalf, and NOW, in consideration of the foregoing premises and the mutual covenants of the Parties sat forth herein, the Parties hereby agree as follows:

ARTICLE 1 – SCOPE OF WORK;

Consultant will provide business plan and corporate development consulting services as may he specified from time to time by Stellar in support of its research and development activities.

ARTICLE 2 - TERM AND TERMINATION;

2.1 Term

This Agreement shall commence on the date first written above and shall remain in full force for a period of up six months unless extended under Section 2,3, or until terminated by either party under Section 2.2

2.2 Early Termination

This Agreement may be terminated at any time upon notice given by either any during the initial term of this agreement or any extension thereof.

2.3 Extension of Term

Upon written agreement of the Parties, this agreement may be extended under such terms and conditions as may be deemed desirable and agreed upon by both parties.

2.4 Continuing Obligations

Notwithstanding the termination of this Agreement, the Parties shall continue to be bound by the provisions of this Agreement with respect to matters arising and liabilities accruing during the term hereof.

ARTICLE 3 - COMPENSATION

3.1 Consulting Services

For services as specified in Article 1 - Scope of Work, Stellar shall pay consultant the sum of $7,000 per each 1 month period of service until September 10, 2009 then, only if Stellar has funding available to pay, 10,000 per month thereafter.

3.2 Other Expenses.

None

3.3 Early Termination

If contract employee decides to terminate this Agreement under 2.2 then Contract Employee shall submit an invoice for that portion of the full term of the contract as Contract Employee actually worked. Stellar shall be obligated to pay only the amount of the invoice submitted for portion of the term actually completed.

ARTICLE 4 - NOTIFICATIONS

Notices, reports and other written communications required or permitted by this Agreement to be given or sent by one Party to the other shall be delivered by special carrier, mailed (only if it is reasonable to expect such mail will be delivered within five (5) days) to

Contract Employee Address:

Darrell Brookstein
3383 Chippewa Ct.
San Diego. CA 92117
E-mail: darrell@nanotechnology.com

Stellar Address:

Stellar Biotechnologies, Inc.
321 E. Hueneme Rd. #170
Port Hueneme, CA, 93041

Attn: Frank Oakes
Phone: (805) 488-2147
E-mail: foakes@stellarbiotech.com

ARTICLE 11 – DATA AND CONFIDENTIALITY

5.1 Data

All plans, specifications, notes, drawings, and other materials used or produced by Contract Employee it performing the work under this Agreement shall remain the property Stellar.
Contract Employee is in no way entitled to copy or use specifications, notes, drawings, manuals and all other materials for sale or for disclosure to a third party and is not entitled to use the same materials for an purposes whatsoever beyond the project for which they were originally prepared.

5.2 Confidentiality

Contract Employee engages to treat all information received from Stellar, whether this information concerns drawings, designs, description, specifications, lists of parts/equipment, operating manuals, and all other materials and information provided by Stellar by Stellar as Confidential, and furthermore agrees not to disclose any of said materials or informal tion to any third party without the written approval of Stellar.

If it should be proved that a third party has unjustifiably obtained access to such information due to an intentional or negligent act or omission of either of the Parties, the responsible Party is liable for any and all losses which arise therefrom.

ARTICLE 6 - JURISDICTION AND LEGALITY.

6.1 Jurisdiction

Any dispute arising under or by virtue of this Agreement or any difference in opinion between the Parties hereto concerning their rights and obligations under this Agreement shall be finally resolved by arbitration. Such arbitration proceedings shall take place In Ventura, CA, USA, in accordance with the applicable rules of arbitration of the American Arbitration Association. The decision of the arbitration proceedings shall be final and binding upon both Parties.

6.2 Legal Adherence

Contract Employee and Stellar respectively agree to comply with all laws, rules and regulations, which are now or may become applicable to operations covered by this Agreement and any work connected herewith. This Agreement shall be construed and interpreted in accordance with the laws of The United States of America.

ARTICLE 7 – MISCELLANEOUS COVENANTS

7.1 Taxes

Contract Employee shall be solely responsible for any taxes levied on the work under this Agreement, including, but not limited to payroll taxes.

7.2 Entire Agreement

This Agreement represents the entire agreement between the Parties and supersedes and replaces ull prior communications, written or oral, between the Parties relating to the matters covered herein.

16.5 Inurement

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Parties, notwithstanding any other provision herein.

Port Hueneme, CA
July 10,2009

Frank Oakes
Chief Executive Officer
Stellar Biotechnologies, Inc

Darrell Brookstein

BOARD of DIRECTORS SERVICE AGREEMENT

THIS BOARD of DIRECTORS SERVICE AGREEMENT (“Agreement") is made as of June 15, 2010, by and between Stellar Biotechnologies, Inc., a California corporation (the "Company”, and Malcolm Geller, Ph. D “Director").

RECITALS:

A. Company has formed an Advisory Board to assist it in evaluation of its research and development and business activities.

Company wishes to engage the services of Director, as a member of its Advisory Board, to provide the services set forth below, and Director wishes to provide such services.

NOW, THEREFORE in consideration of the covenants hereinafter stated, the parties agree as follows:

1. Director's Services. Director shall provide general consulting services to Company (the "Services") as a member of its Board of Director to include:

a. Attending and participating an annual Board of Directors meeting (the meeting to last approximately two (2) days including travel; date, time and other details to be mutually agreed upon by the parties);

b. Attending (in person or telephonically) three (3) regular meetings of the Board of Directors (each meeting to last approximately V2 day: date. time and location to be mutually agreed upon by the panics);

c. Participating in conference calls with the Directors, the Company's executives and/or senior staff on an "on-call” basis during normal business hours; and

d. Responding promptly to any phone calls or emails sent by the Company's executives and/or senior staff,

2. Director's Compensation: In consideration for entering into this Agreement and the Services rendered to the Company, the Company shall grant to Director the option to purchase Fifty Thousand (50,000) shares of Common granted with concurrently herewith and an additional Fifty Thousand (50,000) to be wanted subject to approval by the Board of Directors of the Company at the beginning of each successive year of service, if the appointment to the Board of Directors is continued, for two subsequent years. The options vest pursuant to the terms and provisions of the Non-Qualified Stock Option Agreement attached hereto as Exhibit A.

b. In consideration for services provided during attendance at meetings of the board of Directors, the Company shall pay Director a an annual Honorarium of Four Thousand Dollars ($4,000.00) per year of service, payable quarterly,

c. The Company shall also reimburse Director for all reasonable out-of-pocket expenses actually incurred by Director in performance of the Services; provided, however, that the expenses shall be first approved by Company. Director shall present to Company supporting documentation and a detailed explanation of expenses incurred.

3. Proprietary Rights

a. Proprietary Rights Created Outside of Performance of Services. Any and all inventions, discoveries, processes, ideas. methods. designs and know-how, whether or not patentable, which Director may conceive or make either alone or in conjunction with others, prior to the term of this Agreement or during the term of this Agreement that were not developed in connection with the Services performed hereunder, shall remain the exclusive property throughout the world of Director.

b. Proprietary Rights Created in Performance. All work arising from the Services performed hereunder and all materials and products developed or prepared for Company by Director in connection with the Services performed hereunder are the exclusive property throughout the world of Company, and all right, title and interest therein shall vest in Company. All documentation and other copyrightable materials developed or prepared by Director in connection with the Services performed hereunder shall be deemed to be "works made for hire" in the course of the Services rendered hereunder. To the extent that title to any works arising from the performance of the Services hereunder may not, by operation of law, vest in Company, or such works may not be considered "works made for hire," all right, title and interest therein, including, without limitation, all copyrights, are hereby irrevocably assigned to Company. Any and all inventions, discoveries, processes, ideas, methods, designs and know-how, whether or not patentable, which Director may conceive or make either alone or in conjunction with others. during the term of this Agreement, which in any way pertain to or are connected with the Services, shall be the sole and exclusive property throughout the world of Company; and Director, whenever requested to do so by Company or any subsidiary andlor affiliate thereof, at Company's expense, and without further compensation or consideration, shall promptly execute any and all applications, assignments and other instruments and perform such acts which Company shall deem necessary or advisable in order to apply for and obtain copyrights, letters, patent and other applicable statutory protection throughout the world for said inventions, ideas and discoveries, and in order to assign and convey to Company the sole and exclusive right, title and interest throughout the world in and to said inventions, discoveries, processes, ideas, methods, designs and know-how, or any applications, copyrights or patents thereof,

4. Confidentiality. All inventions, ideas and discoveries which shall become Company's property pursuant to Paragraph 3 hereof shall he held secret and confidential by Director. Further, during and after the performance by Director of the Services and the term of this Agreement, Director will not use or disclose or allow anyone else to use or disclose to any third party any "Confidential Information" (as defined below) relating to Company, its products, its research and development, its supplies or customers and the Services to be provided hereunder except as may be necessary in the performance of the Services or us may be authorized in writing in advance by an appropriate officer of Company. Director acknowledges that the foregoing limitation expressly prohibits any use or disclosure of any Confidential Information by Director pursuant to lectures or scientific or technical papers or publications. "Confidential Information" includes any trade secrets, confidential information, knowledge, data or other information or Company relating to products, processes. know-how, designs, formulas, test data. customer lists, business plans, marketing plans and strategies, pricing strategies or other subject matter pertaining to any business of Company or any clients, customers, Directors, licensees or affiliates. "Confidential information" shall not include any information which is publicly available at the time of disclosure or subsequently becomes publicly available through no fault of Director. All written information, drawings, documents and other materials prepared by Director in the performance of the Services hereunder shall be Company's sole and exclusive property, and will be delivered to Company upon expiration or termination of this Agreement, together with all Confidential information, if any, that may have been furnished to Director hereunder.

5. Other Agreements, Director hereby represents that Director is not a party to any other agreements or commitments that would hinder Director's performance of the Services, other than those disclosed to Company in advance of the execution of this Agreement.

6. Term and Termination. This Agreement shall commence on the date hereof and, unless earlier terminated as provided below, shall continue until one (I) year from the date hereof and shall automatically renew for additional one (1) year periods for up to three (3) subsequent years unless terminated earlier in accordance with the terms of this Agreement, Either party shall have the right to terminate this Agreement without cause upon thirty (30) days' prior written notice to the other party. The provisions of Paragraphs 3 and 4 shall survive and continue after expiration or termination of this Agreement.

7. Independent Contractor. Director is an independent contractor. Director shall not be deemed for any purpose to be an employee or agent of Company, and neither party shall have the power or authority to bind the other party to any contract or obligation. Company shall not be responsible to Director or any governing body for any payroll-related taxes or insurance related to the performance of the terms of this Agreement.

8. Disclosure. Director acknowledges and agrees that Company may publicly disclose that Director is a member of Company's Advisory Board.

9. Assignment.. Director may not assign any of his obligations hereunder without the prior written consent of Company, which may be withheld in its sole discretion.

10. **Notices.** All notification and communications hereunder shall be in writing. All notifications made to Company under this Agreement shall be made to the following address;

Stellar Biotechnologies. Inc.
321 E. Hueneme Rd. #170
Port Hueneme, CA 93041
Attn: Frank Oakes

All notifications made to Director shall be made to Director at the address set forth opposite Director's name on the signature page hereof.

11. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

12. **Modifications.** No modification, amendment, supplement to or waiver of this Agreement shall be binding upon the parties hereto unless made in writing and duty signed by both parties.

13. Severability. **In the event any one or more of the provisions of this Agreement is held to be invalid or otherwise unenforceable. the enforceability of the remaining provisions shall be unimpaired.**

14. **Entire Agreement.** This Agreement contains the entire agreement between the parties and supersedes any and all prior and contemporaneous oral and written agreements.

15. **Counterparts.** This Agreement may be executed in separate counterparts and shall become effective when the separate counterparts have been exchanged between the parties.

[Signatures appear on the following page.]

IN WITNESS WHEREOF, the panics hereto have executed this Agreement as of the date first above written.

STELLAR BIOTECHNOLGIES, INC.

DIRECTOR:

Malcolm Gefter

Address:

46 BAKER BR RD
LINCOLN, MA
01773

<malcolm.gefter@gmail.com>
Cell 617 697 2881

Exhibit A

Non Qualified Stock Option Agreement

ADVISORY BOARD MEMBER CONSULTING AGREEMENT

THIS ADVISORY BOARD MEMBER CONSULTING AGREEMENT (“Agreement") is made as of June 15, 2010, by and between Stellar Biotechnologies, Inc., a California corporation (the "Company"), and Malcolm Gefter, Ph. D.("Consultant").

RECITALS:

A. Company has formed an Advisory Board to assist it in evaluation of its research and development and business activities.

B. Company wishes to engage the services of Consultant, as a member of its Advisory Board, to provide the services set forth below, and Consultant wishes to provide such services.

NOW, THEREFORE, in consideration of the covenants hereinafter stated, the panics agree as follows:

1. Consulting Services. Consultant shall provide general consulting services to Company (the "Services") as a member of its Advisory Board, to include:

a. Attending and participating an annual Advisory Board meeting (the meeting to last approximately two (2) days including travel; date, time and other details to be mutually agreed upon by the parties):

b. Attending (in person or telephonically) one (l) meetings each month with the Company's executives and/or senior staff (each meeting to last approximately 1/2 day; date, time and location to be mutually agreed upon by the parties);

c. Participating in conference calls with the Company's executives and/or senior staff on an "on-call" basis during normal business hours; and

d. Responding promptly to any phone calls or emails sent by the Company's executives and/or senior staff.

2. SAB Consulting Compensation: In consideration for entering into this Agreement and the Services rendered to the Company, the Company shall grant to Consultant the option to purchase Twenty Thousand (20,000) shares of Common granted with concurrently herewith and an additional Twenty Thousand (20,000) to be granted subject to approval by the Board of Directors of the Company at the beginning of each successive year of service, if the appointment to the SAB is continued, for two subsequent years. The options vest pursuant to the terms and provisions of the Non-Qualified Stock Option Agreement attached hereto as Exhibit A.

b. In consideration for services provided during attendance at meetings of the Scientific Advisory board the Company shall pay consultant a an annual retainer of Twelve Thousand Dollars ($12,000.00) per year of service, payable in twelve (12) monthly installments, for the time prescribed in Section 1, plus an hourly fee of Three Hundred Dollars ($300) per hour for services considered to be beyond the scope of consultant's role as Advisory Board Member.

c. in consideration for services provided specifically toward assisting the Company in the attainment of certain business development milestones identified in the Company's performance share agreement approved by the TSX Venture Exchange. the Company has also designated consultant as a recipient of 200,000 Performance Shares to be issued one-third upon the achievement of each of the three milestones. The terms regarding the issuance of the Performance Shares were disclosed in the Company's Filing Statement dated December 22, 2009 and filed with the Exchange.

d. The Company shall also reimburse Consultant for all reasonable out-of-pocket expenses actually incurred by Consultant in performance of the Services: provided, however, that the expenses shall be first approved by Company. Consultant shall present to Company supporting documentation and a detailed explanation of expenses incurred.

3. Proprietary Rights.

a. Proprietary Rights Created Outside of Performance of Services. Any and all inventions, discoveries, processes, ideas, methods, designs and know-how, whether or not patentable, which Consultant may conceive or make either alone or in conjunction with others, prior to the term of this Agreement or during the term of this Agreement that were not developed in connection with the Services performed hereunder, shall remain the exclusive property throughout the world of Consultant.

b. Proprietary Rights Created in Performance of Services. All work arising from the Services performed hereunder and all materials and products developed or prepared for Company by Consultant in connection with the Services performed hereunder are the exclusive property throughout the world of Company, and all right, title and interest therein shall vest in Company, All documentation and other copyrightable materials developed or prepared by Consultant in connection with the Services performed hereunder shall be deemed to be "works made for hire" in the course of the Services rendered hereunder. To the extent that title to any works arising from the performance of the Services hereunder may not, by operation of law, vest in Company, or such works may not be considered "works made for hire," all right. title and interest therein, including. without limitation, all copyrights, are hereby irrevocably assigned to Company. Any and all inventions, discoveries, processes, ideas, methods. designs and know-how, whether or not patentable, which Consultant may conceive or make either alone or in conjunction with others, during the term of this Agreement, which in any way pertain to or are connected with the Services, shall be the sole and exclusive property throughout the world of Company; and Consultant, whenever requested to do so by Company or any subsidiary and/or affiliate thereof, at Company's expense, and without further compensation or consideration, shall promptly execute any and all applications, assignments and other instruments and perform such acts which Company shall deem necessary or advisable in order to apply for and obtain copyrights, letters, patent and other applicable statutory protection throughout the world for said inventions, ideas and discoveries, and in order to assign and convey to Company the sole and exclusive right, title and interest throughout the world in and to said inventions, discoveries, processes, ideas, methods, designs and know-bow, or any applications, copyrights or patents thereof.

4. Confidentiality. All inventions, ideas and discoveries which shall become Company's property pursuant to Paragraph 3 hereof shall be held secret and confidential by Consultant. Further, during and after the performance by Consultant of the Services and the term of this Agreement, Consultant will not use or disclose or allow anyone else to use or disclose to any third parry any "Confidential information" (as defined below) relating to Company, its products, its research and development, its supplies or customers and the Services to be provided hereunder except as may be necessary in the performance of the Services or as may be authorized in writing in advance by an appropriate officer of Company. Consultant acknowledges that the foregoing limitation expressly prohibits any use or disclosure of any Confidential Information by Consultant pursuant to lectures or scientific or technical papers or publications. "Confidential Information" includes any trade secrets, confidential information, knowledge, data or other information of Company relating to products, processes, know-how, designs, formulas, test data, customer lists, business plans, marketing plans and strategies, pricing strategies or other subject matter pertaining to any business of Company or any clients, customers, consultants, licensees or affiliates, "Confidential Information" shall not include any information which is publicly available at the time of disclosure or subsequently becomes publicly available through no fault of Consultant. All written information, drawings, documents and other materials prepared by Consultant in the performance of the Services hereunder shall be Company's sole and exclusive property, and will be delivered to Company upon expiration or termination of this Agreement, together with all Confidential information, if any, that may have been furnished to Consultant hereunder.

5. Other Agreements. Consultant hereby represents that Consultant is not a party to any other agreements or commitments that would hinder Consultant's performance of the Services, other than those disclosed to Company in advance of the execution of this Agreement.

6. Term and Termination. This Agreement shall commence on the date hereof and, unless earlier terminated as provided below, shall continue until one (1) year from the date hereof and shall automatically renew for additional one (1) year periods for up to three (3) subsequent years unless terminated earlier in accordance with the terms of this Agreement. Either party shall have the right to terminate this Agreement without cause upon thirty (30) days' prior written notice to the other party. The provisions of Paragraphs 3 and 4 shall survive and continue after expiration or termination of this Agreement,

7. Independent Contractor. Consultant is an independent contractor. Consultant shall not be deemed for any purpose to be an employee or agent of Company, and neither party shall have the power or authority to bind the other party to any contract or obligation. Company shall not be responsible to Consultant or any governing body for any payroll-related taxes or insurance related to the performance of the terms of this Agreement.

8. Disclosure. Consultant acknowledges and agrees that Company may publicly disclose that Consultant is a member of Company's Advisory Board.

9. Assignment. Consultant may not assign any of his obligations hereunder without the prior written consent of Company, which may be withheld in its sole discretion.

10. Notices. All notification and communications hereunder shall be in writing. All notifications made to Company under this Agreement shall be made to the following address:

Stellar Biotechnologies, Inc.
321 E. Hueneme Rd. #170
Port Hueneme, CA 93041

Attn: Frank Oakes

All notifications made to Consultant shall be made to Consultant at the address set forth opposite Consultant's name on the signature page hereof.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

12. Modifications. No modification, amendment, supplement to or waiver of this Agreement shall be binding upon the parties hereto unless made in writing and duly signed by both parties.

13. Severability. In the event any one or more of the previsions of this Agreement is held to be invalid or otherwise unenforceable, the enforceability of the remaining provisions shall be unimpaired.

14. Entire Agreement. This Agreement contains the entire agreement between the parties, and supersedes any and all prior and contemporaneous oral and written agreements.

15. Counterparts. his Agreement may be executed in separate counterparts and shall become effective when the separate counterparts have been exchanged between the parties.

[Signatures appear on the fallowing page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as or the date first above written.

STELLAR BIOTECHNOLGIES, INC.

CONSULTANT:

Malcolm Gefter

Address:

46 BAKER BRIDGE RD
LINCOLN MA
01773

<malcolm.gefter@gmail.com>
Cell 617 697 2881

Exhibit A

Non Qualified Stock Option Agreement

Exhibit

NOV 1 J

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT SUB LEASE -- NET

(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

RECITALS

This Sublease (hereinafter referred to as the "Lease") is made and entered into with respect to the following facts:

(a) Port Hueneme Surplus Authority, the Lessor, herein is the lessee / tenant under that certain Lease Agreement, dated March 31, 1997, identified as "Oxnard Harbor District Port Hueneme Surplus Property Authority Lease" ("Master Lease") by and between Lessor and the Oxnard Harbor District, a California harbor district ("Master Lessor"), with respect to that certain real property ("Property") described in the Master Lease and located in the City of Port Hueneme, County of Ventura, State of California, and within the political boundaries of Lessor; and

(b) Master Lessor acquired its interest in the Property pursuant to that certain conveyance to Master Lessor from the Secretary of Transportation, as delegated to the Maritime Administrator, Maritime Administration, by certain instrument known and identified as "Port Facility Property Instrument of Disposal Quitclaim Deed," indenture or otherwise as necessary to meet local requirements ("Deed"); and

(c) Parcel D of the Property is generally known as the Port Hueneme Aquaculture Center, and is further described in Exhibit "A" attached hereto and incorporated herein by this reference; and

(d) The legislative body of Lessor has heretofore determined that the public interest, convenience and necessity require the execution and implementation of this Lease.

1. Basic Provisions ("Basic Provisions").

1.1 Parties: This Sub Lease (hereinafter referred to as the "Lease"), dated for reference purposes only, October 2, 2000, is made by and between Port Hueneme Surplus Property Authority, a surplus property authority ("Lessor") and Stellar Biotechnologies, Inc., a California corporation ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as Units 3, 4 & 5 of Port Hueneme Aquaculture Center, located in the County of Ventura, State of California, and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project) See attached legal description in Exhibit "B" attached hereto and hereby incorporated by this reference. See also Paragraph 50 of the attached Addendum for a further description of the Premises and the Project. ("Premises"). (See also Paragraph 2)

1.3 Term: five (5) years and -0- months ("Original Term") commencing See Paragraph 60 of the Addendum hereto ("Commencement Date") and ending sixty (60) months after Commencement Date ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: *Possession shall commence immediately upon execution of the Lease by both parties and delivery of the Security Deposit.* See also Paragraph 60 of the Addendum hereto ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: ~~$ per month ("Base Rent"), payable on the day of each month commencing~~ See Paragraph 60 of the Addendum hereto. (See also Paragraph 4)

☑ If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 Base Rent Paid Upon Execution: $-0- as Base Rent for the period .

1.7 Security Deposit: $6,723.04 ("Security Deposit"). (See also Paragraph 5)

1.8 Agreed Use: Extracting and supplying pharmaceutical companies, and the scientific community, with certain material extracted from selected marine organisms. Lessee is also involved in the aquaculture of marine organisms for use in species enhancement, pharmaceutical products and for food. (See also Paragraph 6)

1.9 Insuring Party: ~~Lessor~~ Lessee is the "Insuring Party" unless otherwise stated herein. (See also Paragraph 8)

1.10 Real Estate Brokers: (See also Paragraph 15)

(a) Representation: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

☑ Heritage Group, Inc. represents Lessor exclusively ("Lessor's Broker");

☐ _____ represents Lessee exclusively ("Lessee's Broker"); or

☐ _____ represents both Lessor and Lessee ("Dual Agency").

~~(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Broker the fee agreed to in their separate written agreement (or if there is no such agreement, the sum of % of the total Base Rent for the brokerage services rendered by said Broker).~~

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by N/A ("Guarantor"). (See also Paragraph 37)

1.12 Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 62 and Exhibits "A", "B", and "C", all of which constitute a part of this Lease.

2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

41. **Security Measures.** Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. **Reservations.** Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. **Authority.** If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within thirty (30) days after request, deliver to the other Party satisfactory evidence of such authority.

45. **Conflict.** Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. **Offer.** Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. **Multiple Parties.** If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. **Mediation and Arbitration of Disputes.** An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease ☑ is ☐ is not attached to this Lease.

See Addendum which is incorporated herein.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Port Hueneme, California	Executed at:
on: October , 2000	on: October , 2000
By LESSOR:	By LESSEE:
Port Hueneme Surplus Property	Stellar Biotechnologies, Inc.
By: Robert L. Hunt	By:
Name Printed: Robert L. Hunt	Name Printed:
Title: Surplus Property Authority Manager	Title:
By:	By:
Name Printed:	Name Printed:
Title:	Title:
Address:	Address:
Telephone: (___)	Telephone: (___)
Facsimile: (___)	Facsimile: (___)
Federal ID No.	Federal ID No.

NOTE: These forms are often modified to meet the changing requirements of law and industry needs. Always write or call to make sure

ADDENDUM
TO STANDARD INDUSTRIAL / COMMERCIAL SINGLE-TENANT SUBLEASE-NET

50. Premises. Lessee's Premises, as described in Exhibit "B," consists of Units 3, 4 and 5 which collectively comprise approximately 42,019 square feet (net of 5,000 square feet removed from Unit 3 and 1,000 square feet removed from Unit 4 for purposes of the pump house and intake pipes which are part of the common area described below), and are intended to be provided for the exclusive possession, use, and control of Lessee, subject to the rights of other lessees in the Project, and their employees, guests and invitees to utilize the striped, designated parking areas and subject further to Lessor's rights of entry and inspection as described in the Lease. The Premises are a portion of a larger project (the "Project") that consists of eleven Units (with one Unit containing the lighthouse) and certain common areas for the non-exclusive use of Lessee. The principal features of the common area are the key-card operated gates at the points of ingress and egress, perimeter fencing, security lighting, the roadway connecting all of the Units, and the off-street, striped parking areas. Additionally, between Units three and four are two structures designed to house Lessee's (and the other lessees') pumps, pipes and equipment necessary to draw sea water from the channel adjacent to the Project. The maintenance of Lessee's pumps, pipes and related equipment are the sole responsibility of Lessee, including any portion of such equipment that lies within the above described common area. Apart from Lessee's pumps, pipes and related equipment, Lessor will be responsible for the maintenance of the common area, and the related costs of such common area maintenance, together with a sinking fund (not to exceed $300/month) established to replace said common area improvements at the conclusion of their estimated useful lives as determined by an engineering study, shall be paid by Lessee, and the other lessees, in proportion to the number of square feet contained in each lessees' Unit. The percentage share of Lessee's common area expenses is 23.89%.

Lessee shall be responsible for the installation (and related cost thereof) of (i) all of Lessee's pipes and filters between the channel and the pump house, (ii) Lessee's pumps and related equipment within the pump house and (iii) all of Lessee's pipes, pumps and related equipment within the perimeters of Units 3, 4 and 5.

For all purposes of the Lease, Lessee's Premises shall include Lessee's pumps, pipes and related equipment described above, (collectively the "Intake System"). In addition to Lessee's maintenance responsibilities set forth in Paragraph 7.1 of the Lease, Lessee shall also be specifically responsible for cleaning (or "pigging") its Intake System as often as necessary to minimize the growth of organisms therein, and in all events not less often than monthly. Lessee's Premises shall not include the rip rap revetment on the ocean side of the Project.

Lessee's maintenance obligations required by Paragraph 7.1 shall not include damage resulting from ocean storms, and similarly, as provided in Paragraph 7.2, Lessor shall not be responsible for damage caused by such storms or any other source.

The operation of the key-card gates (to be installed by and at the expense of Lessor) requires the use of a magnetic card, which will be issued to Lessee by Lessor. Lessee shall be obligated to advise Lessor of the number of Lessee's employees who will require such a card, and Lessee will make every reasonable effort to minimize the number of people to whom such cards are issued, and further will minimize the number of visitors to the Premises, all for the reason of minimizing the number of people passing through the central Harbor gate into the high security area of the Harbor facilities. Lessee agrees to abide by reasonable rules and regulations that may hereafter be issued by the Oxnard Harbor District ("Master Lessor") and / or Lessor with respect to ingress and egress through the central Harbor gate.

Lessee further agrees that with respect to any storage containers located on the Premises, such containers shall be in good condition and painted to match the color scheme set forth in the Development Standards. Lessee shall exert its best efforts to locate any such container in such a manner as to minimize its visibility from off the Premises.

Any boat, vessel, or similar device utilized by lessee in its business and operations which is visible above the screen fence described above shall be covered by a tight fitting canvas or vinyl cover in a color and style consistent with the Development Standards, and which color and style are approved in writing by Lessor.

58. Option to Extend. Lessor hereby grants to Lessee the option to extend the Term of this Lease for two (2) additional five (5) year option periods each commencing when the prior Term expires upon each and all of the following terms and conditions:

a. Lessee shall give written notice to Lessor of Lessee's desire to extend this Lease for said additional term or terms, in accordance with Paragraph 23 of the Lease, at least one hundred twenty (120) days and not more than one hundred eighty (180) days prior to the date each such option period would commence, time being of the essence;

b. All of the terms and conditions of the Lease, except where specifically modified by this option, shall apply;

c. The basic economic terms for the option periods shall be that the new monthly Base Rent shall be the then prevailing Market Rental Rate (Lessor and Lessee shall mutually agree upon the amount of prevailing Market Rental Rate) for property comparable to the Premises at the time Lessee gives to Lessor written notice of Lessee's desire to extend this Lease. If Lessor and Lessee cannot mutually agree, then the prevailing Market Rental Rate shall be decided by legal arbitration in accordance with Paragraph 49 of the Lease and the resulting costs and fees shall be split evenly between the Parties. The then prevailing Market Rental Rate shall constitute the monthly Base Rent for the first twelve (12) months of each option period, which Base Rent shall be adjusted (but not reduced) on each anniversary of the commencement of each option period by any increase in the CPI index (for Ventura County, if available; otherwise for the Los Angeles / Long Beach area) which occurred during the preceding twelve (12) month period.

59. Master Lessor's Rules and Regulations Concerning Access to the Channel. Lessee understands that Master Lessor has issued certain rules and regulations with respect to access to the channel adjacent to the Project, including a rule prohibiting divers and other individuals from entering the channel unless they are certified by Master Lessor. Accordingly, Lessee herein shall design its Intake System in such a manner that substantially all of the maintenance and cleaning thereof can be performed from the land side of the channel in order to minimize the need for properly certified divers to enter the channel.

60. Termination of Interim Month-to-Month Subleases, Commencement of Base Rent and Adjustments in Base Rent during the Term--. Commencing November 1, 2000, ("Commencement Date"), Lessee's Base Rent shall be $3,361.52/month and shall be payable on the first day of each and every month for the following eleven months of the Term commencing after the first such monthly payment of $3,361.52. During the second twelve months of the Term following commencement of monthly rental payments, Lessee's Base rent shall be increased to $3,781.71/month, and during the final thirty-six months of the term, Lessee's Base Rent shall be further increased to $4,201.90.

The Parties agree that all three, existing month-to-month subleases entered by Lessor and Lessee, including affiliates of Lessee, shall be terminated upon the execution and delivery of this Lease; provided, however, Lessee and its affiliates who are parties to such month-to-month sublease agreements shall cause to be paid to Lessor the Rental amounts provided in such subleases up to commencement of Base Rent described in this Paragraph 60 of this Addendum.

61. Possessory Interest Tax. As stated in Paragraph 10 of the Lease, the definition of "Real Property Taxes" includes possessory interest taxes. Lessee hereby acknowledges and agrees that the Premises as defined in the Lease and this Addendum will constitute a possessory interest subject to property taxation levied directly on such possessory interest and payable by Lessee.

62. No Consent Required for Minor Subleases. The consent of Lessor shall not be required for subletting individual offices or groups of offices or other space within the Premises, or structures thereon, provided that:

(i) Not more than five hundred square feet of space within a structure nor more than one thousand square feet of the outdoor Premises are subleased to any one person or entity, and the sublease does not exceed twelve months or terminate after the Expiration Date,

(ii) The sublease is set forth in writing on a form approved in writing by Lessor,

(iii) Such sublease states in writing that it is subordinate to the Lease, the Master Lease, and the Deed described in the RECITALS, and

(iv) The sublessee furnishes to Lessor such evidence of credit worthiness and evidence of insurance as is required by the Lease or otherwise as reasonably required by Lessor.

from off the Premises.

Any boat, vessel, or similar device utilized by lessee in its business and operations which is visible above the screen fence described above shall be covered by a tight fitting canvas or vinyl cover in a color and style consistent with the Development Standards, and which color and style are approved in writing by Lessor.

58. Option to Extend. Lessor hereby grants to Lessee the option to extend the Term of this Lease for two (2) additional five (5) year option periods each commencing when the prior Term expires upon each and all of the following terms and conditions:

a. Lessee shall give written notice to Lessor of Lessee's desire to extend this Lease for said additional term or terms, in accordance with Paragraph 23 of the Lease, at least one hundred twenty (120) days and not more than one hundred eighty (180) days prior to the date each such option period would commence, time being of the essence;

b. All of the terms and conditions of the Lease, except where specifically modified by this option, shall apply;

c. The basic economic terms for the option periods shall be that the new monthly Base Rent shall be the then prevailing Market Rental Rate (Lessor and Lessee shall mutually agree upon the amount of prevailing Market Rental Rate) for property comparable to the Premises at the time Lessee gives to Lessor written notice of Lessee's desire to extend this Lease. If Lessor and Lessee cannot mutually agree, then the prevailing Market Rental Rate shall be decided by legal arbitration in accordance with Paragraph 49 of the Lease and the resulting costs and fees shall be split evenly between the Parties. The then prevailing Market Rental Rate shall constitute the monthly Base Rent for the first twelve (12) months of each option period, which Base Rent shall be adjusted (but not reduced) on each anniversary of the commencement of each option period by any increase in the CPI index (for Ventura County, if available; otherwise for the Los Angeles / Long Beach area) which occurred during the preceding twelve (12) month period.

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CHANGE TO LEASE

Lessee further agrees that with respect to any storage containers located on the Premises, such containers shall be in good condition and painted to match the color scheme set forth in the Development Standards. Lessee shall exert its best efforts to locate any such container in such a manner as to minimize its visibility from off the Premises.

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AIR COMMERCIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT SUB LEASE -- NET

(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

RECITALS

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(b) Master Lessor acquired its interest in the Property pursuant to that certain conveyance to Master Lessor from the Secretary of Transportation, as delegated to the Maritime Administrator, Maritime Administration, by certain instrument known and identified as "Port Facility Property Instrument of Disposal Quitclaim Deed," indenture or otherwise as necessary to meet local requirements ("Deed"); and

(c) Parcel B of the Property is generally known as the Port Hueneme Aquaculture Center, and is further described in Exhibit "A" attached hereto and incorporated herein by this reference; and

(d) The legislative body of Lessor has heretofore determined that the public interest, convenience and necessity require the execution and implementation of this Lease.

1. Basic Provisions ("Basic Provisions").

1.1 **Parties:** This Lease ("Lease"), dated for reference purposes only August 1, 2005, is made by and between Port Hueneme Surplus Property Authority, a surplus property authority ("Lessor") and Stellar Biotechnologies, Inc., a California corporation ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 **Premises:** That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as Unit 7 of Port Hueneme Aquaculture Center, located in the County of Ventura, State of California, and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project) See attached legal description in Exhibit "B" attached hereto and hereby incorporated by this reference. See also Paragraph 50 of the attached Addendum for a further description of the Premises and the Project. ("Premises"). (See also Paragraph 2)

1.3 **Term:** five (5) years and -0- months ("Original Term") commencing See Paragraph 60 of the Addendum hereto ("Commencement Date") and ending sixty(60) month after Commencement Date ("Expiration Date"). (See also Paragraph 3)

1.4 **Early Possession:** Possession shall commence immediately upon execution of the Lease by both parties and delivery of the Security Deposit. See also Paragraph 60 of the Addendum hereto ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 **Base Rent:** $~~_____ per month ("Base Rent"), payable on the _____ day of each month commencing~~ See Paragraph 60 of the Addendum hereto. (See also Paragraph 4)

☐ If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 **Base Rent and Other Monies Paid Upon Execution:**

(a) **Base Rent:** $2,174.00 for the period _____.

(b) **Security Deposit:** $4,348.00 ("Security Deposit"). (See also Paragraph 5)

(c) **Association Fees:** $_____ for the period _____.

(d) **Other:** $_____ for _____.

(e) **Total Due Upon Execution of this Lease:** $_____.

1.7 **Agreed Use:** Extracting and supplying pharmaceutical companies, and the scientific community, with certain material extractd from selected marine organisms. Lessee is also involved in the aquaculture of marine organisms for use in species enhancement, pharmaceutical products and for food. (See also Paragraph 6).

1.8 **Insuring Party:** ~~Lessor~~ Lessee is the "Insuring Party" unless otherwise stated herein. (See also Paragraph 8)

1.9 **Real Estate Brokers:** (See also Paragraph 15)

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(a) **Representation:** The following real estate brokers (the **"Brokers"**) and brokerage relationships exist in this transaction (check applicable boxes):

☑ Heritage Group, Inc. represents Lessor exclusively (**"Lessor's Broker"**);
☐ _____ represents Lessee exclusively (**"Lessee's Broker"**); or
☐ _____ represents both Lessor and Lessee (**"Dual Agency"**).

~~**(b) Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Broker the fee agreed to in their separate written agreement (or if there is no such agreement, the sum of _____ or _____% of the total Base Rent) for the brokerage services rendered by the Brokers.~~

1.10 **Guarantor.** The obligations of the Lessee under this Lease are to be guaranteed by N/A ("Guarantor"). (See also Paragraph 37)

1.11 **Attachments.** Attached hereto ~~are~~ the following, all of which constitute a part of this Lease:

☐ an Addendum consisting of Paragraphs 50 through 62 ;
☐ a plot plan depicting the Premises;
☐ a current set of the Rules and Regulations;
☐ a Work Letter;
☑ other (specify): Exhibits "A","B", and "C"

2. Premises.

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating Rent, is an approximation which the Parties agree is reasonable and any payments based thereon are not subject to revision whether or not the actual size is more or less. **Note: Lessee is advised to verify the actual size prior to executing this Lease.**

2.2 **Condition.** Lessor shall deliver the Premises to Lessee ~~broom clean and free of debris~~ on the Commencement Date or the Early Possession Date, whichever first occurs (**"Start Date"**), subject to all of terms and provisions of this Lease, and the Master Lease and Deed, both of which are incorporated herein by this reference. ~~and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems (**"HVAC"**), loading doors, sump pumps, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the **"Building"**) shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Building. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense.~~

~~2.3 **Compliance.** Lessor warrants that the improvements on the Premises comply with the building codes, applicable laws, covenants or restrictions of record, regulations, and ordinances (**"Applicable Requirements"**) that were in effect at the time that each Improvement, or portion thereof, was constructed. Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's use (see Paragraph 50), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. **NOTE: Lessee is responsible for determining whether or not the Applicable Requirements, and especially the zoning, are appropriate for Lessee's Intended use, and acknowledges that past uses of the Premises may no longer be allowed.** If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building (**"Capital Expenditure"**), Lessor and Lessee shall allocate the cost of such work as follows:~~

~~(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and an amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.~~

~~(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for such costs pursuant to the provisions of Paragraph 7.1(d); provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the~~

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typewritten or handwritten provisions.

46. **Offer.** Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. **Waiver of Jury Trial.** **THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.**

49. **Mediation and Arbitration of Disputes.** An Addendum requiring the Mediation and/or the Arbitration of all particular disputes between the Parties and/or Brokers arising out of this Lease ☑ is ☐ is not attached to this Lease. See Addendum which is incorporated herein. The Addendum only applies to disputes relating to paragraph 58C of this Lease.

50. **Americans with Disabilities Act.** Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Port Hueneme, California	Executed at: Port Hueneme, California
On: March , 2005	On: March 21, 2005
By LESSOR:	**By LESSEE:**
Port Hueneme Surplus Property	Stellar Biotechnologies, Inc.
By: Robert L Hunt	By:
Name Printed: Robert L. Hunt	Name Printed: Frank R. Oakes
Title: Surplus Property Authority Manager	Title: CFO
By:	By:
Name Printed:	Name Printed:
Title:	Title:
Address:	Address:
Telephone:(___)	Telephone:(___)
Facsimile:(___)	Facsimile:(___)
Federal ID No.	Federal ID No.
BROKER:	**BROKER:**
Attn:	Attn:
Title:	Title:

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Project and each Unit thereon present a level of orderliness, cleanliness, professionalism and organization that will contribute positively to the impressions of visitors, and to the promotion of the acquaculture industry." In keeping with this mandate, Lessee agrees to minimize the amount of storage on the Premises outside of the existing, or future, structures thereon and in the event any such storage becomes necessary for the uses described in Paragraph 1.8 of the Lease, Lessee further agrees to submit to Lessor a written plan setting forth a proposed screen fence to contain any such stored items. The approval of the height, materials and color of such screening fence shall be solely within the discretion and approval of Lessor.

58. Option to Extend. Lessor hereby grants to Lessee the option to extend the Term of this Lease for two (2) additional five (5) year option periods each commencing when the prior Term expires upon each and all of the following terms and conditions:

a. Lessee shall give written notice to Lessor of Lessee's desire to extend this Lease for said additional term or terms, in accordance with Paragraph 23 of the Lease, at least one hundred twenty (120) days and not more than one hundred eighty (180) days prior to the date each such option period would commence, time being of the essence;

b. All of the terms and conditions of this Lease, except where specifically modified by this option, shall apply;

c. The basic economic terms for the option periods shall be that the new monthly Base Rent shall be the then prevailing Market Rental Rate (Lessor and Lessee shall mutually agree upon the amount of prevailing Market Rental Rate) for property comparable to the Premises at the time Lessee gives to Lessor written notice of Lessee's desire to extend this Lease. If Lessor and Lessee cannot mutually agree, then the prevailing Market Rental Rate shall be decided by legal arbitration in accordance with Paragraph 49 of the Lease and the resulting costs and fees shall be split evenly between the Parties. The then prevailing Market Rental Rate shall constitute the monthly Base Rent for the first twelve (12) months of each option period, which Base Rent shall be adjusted (but not reduced) on each anniversary of the commencement of each option period by any increase in the CPI index (for Ventura County, if available; otherwise for the Los Angeles / Long Beach area) which occurred during the preceding twelve (12) month period.

59. Master Lessor's Rules and Regulations Concerning Access to the Channel. Lessee understands that Master Lessor has issued certain rules and regulations with respect to access to the channel adjacent to the Project, including a rule prohibiting divers and other individuals from entering the channel unless they are certified by Master Lessor. Accordingly, Lessee herein shall design its Intake System in such a manner that substantially all of the maintenance and cleaning thereof can be performed from the land side of the channel in order to minimize the need for properly certified divers to enter the channel.

60. Commencement of Base Rent and Adjustments in Base Rent during the Term. Commencing ~~August~~ October 1, 2005 ("Commencement Date"), Lessee's Base Rent shall be $2,174 / month and shall be payable on the first day of each and every month

for the following eleven months of the Term commencing after the first such monthly payment of $2,174. Thereafter, on each anniversary of the Commencement Date, the Base Rent shall be adjusted (but not reduced) by any increase in the CPI index (for Ventura County, if available; otherwise for the Los Angeles/Long Beach area) which occurred during the preceding twelve (12) month period.

61. Possessory Interest Tax. As stated in Paragraph 10 of the Lease, the definition of "Real Property Taxes" includes possessory interest taxes. Lessee hereby acknowledges and agrees that the Premises as defined in the Lease and this Addendum will constitute a possessory interest subject to property taxation levied directly on such possessory interest and payable by Lessee.

62. No Consent Required for Minor Subleases. The consent of Lessor shall not be required for subletting individual offices or groups of offices or other space within the Premises, or structures thereon, provided that:

(i) Not more than five hundred square feet of space within a structure nor more than one thousand square feet of the outdoor Premises are subleased to any one person or entity, and the sublease does not exceed twelve months or terminate after the expiration Date,

(ii) The sublease is set forth in writing on a form approved in writing by Lessor,

(iii) Such sublease states in writing that is subordinate to the Lease, the Master Lease, and the Deed described in the RECITALS, and

(iv) The sublessee furnishes to Lessor such evidence of credit worthiness and evidence of insurance as is required by the Lease or otherwise as reasonably required by Lessor.

City of Port Hueneme

October 14, 2005

Stellar Biotechnologies, Inc.
417 E. Port Hueneme Road
Port Hueneme, CA 93041

SUBJECT: LETTER AGREEMENT/LEASE AMENDMENT WITH RESPECT TO EXTENSION OF LEASE TERM AND ESTABLISHMENT OF NEW BASE RENT FOR UNITS #4 AND #5 AND ESTABLISHMENT OF NEW COMMENCEMENT DATE FOR UNIT #7 OF THE PORT HUENEME AQUACULTUIRE CENTER

Gentlemen:

In accordance with Paragraph 58 of the Addendum to that certain Sublease, dated October 2, 2000, by and between Stellar Biotechnologies, Inc. ("Stellar") and the Port Hueneme Surplus Property Authority ("SPA") for Units #3, #4, and #5, Stellar has notified the SPA of its desire to exercise its option with respect to Units #4 and #5 for five-years and the SPA has accepted pursuant to SPA Resolution No. 30 (attached). Stellar's Sublease of Unit #3 terminated of its own accord on October 2, 2005.

Paragraph 58 of the Sublease Addendum obliges the Parties to agree with respect to the current Market Rental Rate for option periods, which on the basis of all recent leasing activity at the Port Hueneme Aquaculture Center is currently $0.15 per square foot of land per month with subsequent annual cost of living ("CPI") increases for years 4 through 5.

Accordingly, Paragraph 60 of the Addendum is hereby amended and replaced by the following revision:

60. Establishment of Base Rent During the First Five-Year Option Period. Commencing **October 1, 2005** and continuing through **September 30, 2006**, Lessee's Base Rent shall be increased to **$4,454.85**/month for **Units #4** and **#5**. This rental rate takes into account the previously agreed to concept that 1,000 square feet of Unit #4 is associated with the pump house, and Stellar is not required to pay rent on that common area. **On October 1, 2006 the Base Rent shall be adjusted (but not reduced) for increases, if any, in the CPI index (for Ventura County, if available; otherwise for the Los Angeles/Long Beach**

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metropolitan area), which occurred during the preceding twelve (12) month period. A similar adjustment shall be made on each October 1st thereafter for the remaining term of the option period ending in 2010.

With respect to Unit #7, the "Commencement Date" set forth in Paragraph 60 of the Addendum to that certain additional Sublease, dated August 1, 2005, by and between Stellar and the SPA is hereby changed from August 1, 2005 to October 1, 2005 to reflect the delay in occupancy by Stellar due to required tenant improvement work.

All other terms, conditions and provisions of both Subleases shall remain in full force and effect.

Please indicate Stellar's concurrence with these Sublease Amendments by executing and dating this letter below and returning same to this office.

Sincerely,

Robert L. Hunt

Robert L. Hunt
SPA Manager

The foregoing Amendments to the two Subleases as described above are agreed to this 31 day of October, 2005.

Frank R. Oaks Oakes
Chairman, STELLAR BIOTECHNOLOGIES, INC

Rent Commencement Date:

STANDARD LEASE

THIS LEASE ("Lease") is made and entered into this 29th **day of March, 2011**, by and between **939 S. Serrano Ave., LLC DBA Beachport Center** ("Landlord"), and **Stellar Biotechnologies Inc.,**("Tenant")**.**

1. **FUNDAMENTAL LEASE PROVISIONS.** Certain Fundamental Lease Provisions are presented in this Section and represent the agreement of the parties hereto, subject to further definition and elaboration in the respective referenced Sections and elsewhere in this Lease. In the event of any conflict between any Fundamental Lease Provision and the balance of this Lease, the latter shall control. References to specific Sections are for convenience only and designate some of the Sections where references to the particular Fundamental Lease Provisions may appear.

1.1 **Shopping Center:** The term "Shopping Center" as used herein shall refer to the shopping center commonly known as Beachport Center located in the City of Port Hueneme, County of Ventura, State of California, as more particularly described in Exhibit "A" attached hereto.

1.2 **Demised Premises:** The "Premises" consist of the area commonly referred to as **332 E. Scott Street, Port Hueneme**, California and generally crosshatched on the Plot Plan attached hereto as Exhibit "B".

1.3 **Approximate Floor Area of Demised Premises:** Approximately Four Thousand Two Hundred Seventy Two **(4,272.00**) square feet (said measurements being to the center of interior separation partitions and the outside of exterior walls).

1.4 **Tenant's Trade Name:** **Stellar Biotechnologies**. (See Section 3.)

1.5 **Fixturization Period:** N/A. (See Section 4).

1.6 **Lease Term:** Three (3) Year. (See Section 4.)
Option to Extend Term: One (1) Two (2) Year Option to Extend the Term. (See Section 4.1)

1.7 **Lease Termination Date:** (See Section 4.)

1.8 **Guaranteed Minimum Monthly Rental ("GMMR"): $5,126.40 per month.** (See Section 5.)

1.9 **Cost of Living Increase:** 3% per annum (See Section 5.3)

1.10 **Security Deposit:** **$7,134.24**. (See Section 33.26.)

1.11 **Use of Demised Premises: Offices, and Lab for KHL technology.** (See Section 3.)

1.12 **Address for Notices:**

Landlord: 939 S. Serrano Ave.
DBA Beachport Center
P.O. Box 5024
Woodland Hills, CA 91365-5024

With copies to:
North Oak Real Estate
P. O. Box 5024
Woodland Hills, CA 91365-5024

Tenant: Stellar Biotechnologies
332 E. Scott Street
Port Hueneme, Ca 93041

1.13 **Real Estate Broker:** None. (See Section 33.30).

2. **EXHIBITS.** The following drawings and special exhibits are attached hereto and made a part of this Lease:

Exhibit "A" - Legal Description
Exhibit "B" - Plot Plan of Shopping Center Depicting Demised Premises
Exhibit "C" - Construction Obligations
Exhibit "D" - Landlord's Sign Criteria
Exhibit "E" - Tenant's Estoppel Certificate
Exhibit "F" - Rules and Regulations
Exhibit "G" - N/A
Exhibit "H" - Occupancy Notice

3. **USE.** The Landlord hereby leases to Tenant and Tenant hereby hires from Landlord the Demised Premises with appurtenances as defined herein, for the purpose of conducting thereon only the use specified in Section 1.11 of this Lease and no other use or purpose. Tenant agrees to use such Demised Premises only under the trade name specified in Section 1.4 hereof. Tenant may use the Premises for Clerical Offices, and KHL Lab.

3.1 **EXLUSIVE USE.** N/A

4. **TERM.** The term of this Lease shall be as specified in Section 1.6 hereof or until this Lease is earlier terminated as provided herein, including, but not limited to, the provisions of Section 23 hereof. The term of this Lease shall commence on the earlier of the following dates ("Commencement Date"): (a) the date the Fixturization Period specified in Section 1.5 expires after the Landlord notifies Tenant in writing that the improvements to be provided by Landlord as set forth in Section 8 have been substantially completed. or (b) the date on which Tenant shall open the Demised Premises for business to the public. In the event that the Commencement Date does not occur on the first (1 st) day of a calendar month, the term of this Lease shall be extended by the number of days of the partial month at the commencement of the term such that the Lease shall end on the last day of a calendar month, which date of termination is specified in Section 1.7 hereof ("Termination Date"). Notwithstanding the foregoing, all of Tenant's obligations hereunder, except the payment of GMMR and additional rental, shall commence upon the earlier of the moment Landlord notifies Tenant in writing that the improvements to be provided by Landlord have been substantially completed and the moment Tenant takes possession of the Demised Premises. The improvements shall be deemed substantially completed when "Landlord's Work" as defined in Section 8 has been completed except for minor work which does not materially prevent Tenant from occupying the Demised Premises. Within five (5) business days following the Commencement Date, upon Landlord's request, Landlord and Tenant shall execute and acknowledge an estoppel certificate setting forth the Commencement Date and the Termination Date. Notwithstanding the foregoing, failure of Tenant to execute such certificate shall not affect Landlord's determination of the Commencement Date in accordance with the provisions of this Lease.

4.1 **Extension(s) of Term.** Tenant shall have the right to extend the term of this Lease for One (1) Two (2) year period under the same terms and conditions as the original Lease, except the amount of GMMR. If Tenant is in default on the date of giving an option notice, the option notice shall be

totally ineffective or if Tenant is in default on the date an extended term is to commence, the extended term shall not commence and this Lease shall expire at either the end of the initial term or the end of the any of the option periods in which Tenant is in default.

In order to exercise such option(s) to renew or extend this Lease, Tenant shall give to Landlord notice, in writing, of its intention to do so at least one hundred eighty (180) days prior to the applicable expiration date of this Lease, and if Tenant shall fail to timely give such notice, all rights and privileges as granted to Tenant to renew or extend this Lease shall thereupon be null and void.

Option Period GMMR: If Tenant exercises the option to extend the term as set forth herein, the GMMR payable for option period will be at future market value, but in no event shall the GMMR be less then the current rent at the time of this renewal plus Three percent (3%). If tenant does not agree to the new GMMR the option is forfeited.

5. Rental

5.1 **Guaranteed Minimum Monthly Rental.** Tenant shall pay to Landlord, during the term of this Lease from and after the Commencement Date as Guaranteed Minimum Monthly Rental ("GMMR") for the Demised Premises the sum specified in Section 1.8 hereof, which sum shall be paid in advance on the first (1st) day of each calendar month. Tenant, contemporaneously with the execution of this Lease, shall deliver to Landlord GMMR for one calendar month, which shall be applicable to the initial month following the Commencement Date, the receipt of which is hereby acknowledged by Landlord. In the event the Commencement Date does not occur on the first (1 st) day of a calendar month, the GMMR for the initial fractional month shall be prorated as of the Commencement Date on a per diem basis (calculated on the basis of a thirty (30) day month) and any additional GMMR shall be credited against the GMMR for the first full calendar month following the Commencement Date. All rental to be paid by Tenant to Landlord shall be in lawful money of the United States of America and shall be paid without deduction or offset, prior notice or demand at the address designated in Section 1.12 hereof. The rent is not based on a price per square footage for the rental unit.

5.2 **Percentage Rental.** Not Applicable.

5.3 **Cost of Living Adjustment.** Upon each anniversary date of the Commencement Date, or if the Commencement Date is not on the first (1 st) day of a month, then on the first (1st) day of the next calendar month, the GMMR shall be adjusted by an increase of Three (3) percent.

5.4 **Net Lease.** It is the intention of the Landlord and Tenant that the rent herein specified shall be net to the Landlord,and that all costs, expenses and obligations of every kind relating to the Demised Premises or the use, operation, management or occupancy thereof, whether or not now customary or within the contemplation of the parties hereto, which may arise or become due during the term of this Lease, shall be paid by the Tenant. Such amounts are considered additional rental hereunder.

5.5 **Additional Rental.** For purposes of this Lease, all payments required to be made by Tenant to Landlord for taxes, maintenance and repair, expenses in connection with the parking and common areas, insurance, and all other monetary obligations of Tenant under this Lease, shall be deemed to be additional rental.

5.6 **Declaration; Expense Allocation.** Landlord and Tenant acknowledge that the Landlord owns the Shopping Center. The use, operation and maintenance of the Shopping Center and the Premises is or will be subject to an agreement of covenants, conditions, restrictions and easements (the "Declaration"). Tenant hereby subordinates to such Declaration and shall comply with and not violate any of the terms and provisions of such Declaration in connection with Tenant's use of the Premises. In the event the Declaration allocates property taxes, lighting expenses, common area maintenance expenses and any other expenses in connection with the parking and common areas or the Shopping Center, the allocation of such expenses to the Demised Premises under Sections 6, 9, 14 and 19 shall be based upon the expenses allocated to the Landlord's Property under the Declaration, to the extent allocated there under, and Tenant's allocation of such expenses shall be based upon the that portion of all such expenses which is equal to the proportion thereof which the number of square feet of gross floor area in the Demised Premises bears to the total number square feet of gross floor area of the buildings constructed on Landlord's Property. With respect to property which is not owned by Landlord but is subject to the Declaration, it is understood that any rights granted to Tenant hereunder by Landlord and/or any obligations hereunder of Landlord shall only be to the extent of Landlord's rights under the Declaration; Landlord hereby agrees to use its reasonable efforts to enforce such rights under the Declaration.

6. **REAL ESTATE TAXES.** In addition to all rentals herein reserved, Tenant shall pay to Landlord annual real estate taxes and assessments levied upon the Demised Premises and a pro rata share of annual real estate taxes and assessments levied upon the parking and common areas of the Shopping Center. Landlord shall estimate the amount of taxes next due and Tenant shall pay, on a monthly basis, together with GMMR as additional rental, the amount of Tenant's estimated tax obligation. Within thirty (30) days following receipt of the actual tax bill, Landlord shall provide to Tenant a reconciliation of the amount owed by Tenant and the amount actually paid by Tenant. If Tenant has underpaid Tenant shall pay the additional amount owed in a lump sum within ten (10) days. If Tenant has overpaid, the amount of the overpayment shall be credited against the payment for such taxes and assessments next coming due. Even though the term of this Lease has expired and Tenant has vacated the Demised Premises, when the final determination is made of Tenant's share of such taxes and assessments, Tenant shall immediately pay to Landlord the amount of any additional sum owed, and any overpayment shall immediately be paid by Landlord to Tenant. Landlord shall have the right to elect to collect taxes on a semi-annual basis, in which event Tenant's pro rata share shall be payable within ten (10) days after receipt of a semi-annual statement to be sent by Landlord to Tenant setting forth the amount of such tax based upon the actual tax bill received by Landlord.

In the event the Demised Premises, together with a pro rata share of the parking and common area, are not separately assessed, Landlord shall allocate a portion of the real estate taxes and assessments to Tenant by any reasonable method selected by Landlord in its sole discretion, including allocating the annual real estate taxes and assessment based on the ratio that the gross floor area of the Demised Premises bears to the total gross leasable floor area of the building or buildings within the tax parcel of which the Demised Premises is a part. It is agreed that it shall be reasonable for Landlord to exclude from such calculation the square footage leased or owned by any tenant or owner who pays real property taxes and/or assessments on other than an allocable basis so long as the amount so paid by such tenant or owner is deducted from the amount being allocated.

Any such tax for the year in which this Lease commences or ends shall be apportioned and adjusted. With respect to any assessment which may be levied against or upon the Demised Premises and which, under the laws then in force, may be evidenced by improvement or other bonds, payable in annual installments, only the annual payments on said assessment shall be included in computing Tenant's obligation for taxes and assessments.

The term "real estate taxes" as used herein shall be deemed to mean all taxes imposed on the real property and permanent improvements constituting the Demised Premises and/or the parking and common areas as well as taxes of every kind and nature (including any tax on rent which is substituted in whole or in part for real property taxes or assessments and any license fee imposed by a local governmental body on the collection of rent, and excluding federal and state income taxes) levied and assessed in lieu of, in substitution for, or in addition to, existing real property taxes, whether or not now customary or within the contemplation of Landlord and Tenant, and all assessments levied against the Demised Premises and/or the parking and common areas. The term "real estate taxes" also shall include the cost to Landlord of contesting the amount, validity or applicability of any taxes referred to in this Section. "Real estate taxes" shall not include personal income taxes, inheritance taxes, or franchise taxes levied against the Landlord but not directly against such property even though such taxes shall become a lien against said property, unless such taxes are in lieu of or in substitution for taxes levied directly against such property.

Tenant shall pay to Landlord any and all excise, privilege and other taxes levied or assessed by any federal, state or local authority upon or measured by the rental or other amounts received by Landlord hereunder, and Tenant shall bear any business tax imposed upon Landlord by any governmental authority which is based or measured in whole or in part by amounts charged or received by Landlord from Tenant under this Lease.

Tenant shall be liable only for that portion of the taxes and assessments attributable to the Demised Premises based upon individual assessment valuations (proration) supplied by the County Assessor. Said proration shall be conclusive upon both parties unless the parties otherwise mutually agree in writing.

Tenant shall pay all special taxes and assessments or license fees levied, assessed or imposed by law or ordinance, by reason of the use of the Demised Premises for the specific purposes set forth in this Lease.

7. **PERSONAL PROPERTY TAXES.** During the term hereof, Tenant shall pay prior to delinquency all taxes assessed against and levied upon fixtures, furnishings, equipment and all other personal property of Tenant contained in the Demised Premises, and when possible, Tenant shall cause said fixtures, furnishings, equipment and other personal property to be assessed and billed separately from the real property of Landlord. In the event any or all of the Tenant's fixtures, furnishings, equipment and other personal property shall be assessed and taxed with the Landlord's real property, the Tenant

shall pay to Landlord Tenant's share of such taxes within ten (10) days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to the Tenant's property.

8. **CONSTRUCTION.** Landlord and Tenant agree to construct the improvements to the extent shown on the attached Exhibit "C" ("Landlord's Work" and "Tenant's Work", as applicable), at each party's sole cost and expense, as provided in Exhibit "C".

9. **PARKING AND COMMON AREAS.**

9.1 **Parking and Common Area Definition.** The term "parking and common areas" as used herein shall mean those portions of the Shopping Center that are from time to time established by Landlord as automobile parking areas, roadways, walkways, landscaped areas, malls, service areas, electrical and mechanical rooms, the community center and the like. During the term of this Lease and any extension thereof, Landlord gives to Tenant for the use and benefit of Tenant, Tenant's agents, employees, customers and subtenants a non-exclusive license in common with Landlord and other present and future owners and tenants of the Shopping Center and their agents, employees, customers, licensees and subtenants, and others authorized by Landlord to use the parking and common areas of the Shopping Center for ingress, egress and automobile parking, provided that the condemnation or other taking by any public authority, or sale in lieu of condemnation, of any or all of such parking and common areas shall not constitute a violation of this covenant. Landlord reserves the right in its sole and absolute discretion (without which right Landlord would not have entered into this Lease), to change the location of buildings and the entrances, exits, traffic lanes, parking stalls, landscaped areas, the direction and flow of traffic, and the size, boundaries, location, and configuration of the parking and common areas, to create temporary and permanent kiosks, and to annex additional property to the Shopping Center by Landlord. The license shall be automatically revoked to the extent portions of the Shopping Center are deleted by Landlord from the parking and common areas and shall be deemed expanded to the extent areas are added and are identified by Landlord in writing as additional common areas. Nothing herein contained shall be deemed to prevent Landlord from using or authorizing others to use said parking and common areas for utility lines and appurtenances, pickups and deliveries to and from buildings within the Shopping Center, construction, and other similar purposes. This Lease shall be subject to any agreement existing as of the date of this Lease or subsequently recorded against the real property of which the Demised Premises are a part, which agreement provides for reciprocal easements and restrictions pertaining to the parking and common areas, and in the event of conflict between the provisions of such agreement and this Lease, the provisions of such agreement shall prevail.

9.2 **Opening of Parking and Common Areas.** Prior to the date on which Tenant shall open the Demised Premises for business to the public, Landlord shall cause those portions of the parking and common areas reasonably necessary for the operation of Tenant's business to be graded, paved, lighted and appropriately marked and landscaped at no expense to Tenant.

9.3 **Maintenance of Parking and Common Areas.** During the entire term hereof, Landlord shall keep or cause to be kept the parking and common areas as same are established and completed by Landlord in a good, neat, clean and orderly condition, properly lighted and landscaped, and shall repair any damage to the facilities thereof, but all expenses in connection with said parking and common areas shall be charged and prorated in the manner hereinafter set forth. It is understood and agreed that the phrase "expenses in connection with the parking and common areas" as used herein shall be construed to include, but not be limited to, all sums expended by Landlord in connection with said parking and common areas for all general maintenance, repairs, and replacements; costs expended by Landlord for managing, labor, payroll taxes, materials and supplies relating to the Shopping Center or portion thereof and utilities services utilized in connection therewith; resurfacing, painting, restriping, cleaning, sweeping and janitorial services; planting and landscaping; lighting and other utilities; repairing or replacing curbs, paved and unpaved surfaces, directional signs and other markers and bumpers; reasonable reserves to accomplish any replacements of the parking and common area improvements, including repaving of the parking and driveway areas, based upon Landlord's estimate as to when replacement of such improvements will be necessary; personnel to implement such services and to police the parking and common areas (but Landlord shall have no liability for the adequacy or performance of any police or security system); required fees or charges levied pursuant to any government requirements; public liability and property damage insurance on the parking and common areas, which shall be carried and maintained by Landlord, with limits as determined by Landlord; and a fee equal to fifteen percent (15%) of said costs passed through to Tenant pursuant to the terms of this Lease to Landlord for Landlord's supervision of said parking and common areas.

Tenant agrees to pay to Landlord Tenant's pro rata share of the total expenses in connection with the parking and common areas. Subject to Section 5.6, Tenant's pro rata share of such expenses shall be that portion of all such expenses which is equal to the proportion thereof which the number of square feet of gross floor area in the Demised Premises bears to the total number of square feet of gross floor area of all buildings in the Shopping Center as of the commencement of each calendar month. There shall be an appropriate adjustment of Tenant's share of the expenses in connection with the parking and common areas as of the commencement and expiration of the term of this Lease. The terms "gross floor area" and "gross leaseable floor area" as used herein shall be deemed to mean the floor area in either the Demised Premises or any other building in the Shopping Center, with measurements to be from the outside of exterior walls and from the center of interior separation partitions, but in Landlord's discretion consistently applied. Landlord may exclude from such terms mezzanines, trash enclosures, loading areas and the like. In the event and to the extent that any tenant in the Shopping Center or any owner of any portion of the Shopping Center pays parking and common area expenses on other than the proportionate basis described above, Landlord may, in such event and to such extent, exclude the square footage of floor area leased or owned by such party for purposes of the above-described allocation so long as the actual amount paid by such party is deducted from the parking and common area expenses being so allocated.

Upon the Commencement Date, or at any time thereafter, Landlord may submit to Tenant a statement of the anticipated expenses in connection with the parking and common areas for the period between such Commencement Date and the following December 31, and Tenant shall pay its pro rata share thereof in equal monthly payments. Tenant shall continue to make such payments until notified by Landlord of a change thereof. Landlord may, at any time, increase or decrease such estimated payments in the event that Landlord reasonably determines that such estimated payments are incorrect or the percentage to be allocated to Tenant is adjusted. By March 1 of each year, Landlord shall endeavor to give Tenant a statement showing the total expenses in connection with the parking and common areas for the prior calendar year and Tenant's pro rata share thereof. Failure of Landlord to deliver such a statement within said time period shall not be a default or otherwise affect Tenant’s obligations hereunder. In the event the total of the estimated payments which Tenant has made for the prior calendar year are less than Tenant's actual share thereof, Tenant shall pay the difference in a lump sum within ten (10) days after receipt of such statement from Landlord and shall concurrently pay an additional amount to adjust any underpayment in the estimated payments for the current year. Any overpayment by Tenant shall be credited towards the payment next coming due. Even though the term of this Lease has expired and Tenant has vacated the Demised Premises, when the final determination is made of Tenant's share of said expenses for the year in which this Lease terminates, Tenant shall immediately pay any increase due over the estimated payments previously made by Tenant and, conversely, any overpayments shall be immediately paid by Landlord to Tenant. Alternatively, Landlord may elect to bill Tenant its pro rata share after the expenses have been incurred, in which event, Tenant's pro rata share shall be based on actual expenses at such intervals as Landlord shall determine.

9.4 **Employee Parking.** Notwithstanding any other provision contained herein, at Landlord's written request, Tenant and Tenant's employees shall park their automobiles outside the Shopping Center or in those areas, if any, within the Shopping Center designated for employee parking. In the event Landlord designates employee parking within the Shopping Center, Tenant and Tenant's employees shall park their automobiles in the area designated by Landlord. Upon Landlord's request, Tenant shall submit to Landlord a list of Tenant's employees and the license numbers of vehicles driven by them (including the license numbers of Tenant's own vehicles). Tenant shall thereafter notify Landlord of any changes to such list within five (5) days after such change occurs. If Tenant or its employees park their vehicles in other than a designated area, Landlord may charge Tenant, without prior notice, Twenty Dollars ($20.00) per day, or any part thereof, per vehicle parked in other than a designated area. All amounts shall be paid within ten (10) days after demand. Additionally, Landlord is authorized to cause any such vehicle parked in other than a designated area to be towed away. Tenant shall hold Landlord harmless from any liability relating thereto and within ten (10) days after demand for payment shall pay the cost of towing and storage if not paid by the employee.

9.5 **Rules and Regulations.** In addition to other rules and regulations for the Shopping Center or Landlord’s Property, or as part of such rules and regulations, Landlord may adopt from time to time rules and regulations for the orderly and proper operation of said parking and common areas. Such rules and regulations may include, but shall not be limited to, the following: (i) the restricting of employee parking to a limited, designated area or areas or prohibiting parking by employees in the Shopping Center as above provided; (ii) the restriction of designated areas for drive-through banking, savings, restaurant or other drive-through facilities and/or loading, trash or other storage areas whether or not same are roofed and/or enclosed; (iii) the establishment of certain limited areas as exclusive parking areas for certain tenants of the Shopping Center; and (iv) the restriction of loading, unloading and deliveries to specified times and areas.

10. **USES PROHIBITED.** Tenant shall not use, or permit the Demised Premises, or any part thereof, to be used for any purpose or purposes other than the express purpose or purposes for which the Demised Premises are hereby leased pursuant to Section 1.11 hereinabove or carry on its business other than under the trade name designated in Section 1.4. No use shall be made or permitted to be made of the Demised Premises, nor acts done, which is obnoxious to, out of harmony with, or objectionable to the development or operation of the Demised Premises and/or adjoining properties, including,

without limitation, the following prohibited activities, occurrences and uses: (i) no merchandise shall be displayed or sold outside the enclosed building areas on the Demised Premises; nor shall any use other than parking and landscaping, be made of any outside areas; (ii) no solicitation of any kind, distribution or handbills or other materials, parading, rallying, patrolling, picketing, demonstrating or similar conduct shall be permitted outside the enclosed building areas on the Demised Premises; (iii) no loudspeakers or other sound which may be heard or experienced outside the enclosed building areas on the Demised Premises and no nuisance, incineration, during on or adjacent to the Demised Premises, explosion, obnoxious odor or obnoxious noise shall be permitted; (iv) no auction, fire, bankruptcy, going out of business or similar sale shall be conducted or advertised; (v) nothing shall be done which shall be injurious to the Demised Premises or adjoining properties or unlawful or contrary to public policy or to a law, ordinance, regulation or requirement of any public authority, or would constitute an extra hazardous use, or would violate, suspend or void any policy of insurance required to be carried on the Demised Premises or which would increase the rate of insurance thereon; (vi) no use shall be made of the sidewalk area on the Demised Premises other than pedestrian movement; (vii) there shall not be permitted the use by the public, as such, of the Demised Premises or any part thereof without restriction or in such manner as might reasonably tend to impair the Landlord's title to the Demised Premises or in such manner as might reasonably make possible a claim or claims of adverse usage or adverse possession by the public, as such, or of implied dedication of the Demised Premises or any part thereof; (viii) no act or omission of the Tenant shall permit any lien or encumbrance of any kind whatsoever to attach to the Demised Premises; (ix) no act or omission which would constitute a breach, or event which with passage of time, notice of either of them, would constitute a breach of any recorded documents; (x) no sale of any so-called "surplus" "Army and Navy," or "secondhand" goods or drug paraphernalia or "head-shop" goods, as those terms are generally used at this time and from time to time hereinafter, shall be conducted on or from the Demised Premises; and (xi) no use shall be made or permitted which conflicts with any recorded document or restrictive use covenant. Tenant shall not sell or permit to be kept, used, displayed or sold in or about the Demised Premises: (a) pornographic or sexually explicit books, magazines, literature, films or other printed material, sexual paraphernalia, or other material which would be considered lewd, obscene or licentious, (b) any use which may be prohibited by standard forms of fire insurance policies, or (c) any alcoholic beverages unless expressly permitted by Section 1.11 hereof. Tenant shall not use, or permit to be used, the Demised Premises, or any part thereof, for the installation or on-premises use of any vending machine, gaming machine or video or arcade game unless expressly permitted by this Lease. No use shall be made or permitted which conflicts with any recorded document. Tenant shall, at Tenant's sole cost, comply with any and all requirements, pertaining to the use of the Demised Premises, of any insurance organization or company necessary for the maintenance of reasonable fire and public liability insurance, covering the building of which the Demised Premises are a part and appurtenances. In the event Tenant's use of the Demised Premises results in a rate increase for any building within the Shopping Center, or the parking and common areas, Tenant shall pay annually on the anniversary date of this Lease, as additional rent, a sum equal to that of the additional premium occasioned by said rate increase.

Tenant shall not commit, or suffer to be committed, any waste upon the Demised Premises, or any nuisance or other act or thing which may disturb the quiet enjoyment of any other tenant or occupant of the Shopping Center. Tenant shall not, without Landlord's prior written consent, display or sell merchandise outside the defined exterior walls and permanent doorways of the Demised Premises. Tenant shall not conduct or permit to be conducted any sale by auction in, upon or from the Demised Premises, whether said auction be voluntary, involuntary, pursuant to any assignment for the payment of creditors, or pursuant to any bankruptcy or other solvency proceeding nor display any "going out of business" or similar sign. Tenant shall not advertise, solicit business or give out literature or materials within the parking and common areas of the Shopping Center without Landlord's prior written consent.

11. **ALTERATIONS AND FIXTURES.** Tenant shall not make, or suffer to be made, any alterations to the Demised Premises, or any part thereof, or the building containing the Demised Premises or change the appearance of the building containing the Demised Premises without the prior written consent of Landlord, and any alterations to the Demised Premises, except movable furniture and trade fixtures, shall become at once a part of the realty and shall at the expiration or earlier termination of this Lease belong to Landlord. Tenant shall not in any event make any changes to the exterior of the Demised Premises. Any such alterations shall be in conformance with the requirements of all municipal, state, federal, and other governmental authorities, including requirements pertaining to the health, welfare or safety of employees or the public and in conformance with reasonable rules and regulations of Landlord. Landlord may require that any such alterations be removed prior to the expiration of the term hereof. Any removal of alterations or furniture and trade fixtures shall be at Tenant's expense and accomplished in a good and workmanlike manner. Any damage occasioned by such removal shall be repaired at Tenant's expense so that the Demised Premises can be surrendered in a good, clean and sanitary condition as required by Section 12 hereof. On completion of any work of alteration, addition or improvement by Tenant, Tenant shall supply Landlord with "as-built" drawings accurately reflecting all such work.

Tenant agrees to promptly fixturize and stock the Demised Premises in a manner comparable to other stores of a similar nature. Any and all fixtures and appurtenances installed by Tenant shall be new and shall conform with the requirements of all municipal, state, federal, and governmental authorities, including requirements pertaining to the health, welfare, or safety of employees or the public.

Landlord, within five (5) days after demand from Tenant, shall execute and deliver any document required by any supplier, lessor, or lender in connection with the installation in the premises of tenant's personal property or tenant's trade fixtures in which Landlord waives any rights it may have or acquire with respect to that property, if the supplier, lessor, or lender agrees in writing that:

1. It will remove that property from the premises before the expiration of the term or within thirty (30) days after termination of the term, but if it does not remove the property within ten (10) days it shall have waived any rights it may have had to the property.

2. It will make whatever restoration or repairs to the Demised Premises that is necessitated by the removal.

12. **MAINTENANCE AND REPAIR.** Tenant shall, subject to Landlord's obligations hereinafter provided, at all times during the term hereof, and at Tenant's sole cost and expense, keep, maintain and repair the Demised Premises, Tenant's portion of the building containing the Demised Premises and other improvements within the Demised Premises in good and sanitary order, condition, and repair (except as hereinafter provided), including, without limitation, the maintenance and repair of any store front, doors, window casements, glazing, heating and air-conditioning system, including the maintenance of a service contract with a heating and air-conditioning contractor approved by Landlord and meeting any warranty requirements of Landlord, plumbing, pipes, electrical wiring and conduits. Tenant shall supply Landlord with a copy of such contract within ten (10) days after opening for business, and, upon request at any time, evidence that such contract or other contract remains in effect. After notice to Tenant, Landlord shall have the right to contract directly for heating and air-conditioning maintenance, and in such event, Tenant shall pay the cost of same, or a reasonable portion thereof determined by Landlord if the contract covers more than the Demised Premises. In addition to the foregoing expenses, Landlord, at its election, may employ a roof maintenance service company and an air-conditioning service company to provide repair and preventive maintenance for the roofs. The cost of said services shall be included in the common area charges and shall be prorated pursuant to Section 9. For purposes of this particular proration, floor area of any buildings not included in said roof maintenance service shall be excluded from the denominator. Tenant shall also, at Tenant's sole cost and expense, be responsible for any alterations or improvements to the Demised Premises necessitated as a result of the requirement of any municipal, state or federal authority. Tenant hereby waives all rights to make repairs at the expense of Landlord, and Tenant hereby waives all rights provided for by the Civil Code of the State of California to make said repairs. By entering into the Demised Premises, Tenant shall be deemed to have accepted the Demised Premises as being in good and sanitary order, condition and repair, and Tenant agrees on the last day of said term or sooner termination of this Lease to surrender the Demised Premises with appurtenances, in the same condition as when received and in a good, clean and sanitary condition, reasonable use and wear thereof and damage by fire, act of God or by the elements excepted. Tenant shall periodically sweep and clean the sidewalks adjacent to the Demised Premises, as needed.

Landlord shall, subject to Tenant's reimbursement as herein provided, maintain in good repair the exterior walls, roof and sidewalks. Tenant agrees to pay to Landlord, Tenant's pro rata share of the cost of preventative maintenance of the walls, roof and sidewalks, together with reasonable reserves to accomplish any replacements of or substantial repairs to the roof. Tenant agrees that it will not, nor will it authorize any person to, go onto the roof of the building of which the Demised Premises are a part without the prior written consent of Landlord. Said consent will be given only upon Landlord's satisfaction that any repairs necessitated as a result of Tenant's action will be made by Tenant, at Tenant's expense, and will be made in such a manner so as not to invalidate any guarantee relating to said roof. Landlord shall not be required to make any repairs to the exterior walls, roof and sidewalks unless and until Tenant has notified Landlord in writing of the need for such repairs and Landlord shall have had a reasonable period of time thereafter to commence and complete said repairs. Tenant shall reimburse Landlord for its pro rata share of the cost of such repairs to, and maintenance of, the building containing the Demised Premises according to the gross floor area of the Demised Premises as it relates to the total gross floor area of such building as of the date of such repair or maintenance. Tenant's reimbursement shall include a supervision fee to Landlord equal to fifteen percent (15%) of the maintenance and repair costs incurred by Landlord.

13. **COMPLIANCE WITH LAWS.** Tenant shall, at Tenant's sole cost and expense, comply with all of the requirements of all municipal, state and federal authorities now in force or which may hereafter be in force pertaining to the use of the Demised Premises, and shall faithfully observe in said use all municipal ordinances, state and federal statutes, or other governmental regulations now in force or which shall hereinafter be in force. Tenant shall obtain a business license prior to the Commencement Date. Tenant's violation of law shall constitute an incurable default under this Lease. The judgment of any court of competent jurisdiction, or the admission of Tenant in any action or proceeding against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any such order or statute in said use, shall be conclusive of that fact as between the Landlord and Tenant.

14. **Insurance**

14.1 **Landlord to Provide Casualty Insurance.** Landlord shall maintain fire and extended coverage insurance throughout the term of this Lease in an amount equal to at least ninety percent (90%) of the replacement value of the building containing the Demised Premises, within the classification of "All-Risk", together with such other insurance, coverages and endorsements as may be required by Landlord's lender or by any governmental agency, or as Landlord may determine, including, but not limited to, vandalism and malicious mischief endorsements, rental abatement, sprinkler damage,

earthquake, or flood insurance. Tenant hereby waives any right of recovery from Landlord, its officers and employees, and Landlord hereby waives any right of loss or damage (including consequential loss) resulting from any of the perils insured against as a result of said insurance. Tenant agrees to pay to Landlord Tenant's pro rata share of the cost of said insurance to be determined by the relationship that the gross floor area of the Demised Premises bears to the total gross leaseable floor area of the building or buildings for which such policy relates. In the event Landlord elects to obtain less than one hundred percent (100%) replacement cost insurance for the building containing the Demised Premises or any other improvements within the Shopping Center, or obtains any other type of insurance with a deductible, Tenant shall pay its pro rata share of any repair or restoration costs within the deductible amount, based upon the square footage of the Demised Premises to the total gross leaseable floor area of the building or buildings for which such deductible and loss relates.

14.2 **Food Preparation.** Tenant, if involved in food preparation and sales as a cafe, restaurant, or similar use, and/or food takeout service, shall install at Tenant's expense, grease traps and any fire protective systems in grill, deep fry, and cooking areas which are required by city, county, and state fire ordinances, and such system when installed shall qualify for full fire protective credits allowed by the fire insurance rating and regulatory body in whose jurisdiction the Demised Premises are located.

14.3 **Tenant to Provide Personal Property Insurance.** Tenant, at its expense, shall maintain fire and extended coverage insurance on its trade fixtures, equipment, personal property and inventory within the Demised Premises from loss or damage to the extent of their full replacement value and shall provide plate glass coverage. Tenant shall also carry Workers' Compensation Insurance as required by law. A certificate evidencing such insurance shall be delivered to Landlord. Such insurance shall provide protection against any risk included within the classification "All Risk", including but not limited to insurance against sprinkler leakage, vandalism and malicious mischief. The proceeds of such insurance, so long as this Lease remains in effect, shall be used to repair or replace the Tenant improvements and personal property so insured. Tenant shall, at its cost, maintain business interruption or loss of income insurance assuring that the rental payable hereunder will be paid to Landlord for a period of not less than twelve (12) months if the Demised Premises are destroyed or rendered inaccessible by a risk insured against by a policy of All Risk Insurance, with any endorsements required by this paragraph 14.3. Such coverage shall include a sixty (60) day extended period of indemnity endorsement.

14.4 **Tenant to Provide Liability Insurance.** During the entire term of this Lease, the Tenant shall, at the Tenant's sole cost and expense, but for the mutual benefit of Landlord and Tenant, maintain coverage for Worker's Compensation in the statutorily required amount, including employer's liability with a liability limit of not less than ONE MILLION DOLLARS ($1,000,000.00) and Commercial Liability Insurance or Comprehensive General Public Liability Insurance against claims for bodily injury, death or property damage occurring in, upon or about the Demised Premises and on any sidewalks directly adjacent to the Demised Premises with insurance companies licensed to do business in the state where the Demised Premises are located rated AX or better by Best's Insurance Guide. Such liability insurance shall have combined single limits of TWO MILLION DOLLARS ($2,000,000.00) for bodily injury, death, and property damage. All such policies of insurance shall be issued in the name of Tenant for the mutual and joint benefit and protection of the parties, and a Certificate of such policies of insurance shall be delivered to Landlord. Landlord, and any other persons or entities designated by Landlord and having an insurable interest in the Demised Premises, shall be added as additional insured's pursuant to such policies (although they shall not be "named insured's" therein). Said insurance shall provide by its terms that coverage is to be primary and noncontributing with any similar insurance carried by Landlord as the additional parties designated by Landlord. Such policy shall provide that not less than thirty (30) days written notice shall be given to Landlord prior to the cancellation or modification of any such policy. Landlord may require an increase in the amounts of such insurance as such amounts are reasonably determined by Landlord or Landlord's lender to provide for increases in cost-of-living or liability experience. Provided, however, if Landlord so elects Landlord may provide such insurance and, in such event, Tenant agrees to pay its pro rata share of the cost of said insurance on the same basis as provided in Section 14.1 above. Prior to the Commencement Date (or such earlier date as Tenant takes possession of the Demised Premises for any purpose) and at least thirty (30) days prior to the expiration of any insurance policy, Tenant shall provide Landlord with a certificate of insurance or other evidence that the insurance required by this Section will be in effect, or will remain in effect, during the next year. The policy or policies providing the coverage required pursuant to this Section shall contain an endorsement providing, in substance, that "such insurance as is afforded hereby for the benefit of Landlord and any other additional insured's designated by Landlord shall be primary and any insurance carried by Landlord and any other additional insured's designated by Landlord shall be excess and not contributory. In no event shall the limits of any coverage maintained by Tenant pursuant to this paragraph be considered as limiting the liability of Tenant pursuant to this Lease.

14.5 **Waiver of Subrogation.** Landlord and Tenant hereby waive any rights each may have against the other on account of any loss or damage occasioned by property damage to the Demised Premises, its contents, or Tenant's trade fixtures, equipment, personal property or inventory arising from any risk generally covered by insurance against the perils of fire, extended coverage, vandalism, malicious mischief, theft, sprinkler damage, and earthquake sprinkler leakage. Each of the parties, on behalf of its respective insurance companies insuring such property of either Landlord or Tenant against such loss, waives any right of subrogation that it may have against the other. The foregoing waivers of subrogation shall be operative only so long as available in California and provided further that no policy is invalidated thereby.

14.6 **Blanket Insurance.** Each party shall be entitled to fulfill its insurance obligations hereunder by maintaining a so-called "blanket" policy or policies of insurance in such form as to provide by specific endorsement coverage not less than that which is required hereunder for the particular property or interest referred to herein.

15. **INDEMNIFICATION OF LANDLORD.** Tenant, as a material part of the consideration to be rendered to Landlord under this Lease, hereby waives all claims against Landlord for damage to equipment or other personal property, trade fixtures, leasehold improvements, goods, wares, inventory and merchandise, in, upon or about the Demised Premises and for injuries to persons in or about the Demised Premises, from any cause arising at any time (including, but not limited, to the police or security system for the Shopping Center); and Tenant will hold Landlord exempt and harmless from any damage or injury to any person, or the equipment and other personal property, leasehold improvements, goods, wares, inventory and merchandise of any person, arising from the use of the Demised Premises or the parking and common areas by Tenant or its employees and customers, or from the failure of Tenant to keep the Demised Premises in good condition and repair, as herein provided. All property kept, stored or maintained on the Demised Premises shall be so kept, stored, or maintained at the sole risk of Tenant; and except in the case of Landlord's willful misconduct, Landlord shall not be liable, and Tenant waives all claims against Landlord, for damages to persons or property sustained by Tenant or by any other person or firm resulting from the building in which the Demised Premises are located or by reason of the Demised Premises or any equipment located therein becoming out of repair, or through the acts or omissions of any persons present in the Shopping Center or renting or occupying any part of the Shopping Center, or for loss or damage resulting to Tenant or Tenant's property from burst, stopped or leaking sewers, pipes, conduits, or plumbing fixtures, or for interruption of any utility services, or from any failure or defect in any electric line, circuit, or facility, or any other type of improvement or service on or furnished to the Demised Premises or resulting from any accident in, on, or about the Demised Premises or the building in which the Demised Premises are located. Landlord shall have no liability for conduct of others upon the Demised Premises or the Shopping Center.

16. **FREE FROM LIENS.** Tenant shall keep the Demised Premises, the building containing the Demised Premises, and the property on which the Demised Premises are situated free from any liens arising out of any work performed, material furnished, or obligation incurred by Tenant or alleged to have been incurred by Tenant. Prior to commencing any construction, Tenant shall provide Landlord with a completed Notice of Non-responsibility for execution by Landlord, filing at the Demised Premises and recordation by Landlord, at Tenant's expense.

17. **ABANDONMENT.** Tenant shall not vacate or abandon the Demised Premises at any time during the term of this Lease; and if Tenant shall abandon, vacate or surrender the Demised Premises or be dispossessed by process of law, or otherwise, any personal property belonging to Tenant and left on the Demised Premises shall be deemed to be abandoned, at the option of Landlord, except such property as may be mortgaged to Landlord.

18. **SIGNS.** Tenant shall not place or permit to be placed any sign upon the exterior, in the interior or exterior of the windows of the Demised Premises or which will be visible from the exterior of the Demised Premises without Landlord's prior written consent. Landlord's sign criteria ("Sign Criteria") is attached hereto as Exhibit "D" and Tenant shall within ten (10) days from the date hereof, submit preliminary scaled schematic sign construction drawings for Tenant's trade name indicated in Section 1.4 hereof, indicating design, materials and placement of Tenant's sign for Landlord's review and approval. Upon receipt of written approval from the Landlord and the City of Port Hueneme, Tenant shall pay for the cost of constructing and installing the sign and shall cause the sign to be installed. Upon the expiration or earlier termination of this Lease, Tenant shall cause the sign to be removed, at Tenant's sole cost and expense and shall repair any damage to the Demised Premises caused by the removal of the sign.

19. **UTILITIES.** Tenant shall pay before delinquency all charges for water, gas, heat, electricity, power, sewer, telephone service, trash removal (unless included in the expenses to maintain the common and parking areas) and all other services and utilities used in, upon, or about the Demised Premises by Tenant or any of its subtenants, licensees, or concessionaires during the term of this Lease and shall cause the utilities to the Demised Premises to be placed in Tenant's name prior to or effective as of the delivery of the Demised Premises to Tenant. If any utility is not separately metered, Tenant agrees to reimburse Landlord for the cost of said service as Landlord shall reasonably determine to be Tenant's share thereof plus a supervision fee to Landlord equal to fifteen percent (15%) of such cost. Landlord shall not be liable for any failure or interruption of any utility service.

20. **ENTRY AND INSPECTION.** Tenant shall permit Landlord and Landlord's agents to enter into and upon the Demised Premises at all reasonable times for the purpose of inspecting the same or for the purpose of maintaining the building in which the Demised Premises are situated, or for the purpose of making repairs, alterations or additions to any other portion of said building, including the erection and maintenance of such scaffolding, canopy, fences and props as may be required, or for the purpose of posting notices of non-liability for alterations, additions or repairs, or for the purpose of placing upon the property in which the Demised Premises are located any usual or ordinary "For Sale" signs. Landlord shall be permitted to do any of the above without any rebate of rent and without any liability to Tenant for any loss of occupation or quiet enjoyment of the Demised Premises thereby occasioned. Tenant shall permit Landlord, at any time within six (6) months prior to the expiration of this Lease, to place upon the

Demised Premises any usual or ordinary "For Lease" signs, and during such six (6) month period, Landlord or Landlord's agents may, during normal business hours, enter upon said Demised Premises and exhibit same to prospective tenants.

21. **DAMAGE AND DESTRUCTION OF DEMISED PREMISES.** In the event of (a) partial or total destruction of the Demised Premises or the building containing same during the term of this Lease which requires repairs to either the Demised Premises or said building, or (b) the Demised Premises or said building being declared unsafe or unfit for occupancy by any authorized public authority for any reason other than Tenant's act, use or occupation, which declaration requires repairs to either the Demised Premises or said building, Landlord shall forthwith make said repairs, provided Tenant gives to Landlord thirty (30) days' written notice of the necessity therefor. No such partial destruction (including any destruction necessary in order to make repairs required by any declaration made by any public authority) shall in any way annul or void this Lease except that Tenant shall be entitled to a proportionate reduction of GMMR while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by Tenant in the Demised Premises. However, if during the last two (2) years of the term of this Lease the Demised Premises and/or said building are damaged as a result of fire or any other insured casualty to an extent in excess of twenty-five percent (25%) of the then replacement cost (excluding foundations), Landlord may, within thirty (30) days following the date such damage occurs, terminate this Lease by written notice to Tenant. If Landlord, however, elects to make said repairs, and provided Landlord uses due diligence in making said repairs, this Lease shall continue in full force and effect, and the GMMR shall be proportionately reduced while such repairs are being made as hereinabove provided.

The foregoing to the contrary notwithstanding, if the Demised Premises or said building is damaged or destroyed at any time during the term hereof to an extent of more than twenty-five percent (25%) of the then replacement cost (excluding foundations) as a result of a casualty not insured against, Landlord may, within thirty (30) days following the date of such destruction, terminate this Lease upon written notice to Tenant. If Landlord does not elect to terminate because of said uninsured casualty, Landlord shall promptly rebuild and repair the Demised Premises and/or the building and the GMMR shall be proportionately reduced while such repairs are being made as hereinabove provided.

If Landlord elects to terminate this Lease, all rentals shall be prorated between Landlord and Tenant as of the date of such destruction.

With respect to any partial or total destruction (including any destruction necessary in order to make repairs required by any such declaration of any authorized public authority) which Landlord is obligated to repair or may elect to repair under the terms of this Section 21, Tenant waives any statutory right Tenant may have to cancel this Lease as a result of such destruction.

22. **ASSIGNMENT AND SUBLETTING.** Tenant shall not sublet the Demised Premises, or any part thereof, or any right or privilege appurtenant thereto, without first obtaining the prior written consent of Landlord, which Landlord may withhold in its sole and absolute discretion. Tenant shall not assign this Lease, or any interest therein, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Landlord may withhold its consent to an assignment to a proposed assignee, and Tenant agrees that Landlord shall not be unreasonable for doing so, unless all the following criteria are met: (a) the proposed assignee's general financial condition, including liquidity and net worth, verified by audited financial statements prepared by a certified public accountant in conformity with generally-accepted accounting principles is equal to or greater than that of Tenant; (b) the proposed assignee has a demonstrated merchandising capability equal to or greater than that of Tenant as to the use for which the Demised Premises are leased; (c) in Landlord's sole judgment, the proposed assignee is morally and financially responsible; and (d) in Landlord's judgment, the proposed assignee will generate at least the same amount of percentage rental payable pursuant to the terms of this Lease as Tenant. Any such assignment shall be subject to all of the terms and conditions of this Lease, including, but not limited to, any restriction on use and trade name pursuant to the provisions of Sections 1, 3 and 10 hereof, and the proposed assignee shall assume the obligations of Tenant under this Lease in writing in form satisfactory to Landlord. The proposed assignee shall simultaneously provide to Landlord an estoppel certificate in the form described in Section 30 hereafter. Consent by Landlord to one assignment, subletting, occupation or use by another person shall not be deemed to be a consent to any subsequent assignment, subletting, occupation or use by another person. Consent to an assignment shall not release the original named tenant from liability for the continued performance of the terms, covenants and provisions on the part of Tenant to be kept and performed, and the assignment and assumption documents shall so provide. Thereafter, Landlord and the assignee may modify, amend, change or supplement this Lease without notice to or consent of the original named tenant and without releasing the original named tenant from its liabilities and obligations under this Lease, which liabilities and obligations shall remain in full force and effect, and the original named tenant shall thereafter be liable to perform the obligations of the "Tenant" under the Lease as modified, amended, changed, or supplemented, but not to exceed the financial obligations of the original named tenant hereunder unless such original tenant is given written notice of such amendment or modification and consents to such amendment or modification, which consent shall not be unreasonably withheld, delayed or conditioned. In the event Landlord is unable to contact the original named tenant, despite making reasonable efforts to do so, the original named tenant shall be liable to perform the obligations of the "Tenant" under this Lease as modified, amended, changed or supplemented, as if it had consented to such amendments, changes, supplements or modifications. Landlord shall be deemed to have made reasonable and diligent efforts in the event it provides written notice to the original named tenant hereunder at the most recent address provided to Landlord by the original named tenant hereunder, but shall have no obligation to further inquire as to the correct address of the original named tenant hereunder.. Any assignment or subletting without the prior written consent of Landlord shall be void, shall constitute a material breach of this Lease, and shall, at the option of Landlord, terminate this Lease. Neither this Lease nor any interest therein shall be assignable as to the interest of Tenant by operation of law.

Landlord shall be under no obligation to consider a request for Landlord's consent to an assignment until Tenant shall have submitted in writing to Landlord a request for Landlord's consent to such assignment, together with audited financial statements of Tenant and the proposed assignee, a credit report issued by TRW or a comparable credit evaluation company, a history of the proposed assignee's business experience and such other information as required by Landlord to verify that the criteria for assignment as set forth herein are met, and Tenant shall have paid to Landlord Five Thousand Dollars ($5,000.00) to reimburse Landlord for its time and expense in considering such request. Landlord, within twenty (20) days after receiving such written request, together with the other information and the payment, may elect to terminate this Lease by written notice to Tenant effective fifteen (15) days thereafter, and in such event, this Lease shall terminate on such effective date of termination, and the obligations of the parties, each to the other, accruing thereafter shall likewise terminate. In the event Landlord exercises such right of termination, Tenant shall have ten (10) days following the date Landlord exercises such option to terminate to revoke the request for assignment, in which event this Lease shall continue in full force and effect and the request for consent shall no longer be effective. If Landlord approves such assignment, Tenant shall pay to Landlord any consideration received by Tenant for Tenant's leasehold interest in connection with such assignment, and the GMMR shall be increased to an amount equal to the existing GMMR plus the average percentage rental paid (or payable) by Tenant for the last full twelve (12) months of the term of the Lease preceding the date Landlord receives the request, together with all required information, during which Tenant has been open for business or if twelve (12) months have not expired since Tenant has been open for business, for the actual months elapsed since Tenant has been open for business.

By affixing their initials below, the parties acknowledge that the provisions of this Section 22 have been freely negotiated, bargained for and agreed to by Landlord and Tenant. Landlord and Tenant acknowledge that the terms, limitations and restrictions on assignment and subletting are a material consideration for Landlord and Tenant entering into this Lease and that, but for such terms, limitations and restrictions, they would not have entered into this Lease.

Landlord's Initials: Tenant's Initials:

23. **DEFAULT AND REMEDIES.** In addition to the defaults described in Section 22 hereinabove and in Section 27 hereafter, the occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant: (a) the failure to pay any rental or other payment required hereunder to or on behalf of Landlord at the time or within the times herein specified for such payment; (b) the failure to perform any of Tenant's agreements or obligations hereunder (exclusive of a default in the payment of money) where such default shall continue for a period of three (3) days after written notice thereof from Landlord to Tenant, which notice shall be deemed to be the statutory notice so long as such notice complies with statutory requirements; (c) the vacation or abandonment of the Demised Premises by Tenant; (d) the making by Tenant of a general assignment for the benefit of creditors; (e) the filing by Tenant of a voluntary petition in bankruptcy or the adjudication of Tenant as a bankrupt; (f) the appointment of a receiver to take possession of all or substantially all the assets of Tenant located at the Demised Premises or of Tenant's leasehold interest in the Demised Premises; (g) the filing by any creditor of Tenant of an involuntary petition in bankruptcy which is not dismissed within sixty (60) days after filing; or (h) the attachment, execution or other judicial seizure of all or substantially all of the assets of Tenant or Tenant's leasehold where such an attachment, execution or seizure is not discharged within sixty (60) days. Any repetitive failure by Tenant to perform its agreements and obligations hereunder, though intermittently cured, shall be deemed an incurable default. Two (2) breaches of the same covenant within a sixty (60) day period, a notice having been given pursuant to (a) or (b) above for the first breach, or three (3) such breaches at any time during the term of this Lease for which notices pursuant to (a) or (b) above were given for the first two (2) breaches shall conclusively be deemed to be an incurable repetitive failure by Tenant to perform its obligations hereunder.

In the event of any such default or breach by Tenant, Landlord may at any time thereafter, without further notice or demand, rectify or cure such default, and any sums expended by Landlord for such purposes shall be paid by Tenant to Landlord upon demand and as additional rental hereunder. In the event of any such default or breach by Tenant, Landlord shall have the right to continue the Lease in full force and effect and enforce all of its rights and remedies under this Lease, including the right to recover the rental as it becomes due under this Lease, or Landlord shall have the right at any time thereafter to elect to terminate said Lease and Tenant's right to possession thereunder. Upon such termination, Landlord shall have the right to recover from Tenant:

23.1 The worth at the time of award of the unpaid rental which had been earned at the time of termination;

23.2 The worth at the time of award of the amount by which the unpaid rental which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided;

23.3 The worth at the time of award of the amount by which the unpaid rental for the balance of the term after the time of award exceeds the amount of such rental loss that the Tenant proves could be reasonably avoided; and

23.4 Any other amount necessary to compensate the Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom.

The "worth at the time of award" of the amounts referred to in Sections 23.1 and 23.2 above shall be computed by allowing interest at three percent (3%) over the prime rate then being charged by Bank of America, N.A., but in no event greater than the maximum rate permitted by law. The worth at the time of award of the amount referred to in Section 23.3 shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1 %), but in no event greater than ten percent (10%).

As used herein, "rental" shall include the GMMR, additional rental (percentage rental) payable pursuant to Section 5.2 equal to the average percentage rental paid or payable by Tenant for the last twelve (12) months of the term of this Lease that Tenant has been open for business (or if 12 months have not expired since the Commencement Date, for the actual number of months elapsed since the Commencement Date), other sums payable hereunder which are designated "rental" or "additional rental" and any other sums payable hereunder on a regular basis such as reimbursement for real estate taxes and assessments and expenses for maintaining and operating the parking and common areas (such other sums to be reasonably determined by Landlord).

Such efforts as Landlord may make to mitigate the damages caused by Tenant's breach of this Lease shall not constitute a waiver of Landlord's right to recover damages against Tenant hereunder, nor shall anything herein contained affect Landlord's right to indemnification against Tenant for any liability arising prior to the termination of this Lease for personal injuries or property damage, and Tenant hereby agrees to indemnify and hold Landlord harmless from any such injuries and damages, including all attorneys' fees and costs incurred by Landlord in defending any action brought against Landlord for any recovery thereof, and in enforcing the terms and provisions of this indemnification against Tenant.

Notwithstanding any of the foregoing, the breach of this Lease by Tenant, or an abandonment of the Demised Premises by Tenant, shall not constitute a termination of this Lease, or of Tenant's right of possession hereunder, unless and until Landlord elects to do so, and until such time Landlord shall have the right to enforce all of its rights and remedies under this Lease, including the right to recover rent, and all other payments to be made by Tenant hereunder, as they become due. Failure of Landlord to terminate this Lease shall not prevent Landlord from later terminating this Lease or constitute a waiver of Landlord's right to do so.

As security for the performance by Tenant of all of its duties and obligations hereunder, Tenant does hereby assign to Landlord the right, power and authority, during the continuance of this Lease, to collect the rents, issues and profits of the Demised Premises, reserving unto Tenant the right, prior to any breach or default by it hereunder, to collect and retain said rents, issues and profits as they become due and payable. Upon any such breach or default, Landlord shall have the right at any time thereafter, without notice except as provided for above, either in person, by agent or by a receiver to be appointed by a court, enter and take possession of the Demised Premises and collect such rents, issues and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured hereby, and in such order as Landlord may determine.

The parties hereto agree that acts of maintenance or preservation or efforts to release the Demised Premises, or the appointment of a receiver upon the initiative of the Landlord to protect its interests under this Lease shall not constitute a termination of Tenant's right of possession for the purposes of this Section unless accompanied by a written notice from Landlord to Tenant of Landlord's election to so terminate.

Acceptance of rental hereunder shall not be deemed a waiver of any default or a waiver of any of Landlord's remedies.

24. **SURRENDER OF LEASE.** The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it of any or all of such subleases or subtenancies.

25. **LANDLORD'S LIABILITY.** Anything in this Lease to the contrary notwithstanding, Tenant agrees that it shall look solely to the estate and property of Landlord in the land and buildings comprising the Shopping Center or Landlord's Property and/or building of which the Demised Premises are a part, and, subject to prior rights of any mortgagee of the Demised Premises or any obligations of Landlord in connection with the Shopping Center or Landlord's Property, for the collection, satisfaction or enforcement of any judgment (or other judicial or administrative process) requiring the payment of money, or the performance or non-performance of certain acts by Landlord, in the event of any default or breach by Landlord with respect to any of the terms, covenants and conditions of this Lease to be observed and/or performed by Landlord, and no other assets of the Landlord will be subject to levy, execution or other procedures for the satisfaction of any remedy, judgment or order of Tenant. In the event of any sale of the Demised Premises by Landlord, Landlord shall be and is hereby entirely freed and relieved of all liability under any and all of its covenants and obligations contained in or derived from this Lease arising out of any act, occurrence or omission occurring after the consummation of such sale; and the purchaser, at such sale or any subsequent sale of the Demised Premises, shall be deemed without any further agreement between the parties or their successors in interest or between the parties and any such purchaser, to have assumed and agreed to carry out any and all of the covenants and obligations of the Landlord under this Lease arising after the date of such sale.

26. **HOURS OF BUSINESS.** Tenant shall open for business no later than the expiration of the Fixturization Period set forth in Section 1.5 after Landlord notifies Tenant that Landlord's Work is substantially completed as provided in Section 4 hereof. Subject to the provisions of Section 21 hereof, Tenant shall continuously during the entire term hereof conduct and carry on Tenant's business in the Demised Premises and shall keep the Demised Premises open for business and cause Tenant's business to be conducted therein during the usual business hours of each and every business day as is customary for businesses of like character to be open for business in the county in which the Demised Premises are located. In no event, however, shall such hours of being open for business be less than (a) 10:00 a.m. through 6:00 p.m. on Monday through Saturday or (b) the hours of 70% of the number of tenants in the Shopping Center; provided, however, that this provision shall not apply if the Demised Premises should be closed and the business of Tenant temporarily discontinued therein on account of strikes, lockouts, or similar causes beyond the reasonable control of Tenant. However, the hours of operation and delivery are restricted to the period between 7:00 a.m. and 12:00 a.m. Tenant agrees (i) to keep the Demised Premises fully stocked with merchandise, and with sufficient sales personnel to care for the patronage and (ii) to maximize Gross Sales.

Tenant acknowledges and agrees that, in addition to other reasons Landlord is requiring Tenant to agree to the provisions of this Section: (a) that Tenant being open for business in turn helps increase the amount of business being done by other tenants in the Shopping Center, (b) that a closed store has a detrimental effect on the Shopping Center and the business of other tenants in the Shopping Center, (c) that a material consideration to Landlord for entering into this Lease is the right and possibility of receiving percentage rental, and Tenant further acknowledges and agrees that the GMMR would be set at a higher amount but for the possibility of Landlord receiving percentage rental, and (d) a lease where a tenant is paying, or the possibility exists that a tenant will pay, percentage rent enhancing the value of the Shopping Center. Accordingly, should Tenant fail to operate its business as required by this Section, the GMMR shall be increased by an amount equal to ten percent (10%) of the GMMR otherwise payable hereunder during the time period that the Tenant shall fail to conduct its business as herein provided. The increase in GMMR shall in no way excuse Tenant from its breach of this Lease nor deprive Landlord of the remedies it may have at law or in equity for such breach.

27. **TENANT'S PERFORMANCE.** In the event Tenant shall fail within any time limits which may be provided herein to complete any work or perform any other requirements provided to be performed by Tenant prior to the Commencement Date, or in the event Tenant shall cause a delay in the completion of Landlord's Work, or any work to be performed by Tenant, Landlord may send Tenant written notice of said default and if said default is not corrected within ten (10) days thereafter, Landlord may terminate this Lease by written notice to Tenant given prior to the curing of said default. Landlord shall be entitled to receive as liquidated damages the greater of (a) any deposits made hereunder or (b) twice the amount of the GMMR and such improvements as Tenant may have annexed to the realty that cannot be removed without damage thereto. Landlord shall be entitled to retain any deposit paid hereunder by Tenant as an offset against such liquidated damages. The provisions of this Section 27 shall apply to the defaults described in this Section and other provisions of Section 23 shall be inapplicable thereto.

28. **FORCE MAJEURE.** If either party hereto shall be delayed or prevented from the performance of any act required hereunder by reason of acts of God, strikes, lockouts, labor troubles, inability to procure materials, restrictive governmental laws or regulations or other cause without fault and beyond the control of the party obligated (financial inability excepted), performance of such act shall be excused for the period of the delay, and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay; provided, however, nothing in this Section 28 contained shall excuse Tenant from the prompt payment of any rental or other charge required of Tenant hereunder except as may be expressly provided elsewhere in this Lease.

29. **SUBORDINATION, ATTORNMENT.** This Lease, at Landlord's option, shall be subordinate to the lien of any deed of trust or mortgage subsequently placed upon the real property of which the Demised Premises are a part, and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof, and Tenant agrees to execute a subordination agreement in recordable form satisfactory to mortgagee or beneficiary to accomplish same. Tenant shall execute and deliver, without cost to Landlord,

whatever instruments may be required to effect such subordination. Tenant shall at all time, hereafter, at the request from Landlord, execute any instruments, leases or other documents that may be required to render Tenant's interest hereunder prior to the lien of any mortgage or deed of trust, and the failure of Tenant to execute any such instrument, lease or other document shall constitute a default hereunder. If any mortgagee or beneficiary shall elect to have this Lease be prior to the lien of its mortgage or deed of trust and shall give written notice thereof to Tenant, this Lease shall be deemed to be prior to such mortgage or deed of trust, whether this Lease is dated prior or subsequent to the date of said mortgage or deed of trust or the date of recording thereof.

In the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by the Landlord covering the Demised Premises, Tenant shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease.

In the event that Tenant shall become a debtor under Chapter 7 of the Bankruptcy Code, and the trustee or Tenant shall elect to assume this Lease for the purpose of assigning the same or otherwise, such election and assignment may only be made if all of the terms and conditions of this Lease are satisfied. If such trustee shall fail to elect or assume this Lease within sixty (60) days after the filing of the petition, this Lease shall be deemed to have been rejected. Landlord shall be thereupon immediately entitled to possession of the Demised Premises without further obligation to Tenant or trustee, and this Lease shall be canceled, but Tenant's right to be compensated for damages in such liquidation proceeding shall survive.

In the event that a petition for reorganization or adjustment of debts is filed concerning Tenant under Chapter 11 or 13 of the Bankruptcy Code, or a proceeding is filed under Chapter 7 of the Bankruptcy Code and is transferred pursuant to Chapter 11 or 13, the trustee or Tenant, as debtor-in-possession, must elect to assume this Lease within seventy-five (75) days from the date of the filing of the petition under Chapter 11 or 13, or the trustee or debtor-in-possession shall be deemed to have rejected this Lease. No election by the trustee or debtor-in-possession to assume this Lease, whether under Chapter 7, 11 or 13, shall be effective unless each of the following conditions, which Landlord and Tenant acknowledge is commercially reasonable in the context of a bankruptcy proceeding of Tenant, has been satisfied, and Landlord has so acknowledged in writing:

29.1 The trustee or the debtor-in-possession has cured, or has provided Landlord adequate assurance (as defined below) that:

(a) Within ten (10) days from the date of such assumption, the trustee will cure all monetary defaults under this Lease; and

(b) Within thirty (30) days from the date of such assumption, the trustee will cure all non-monetary defaults under this Lease.

29.2 The trustee or the debtor-in-possession has compensated, or has provided to Landlord adequate assurance (as defined below) within ten (10) days from the date of assumption. Landlord will be compensated for any pecuniary loss incurred by Landlord arising from the default of Tenant, the trustee, or the debtor-in-possession as recited in Landlord's written statement of pecuniary loss sent to the trustee or debtor-in-possession.

29.3 The trustee or the debtor-in-possession has provided Landlord with adequate assurance of the future performance of each of Tenant's, trustee's or debtor-in-possession's obligations under this Lease; provided, however, that:

(a) The trustee or debtor-in-possession shall also deposit with Landlord, as security for the timely payment of rent, an amount equal to three (3) months' rent and other monetary charges accruing under this Lease;

(b) If not otherwise required by the terms of this Lease, the trustee or debtor-in-possession shall also pay in advance on the date minimum rent is payable one-twelfth (1/12th) of Tenant's annual obligations under this Lease for maintenance, common area charges, real estate taxes, insurance and similar charges;

(c) From and after the date of the assumption of this Lease, the trustee or debtor-in-possession shall pay as minimum rent an amount equal to the sum of the minimum rental otherwise payable hereunder, plus the highest amount of the annual percentage rent paid by Tenant to Landlord within the five (5) year period prior to the date of Tenant's petition under the Bankruptcy Code, which amount shall be payable in advance in equal monthly installments on the date minimum rent is payable; and

(d) The obligations imposed upon the trustee or debtor-in-possession shall continue with respect to Tenant or any assignee of the Lease after the completion of bankruptcy proceedings.

29.4 The assumption of the Lease will not:

(a) Breach any provision in any other lease, mortgage, financing agreement or other agreement by which Landlord is bound relating to the Shopping Center; or

(b) For purposes of this Section, Landlord and Tenant acknowledge that, in the context of a bankruptcy proceeding of Tenant, at a minimum, "adequate assurance" shall mean:

(1) The trustee or the debtor-in-possession has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that the trustee or debtor-in-possession will have sufficient funds to fulfill the obligations of Tenant under this Lease, and to keep the Demised Premises stocked with merchandise and properly staffed with sufficient employees to conduct a fully-operational, actively promoted business on the Demised Premises; and

(2) The Bankruptcy Court shall have entered an order segregating sufficient cash payable to Landlord and/or the trustee, or debtor-in-possession shall have granted a valid and perfected first lien and security interest and/or mortgage in property of Tenant, trustee, or debtor-in-possession, acceptable as to value and kind to Landlord, to secure the Landlord the obligation of the trustee or debtor-in-possession to cure the monetary and/or non-monetary defaults under this Lease within the time periods set forth above.

In the event that this Lease is assumed by a trustee appointed for Tenant or by Tenant as debtor-in-possession under the provisions of this Section 29 and thereafter Tenant is liquidated or files a subsequent petition for reorganization or adjustment of debts under Chapter 11 or 13 of the Bankruptcy Code, then, and in either of such events, Landlord may, at its option, terminate this Lease and all rights of Tenant hereunder, by giving Tenant written notice of its election to so terminate, by no later than thirty (30) days after the occurrence of either of such events.

If the trustee or debtor-in-possession has assumed the Lease pursuant to the terms and provisions of this Section 29, for the purpose of assigning (or elects to assign) Tenant's interest under this Lease or the estate created thereby, to any other person, such interest or estate may be so assigned only if Landlord shall acknowledge in writing that the intended assignee has provided adequate assurance as defined in this Section of future performance of all of the terms, covenants and conditions of this Lease to be performed by Tenant.

(c) For purposes of this Section 29, Landlord and Tenant acknowledge that, in the context of a bankruptcy proceeding of Tenant, at a minimum, "adequate assurance of future performance" shall mean that each of the following conditions has been satisfied, and Landlord has so acknowledged in writing:

(1) The assignee has submitted a current financial statement audited by a certified public accountant which shows a net worth and working capital in amounts determined to be sufficient by Landlord to assure the future performance by such assignee of Tenant's obligations under this Lease;

(2) The assignee, if requested by Landlord, shall have obtained guarantees in form and substance satisfactory to Landlord from one or more persons who satisfy Landlord's standards of creditworthiness;

(3) The assignee has submitted in writing evidence, satisfactory to Landlord, of substantial retailing experience in shopping centers of comparable size to the Shopping Center and in the sale of merchandise and services permitted under this Lease; and

(4) Landlord has obtained all consents or waivers from any third party required under any lease, mortgage, financing arrangement or other agreement by which Landlord is bound to permit Landlord to consent to such assignment.

When, pursuant to the Bankruptcy Code, the trustee or debtor-in-possession shall be obligated to pay reasonable use and occupancy charges for the use of the Demised Premises, or any portion thereof, such charges shall not be less than the minimum annual rent as defined in this Lease and other monetary obligations of Tenant for the payment of maintenance, common area charges, real estate taxes, insurance and other charges payable by Tenant hereunder.

Neither Tenant's interest in the Lease, nor any lesser interest of Tenant herein, nor any estate of Tenant hereby created, shall pass to any trustee, receiver, assignee for the benefit of creditors, or any other person or entity, or otherwise by operation of law under the laws of any state having jurisdiction of the person or property of Tenant (hereinafter referred to as the "state law") unless Landlord shall consent to such transfer in writing. No acceptance by Landlord of rent or any other payments from any such trustee, receiver, assignee, person or other entity shall be deemed to have waived, nor shall it waive the need to obtain Landlord's consent of Landlord's right to terminate this Lease for any transfer of Tenant's interest under this Lease without such consent.

In the event the estate of Tenant created hereby shall be taken in execution or by other process of law, if Tenant or any guarantor of Tenant's obligations hereunder (hereinafter referred to as "Guarantor") shall be adjudicated insolvent pursuant to the provisions of any present or future insolvency law under state law, or if any proceedings are filed by or against the Guarantor under the Bankruptcy Code, or any similar provisions of any future federal bankruptcy law, or if a receiver or trustee of the property of Tenant or Guarantor shall be appointed under state law by reason of Tenant's or Guarantor's insolvency or inability to pay its debts as they become due or otherwise, or if any assignment shall be made of Tenant's or Guarantor's property for the benefit of creditors under state law, then and in such event, Landlord may, at its option, terminate this Lease and all rights of Tenant hereunder by giving Tenant written notice of the election to so terminate within thirty (30) days after the occurrence of such event.

30. **ESTOPPEL CERTIFICATE.** If, as a result of a proposed sale, assignment, or hypothecation of the Demised Premises or the land thereunder by Landlord, or at any other time, an estoppel certificate and/or a current financial statement shall be requested of Tenant, Tenant agrees, within five (5) days thereafter, to deliver such current financial statement certified by Tenant (or officer of Tenant if Tenant is a corporation), that the financial statement has been prepared in accordance with generally-accepted accounting principles, consistently applied, and accurately reflects the financial condition of Tenant as of the date of such financial statement, and to deliver such estoppel certificate in the form attached hereto as Exhibit "E" or as such lender or buyer may require addressed to any existing or proposed mortgagee or proposed purchaser, and to the Landlord, certifying the requested information, including, among other things, the dates of commencement and termination of this Lease, the amount of security deposits, the rental currently payable hereunder and the date to which rental has been paid, that this Lease is in full force and effect (if such be the case), and that there are no differences, offsets or defaults of Landlord, or noting such differences, offsets or defaults as actually exist. Tenant shall be liable for any loss or liability resulting from any incorrect information certified, and such mortgagee and purchaser shall have the right to rely on such estoppel certificate and financial statement. Tenant shall in the same manner acknowledge and execute any assignment of rights to receive rents as required by any mortgagee of Landlord.

31. **CONDEMNATION.** If there is any taking of or damage to all or any part of the Shopping Center or any interest therein because of the exercise of the power of eminent domain or inverse condemnation, whether by condemnation proceedings or otherwise, or any transfer of any part thereof or any interest therein made in avoidance thereof (all of the foregoing being hereinafter referred to as "taking") before or during the term hereof, the rights and obligations of the parties with respect to such taking shall be as provided in this Section 31.

31.1 **Total Condemnation.** If there is a taking of all of the Demised Premises, this Lease shall terminate as of the date of such taking.

31.2 **Partial Condemnation.** If twenty-five percent (25%) or more of the floor area of the Demised Premises shall be taken, either party shall be entitled to terminate this Lease, or if twenty-five percent (25%) or more of the floor area of all buildings in the Shopping Center shall be taken whether the Demised Premises are taken or not, Landlord shall be entitled to elect to terminate this Lease; and the terminating party shall give the other party written notice of such election not later than thirty (30) days after the date Landlord delivers notice to Tenant that possession or title to the portion of the Demised Premises taken has vested in the condemnor. If neither party gives such notice, or less than twenty-five percent (25%) of the floor area of either the Demised Premises or buildings in the Shopping Center shall be taken, this Lease shall remain in full force and effect, and the rent shall be adjusted as provided in Section 31.6.

31.3 **Common Area.** If twenty-five percent (25%) or more of the common area within a radius of four hundred (400) feet from the main entrance to the Demised Premises shall be taken, either party shall be entitled to elect to cancel and terminate this Lease and shall give the other party written notice of such election not later than thirty (30) days after the date Landlord delivers notice to Tenant that possession or title to said portion of the common area taken has vested in the condemnor. If neither party gives such notice or more than seventy-five percent (75%) of said portion of the common area will be available after such taking, this Lease shall remain in full force and effect. In no event shall Tenant have the right to terminate this Lease if Landlord provides additional common area which, when combined with the remaining common area, provides a common area which is at least seventy-five percent (75%) as large as said portion of the common area before the taking.

31.4 **Termination Date.** If this Lease is terminated in accordance with the provisions of this Section 31, such termination shall become effective as of the date physical possession of the condemned portion is taken.

31.5 **Repair and Restoration.** If this Lease is not terminated as provided in this Section 31, Landlord shall, at its sole expense, restore with due diligence the remainder of the improvements occupied by Tenant so far as practicable to a complete unit of like quality, character, and condition as that which existed immediately prior to the taking, provided that the scope of work shall not exceed the scope of the work to be done by Landlord originally in constructing the Demised Premises, and further provided that Landlord shall not be obligated to expend an amount greater than that which was awarded to Landlord for such taking.

31.6 **Rent Adjustment.** If this Lease is not terminated as provided in this Section 31, the fixed minimum rent shall be reduced by that proportion which the floor area taken from the Demised Premises bears to Tenant's total floor area immediately before the taking. There shall be no other abatement.

31.7 **Award.** The entire award or compensation in such proceedings, whether for a total or partial taking or for diminution in the value of the leasehold or for the fee shall belong to and be the property of Landlord; provided that Tenant shall be entitled to recover from the condemnor such compensation as may be separately awarded by the condemnor to Tenant or recoverable from the condemnor by Tenant in its own right for the taking of trade fixtures and equipment owned by Tenant (meaning personal property, whether or not attached to real property, which may be removed without injury to the Demised Premises, for the expense of removing and relocating them, for loss of goodwill to Tenant's business, and for no other cause.

32. **COMPETING BUSINESS**. N/A

33. **MISCELLANEOUS.**

33.1 **Jurisdiction and Venue.** The parties hereto agree that the State of California is the proper jurisdiction for litigation of any matters relating to this Lease, and service mailed to the address of tenants set forth herein shall be adequate service for such litigation. The parties further agree that Ventura County, is the proper place for venue as to any such litigation.

33.2 **Partial Invalidity.** If any term, covenant, condition or provision of this Lease is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions hereof shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereof.

33.3 **Marginal Captions.** The various headings and numbers herein and the grouping of the provisions of this Lease into separate sections and paragraphs are for the purpose of convenience only and shall not be considered a part hereof.

33.4 **Consents, Approvals, and Agreements of Landlord.** All consents and approvals to be given by Landlord, unless specifically stated herein to the contrary, shall be at Landlord's sole and absolute discretion, and no covenants are to be implied in relation thereto, either in fact or in law. The agreements and obligations of Landlord are specifically stated in this Lease, and no further agreements, covenants, promises, or obligations are to be implied, and Tenant expressly waives any such implied agreements, covenants, promises or obligations.

33.5 **Late Payments.** Tenant hereby acknowledges that late payment by Tenant to Landlord of rental or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed upon Landlord by the terms of any mortgage or deed of trust covering the Demised Premises.
Accordingly, any payment of any sum to be paid by Tenant not paid within three (3) business days of its due date shall be subject to a ten percent (10%) late charge. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for its loss suffered by such late payment by Tenant.

33.6 **Interest.** Any sum to be paid pursuant to the terms of this Lease not paid when due shall bear interest from and after the due date until paid at a rate equal to three percent (3%) over the prime rate being charged by Bank of America, N.A. from time to time during such period so long as the rate does not exceed the maximum rate permitted by law, in which case, interest shall be at the maximum rate allowed by law at the time the sum became due.

33.7 **Holding Over.** Any holding over after the expiration of the term of this Lease, with or without the consent of Landlord, express or implied, shall be construed to be a tenancy from month to month, cancelable upon thirty (30) days' written notice, and at a rental equal to one hundred fifty percent

(150%) of the last applicable GMMR and the average Percentage Rental payable during the previous twelve (12) month period, and upon terms and conditions as existed during the last year of the term hereof. If Tenant fails to surrender the Demised Premises upon the termination of this Lease, Tenant shall indemnify and hold Landlord harmless from loss or liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant arising out of such failure.

33.8 **Successors in Interest.** The covenants herein contained shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all the parties hereto; and all of the parties hereto shall be jointly and severally liable hereunder.

33.9 **No Oral Agreements.** This Lease covers in full each and every agreement of every kind or nature whatsoever between the parties hereto concerning this Lease, and all preliminary negotiations and agreements of whatsoever kind or nature are merged herein, and there are no oral agreements. Tenant acknowledges that no representations or warranties of any kind or nature not specifically set forth herein have been made by Landlord or its agents or representatives.

33.10 **Authority.** In the event that Tenant is a corporation or a partnership, each individual executing this Lease on behalf of said corporation or said partnership, as the case may be, represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said corporation or partnership, in accordance with a duly adopted resolution of the Board of Directors, if a corporation, or in accordance with the Partnership Agreement, if a partnership, and that this Lease is binding upon said corporation or partnership in accordance with its terms. Tenant agrees to deliver forthwith to Landlord a certified copy of such resolution of the corporation, if Tenant be a corporation, or a copy of the Partnership Agreement and a copy of the Certificate of Limited Partnership or Statement of Partnership, if the Tenant be a partnership.

33.11 **Time.** Time is of the essence of this Lease.

33.12 **Consistency.** Each provision herein shall be interpreted so as to be consistent with every other provision.

33.13 **Division of Demised Premises.** Tenant acknowledges that Landlord may attempt to obtain the recordation of a subdivision tract map dividing the Shopping Center into lots and agrees to join in executing any certificates or other documents required in connection therewith; provided that this Section shall not be construed as obligating Tenant to incur any expense or to agree to incur any expense in connection therewith.

33.14 **Nonrepresentation as to Building Site.** The designation of any type of use or tenancy with respect to any building site on the attached plot plan of the Shopping Center or on any other map, diagram, marketing plans, renderings or plot plan furnished to or reviewed by Tenant is not intended as a covenant or representation that said building site shall be constructed or devoted to such a use or tenancy or as a representation by Landlord that the Shopping Center shall be constructed as indicated thereon or that any tenants or occupants designated by name or nature of business thereon shall conduct business in the Shopping Center during the term of this Lease, nor shall Landlord be responsible or liable to Tenant should any other tenant, lessee or owner fail to open or to continue to be open for business during the term of this Lease.

33.15 **Parking Surcharge.** In the event that a parking surcharge or regulatory fee, however designated, is imposed upon or levied or assessed against the Shopping Center or on, or on account of, the parking spaces thereon by any governmental agency or authority pursuant to the "Clean Air Act" or any plan implemented pursuant to such Act, or any enactment amendatory or in substitution thereof, Tenant agrees that Landlord may, at Landlord's option (but without obligation to do so), institute a system of pay parking, charging either the occupants of the Shopping Center or those persons parking in the Shopping Center as Landlord may, in its judgment, decide and as permitted by the governmental agency or authority and, in such event, the proceeds of such system will be used to pay any such surcharge or fee and the cost of implementing and administering such system. Tenant shall comply with any rules and regulations established by Landlord relating thereto.

33.16 **Relationship of Parties.** The relationship of the parties hereto is that of Landlord and Tenant, and it is expressly understood and agreed that Landlord does not in any way or for any purpose become a partner of Tenant in the conduct of Tenant's business or otherwise, or a joint venturer with Tenant, and that the provisions of this Lease and the agreements relating to rent payable hereunder are included solely for the purpose of providing a method whereby rental payments are to be measured and ascertained.

33.17 **Landlord's Default.** Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Demised Premises whose name and address shall have theretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be deemed in default if Landlord commences performance within a thirty (30) day period and thereafter diligently prosecutes the same to completion. In no event shall Tenant have the right to terminate this Lease as a result of Landlord's default, and Tenant's remedies shall be limited to damages and/or an injunction. Whenever Tenant is required to serve notice on Landlord of Landlord's default, written notice shall also be served at the same time upon the mortgagee under any mortgage or beneficiary under any deed of trust. Such mortgagee or beneficiary shall have the periods of time within which to cure Landlord' defaults as are provided in this Section 33.17, which periods shall commence to run ten (10) days after the commencement of the periods within which Landlord must cure its defaults under this Section 33.17. In this connection, any representative of the mortgagee or beneficiary shall have the right to enter upon the Demised Premises for the purpose of curing the Landlord's default. Such mortgagee or beneficiary shall notify Landlord and Tenant in the manner provided by Section 33.24 of the address of such mortgagee or beneficiary to which such notice shall be sent, and the agreements of Tenant hereunder are subject to prior receipt of such notice.

33.18 **Substitute Demised Premises.** At any time during the term of this Lease, Landlord shall have the right to request in writing that Tenant move to substitute Demised Premises situated within the Shopping Center. The substitute Demised Premises shall contain the same approximate square footage as the Demised Premises as described herein. Tenant shall have thirty (30) days from the date of Landlord's request to accept the substitute Demised Premises. Landlord shall have the right to relocate the Demised Premises to a substitute Demised Premises in accordance with the following:

(a) The substitute Demised Premises shall be substantially the same in size, dimensions, configuration, decor and nature as the Demised Premises described herein and shall be placed in that condition by Landlord at Landlord's sole cost;

(b) The physical relocation of the Demised Premises shall be accomplished by Landlord at its sole cost;

(c) Landlord shall give Tenant at least thirty (30) days' prior written notice of Landlord's intention to relocate the Demised Premises as described above;

(d) All incidental costs incurred by Tenant as a result of the relocation, including, but without limitation, costs incurred in changing addresses on stationery, business cards, directories, advertising and other such items shall be paid by Landlord in an amount not to exceed Five Hundred Dollars ($500.00);

(e) If the substitute Demised Premises are smaller than the Demised Premises as they existed before the relocation, the GMMR shall be reduced to a sum computed by multiplying the GMMR by a fraction, the numerator of which shall be the total number of square feet in the substitute Demised Premises and the denominator of which shall be the total number of square feet in the Demised Premises before relocation; and

(f) If the substitute Demised Premises are larger than the Demised Premises as they existed before the relocation, the GMMR shall be kept at the same rate, unless otherwise agreed upon by Landlord.

(g) The parties shall immediately execute an amendment to this Lease specifying the location of the substitute Demised Premises, the reduction of the GMMR, if any, and the date the amendment becomes effective. From and after the effective date of the amendment, the term "Demised Premises" as used in this Lease shall mean the substitute Demised Premises.

If Tenant refuses to accept the substitute Demised Premises or fails to reply to Landlord's request within the time stated, this Lease shall terminate upon Tenant vacating the Demised Premises or three (3) months from the date of Landlord's request to Tenant, whichever first occurs

33.19 **Reservation of Right to Modify Shopping Center.** In addition to the rights reserved to Landlord in Section 9.1 above, Landlord hereby reserves the right (but not the obligation) to renovate, modernize, rehabilitate, expand, reduce, reconfigure, enclose and/or otherwise alter all or any portion of the

Shopping Center (collectively "Modifications"), in such manner and at such time or times, throughout the term of this Lease, as Landlord may, in its sole and absolute discretion, deem to be in the best interests of the Shopping Center. Such Modifications may include, without limitation, the right to construct new buildings in the Shopping Center for additional retail, office, hotel and/or other uses, to remove, renovate, repair, add to, modernize or otherwise alter the building in which the Demised Premises are situated as well as other buildings, facilities, structures, malls, walkways, landscaping, parking and common areas or other areas within the Shopping Center. In connection with any and all such Modifications, Landlord may enter the Demised Premises to the extent reasonably required by Landlord to pursue and complete such Modifications. In addition, Landlord may temporarily close portions of the parking and common areas and cause temporary obstructions in connection with any Modifications. Tenant agrees that under no circumstances shall the Modifications as to any portion of the Shopping Center or the construction activity that takes place in the course of making the Modifications, or any aspect thereof, including Landlord's entry into the Demised Premises, constitute an eviction or partial eviction of Tenant or a breach of Tenant's right to quiet enjoyment or of any other provision of this Lease, nor entitle Tenant to damages, injunctive relief or other equitable relief, nor entitle Tenant to any abatement or reduction in the GMMR, additional rental or other charges or sums due under this Lease; provided Landlord uses reasonable efforts to mitigate any adverse effects on Tenant caused by the Modifications.

33.20 **Hazardous Waste and Materials.** Tenant shall not engage in any activity on or about the Demised Premises that violates any Environmental Law, and shall promptly, at Tenant's sole cost and expense, take all investigatory and/or remedial action required or ordered by any governmental agency or Environmental Law for clean-up and removal of any contamination involving any Hazardous Material created or caused directly or indirectly by Tenant. The term "Environmental Law" shall mean any federal, state or local law, statute, ordinance or regulation pertaining to health, industrial hygiene or the environmental conditions on, under or about the Demised Premises, including, without limitation, (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. Sections 9601, et seq.; (ii) the Resource Conservation and Recovery Act of 1976 ("RCRA"), 42 U.S.C. Sections 6901, et seq.; (iii) California Health and Safety Code Sections 25100, et seq.; (iv) the Safe Drinking Water and Toxic Enforcement Act of 1986, California Health and Safety Code Sections 25249.5, et seq.; (v) the Federal Water Pollution Control Act, 33 U.S.C. Sections 1317, et seq.; (vi) California Water Code Sections 1300, et seq.; (vii) California Civil Code Sections 3479, et seq., and; (viii) California Health & Safety Code Sections 25915, et seq., as such laws are amended, and the regulations and administrative codes applicable thereto. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined or listed as a "hazardous waste", "extremely hazardous waste", "restrictive hazardous waste" or "hazardous substance" or considered a waste, condition of pollution or nuisance under the Environmental Laws; (ii) petroleum or a petroleum product or fraction thereof; (iii) asbestos; and/or (iv) substances known by the State of California to cause cancer and/or reproductive toxicity. It is the intent of the parties hereto to construe the terms "Hazardous Materials" and "Environmental Laws" in their broadest sense. Tenant shall provide all notices required pursuant to the Safe Drinking Water and Toxic Enforcement Act of 1986, California Health and Safety Code Sections 25249.5, et seq. and California Health & Safety Code Sections 25915, et seq. Tenant shall provide prompt written notice to Landlord of the existence of Hazardous Substances on the Demised Premises and all notices of violation of the Environmental Laws received by Tenant.

33.21 **Rules and Regulations.** Tenant shall faithfully observe and comply with the rules and regulations that Landlord shall from time to time promulgate and/or modify. The rules and regulations are attached hereto as Exhibit "F" ("Rules and Regulations"). Any amendment or modification of the Rules and Regulations shall be binding upon the Tenant upon delivery of a copy of such amendment or modification to Tenant. Landlord shall not be responsible to Tenant for the nonperformance of any said rules and regulations by any other tenants or occupants. The Rules and Regulations shall apply and be enforced as to all tenants in the Shopping Center on a uniform basis.

33.22 **Labor.** Tenant shall use only reputable contractors of a recognized building trade in the making and/or installation of any repairs, alterations or improvements (including original improvements and fixtures) to be approved in advance by landlord in writing.

33.23 **Nondiscrimination.** Tenant herein covenants by and for itself, its heirs, executors, administrators and assigns and all persons claiming under or through it, and this Lease is made and accepted upon and subject to the following conditions: That there shall be no discrimination against or segregation of any person or group of persons on account of race, sex, marital status, color, creed, national origin or ancestry, in the leasing, subleasing, transferring, use, occupancy, tenure or enjoyment of the Demised Premises herein leased, nor shall the Tenant itself, or any person claiming under or through it, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, sublessees, subtenants or vendees in the Demised Premises.

33.24 **Notices.** Wherever in this Lease it shall be required or permitted that notice and demand be given or served by either party to this Lease to or on the other, such notice or demand shall be given or served in writing and shall not be deemed to have been duly given or served unless in writing, and personally served or forwarded by overnight mail such as Federal Express or certified mail, postage prepaid, addressed as specified in Section 1.12. Either party may change the address set forth in Section 1.12 by written notice by certified mail to the other. Any notice or demand given by certified mail shall be effective one (1) day subsequent to mailing. All options to extend, if any, shall be delivered by certified mail only and shall be effective only if delivered by certified mail.

33.25 **Attorneys' Fees.** In the event that at any time during the term of this Lease either Landlord or Tenant shall institute any action or proceeding against the other relating to the provisions of this Lease, or any default hereunder, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonable attorneys' fees and other costs and expenses incurred therein by the successful party, including fees and costs incurred in any appellate proceeding. In addition, should it be necessary for Landlord to employ legal counsel to enforce any of the provisions herein contained following a default by Tenant and/or to advise Landlord of its legal rights and/or remedies following a default by Tenant, Tenant agrees to pay all attorneys' fees and court costs reasonably incurred by Landlord in connection therewith.

33.26 **Security Deposit.** Tenant, contemporaneously with the execution of this Lease, has deposited with Landlord the sum specified in Section 1.10 hereof, the receipt of which is hereby acknowledged by Landlord, said deposit being given to secure the faithful performance by the Tenant of all terms, covenants, and conditions of this Lease by the Tenant to be kept and performed during the term hereof. Tenant agrees that if the Tenant shall fail to pay the rent herein reserved or any other sum required hereby promptly when due, said deposit may, at the option of the Landlord be applied to any rent or other sum due and unpaid (provided that the Landlord shall not be required to do so), and if the Tenant violates any of the other terms, covenants, and conditions of this Lease, said deposit may, at Landlord's option, be applied to any damages suffered by Landlord as a result of Tenant's default to the extent of the amount of the damages suffered.

Nothing contained in this Section 33.26, shall in any way diminish or be construed as waiving any of the Landlord's other remedies as provided in Section 23 hereof, or by law or in equity. Should the entire security deposit, or any portion thereof, be appropriated and applied by Landlord for the payment of overdue rent or other sums due and payable to Landlord by Tenant hereunder, then Tenant shall, on the written demand of Landlord, forthwith remit to Landlord a sufficient amount in cash to restore said security deposit to its original amount, and Tenant's failure to do so within five (5) days after receipt of such demand shall constitute a breach of this Lease. Should Tenant comply with all of the terms, covenants, and conditions of this Lease and promptly pay all of the rental herein provided for as it falls due, and all other sums payable by Tenant to Landlord hereunder, said security deposit shall be returned in full to Tenant at the end of the term of this Lease, or upon the earlier termination of this Lease pursuant to the provisions of Section 21 hereof, except in the event the Demised Premises are sold as a result of the exercise of any power of sale under any mortgage or deed of trust, in which event, this Lease shall be automatically amended to delete any reference to this Section 33.26, and Tenant shall be entitled to immediate reimbursement of its security deposit from the party then holding said deposit. Within five (5) days following the increase of the GMMR pursuant to the terms contained herein, Tenant shall deliver to Landlord an amount equal to the percentage increase in GMMR times the amount of security deposit Landlord is then entitled to hold hereunder.

33.27 **Representation.** Each of the parties hereto warrants and represents to the other (i) that each of the provisions hereof has been negotiated between the parties, (ii) that each provision hereof is consideration for every other provision, (iii) that it has read the entire Lease, and (iv) that it agrees to each and

every provision hereof.

33.28 **Certificate of Occupancy.** In no event shall Tenant open for business unless and until Tenant shall have obtained a Certificate of Occupancy or its equivalent (a "Certificate of Occupancy") from the appropriate governmental authorities, provided that said governmental authority issues Certificates of Occupancy. The parties acknowledge any operation without a Certificate of Occupancy shall and is deemed to be a substantial material breach. Such action shall cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Accordingly, in addition to all other remedies, Landlord may charge Tenant twice the minimum rent for the period Tenant is open for business without a Certificate of Occupancy, which the parties agree is a fair and reasonable estimate of the damage caused Landlord by such action. Acceptance of such rent shall not constitute a waiver of Tenant's default.

33.29 **Refinance Financing.** It is mutually understood and acknowledged that Landlord may have to finance the improvements on the Demised Premises through a mortgage loan or mortgage loans from one or several mortgagees and that before said loans are approved and closed, said mortgagees must approve the terms of this Lease and as to legal form and content. In view of the above, if Tenant refuses to agree to any amendment or modification of the within Lease as to form or contents which does not adversely and materially affect Tenant, as may be required by the mortgage company, Tenant agrees that Landlord may cancel this Lease on thirty (30) days' written notice to Tenant without liability to or by any party.

33.18 **Brokers; Finders.** Tenant warrants that it has had no dealing with any real estate broker or agent in connection with the negotiation of this Lease, except as identified in Section 1.13 herein, and that it knows of no other real estate broker or agent who is or might be entitled to a commission in connection with this Lease. If Tenant has dealt with any other person or real estate broker with respect to leasing or renting space in the Building or the Shopping Center, Tenant shall be solely responsible for the payment of any fee due said person or firm, and Tenant shall hold Landlord free and harmless against any liability with respect thereto, including attorneys' fees and costs.

33.19 **Prohibition Against Recording Lease.** Neither this Lease nor any memorandum thereof shall be recorded. The recordation hereof by or on behalf of Tenant shall be deemed a material breach.

33.20 **Mutual Agency; Co-Tenant.** Each and every party who now is or hereinafter becomes a tenant under this Lease hereby appoints each and every other co-tenant under this Lease (if any) as his, her or its agent, representative, and attorney-in-fact, to act for and on behalf of said principal with respect to all matters relating to, or arising from this Lease, the tenancy created hereby, the obligations herein set forth, and the use and occupancy of the Demised Premises, specifically including, but not limited to, the right to alter, amend, modify, extend, supplement and terminate this Lease, and the tenancy created hereunder. This agency shall continue and is irrevocable at all times during the period that the Demised Premises are occupied by said Tenant.

33.21 **No Option.** The submission of this Lease by Landlord, its agent or representative for examination or execution by Tenant does not constitute an option or offer to lease the Demised Premises upon the terms and conditions contained herein or a reservation of the Demised Premises in favor of Tenant, it being intended hereby that this Lease shall become binding upon Landlord only upon Landlord's delivery to Tenant of a fully executed counterpart hereof.

33.22 **Confidentiality.** Except to the extent reasonably necessary to enforce the terms of this Lease, the terms of any negotiations, conversations, writings, documents and agreements made, entered into, discussed or proposed by either party to this Lease relating to this Lease, the Shopping Center, and/or the renegotiations, extension or modification of Tenant's existing or prior lease are confidential, and not to be disclosed to any other person, entity, employee, or tenant of the Shopping Center without the express written consent of Landlord. This confidentiality provision shall apply to each and every term of any discussions or agreements, including, but not limited to, rental rates.

Tenant shall defend, indemnify and hold Landlord harmless from and against any and all losses, damages, claims, actions, suits, legal or administrative orders or proceedings, demands or other liabilities resulting at any time from the breach of this provision by Tenant, including, but not limited to, all foreseeable and unforeseeable damages, fees, costs, losses and expenses, including any and all attorneys' fees and loss of rents, directly or indirectly arising therefrom.

33.23 This Lease supersedes all prior Leases and Amendments thereto.

IN WITNESS WHEREOF, the parties have duly executed this Lease, together with exhibits referred to herein and attached hereto, on the day and year first above written in Port Hueneme, California.

LANDLORD:
939 S. Serrano Ave., LLC
DBA Beachport Center

By:

TENANT:
Stellar Biotechnologies, Inc.

By:
Its CEO: Frank Oakes

EXHIBIT "A"

LEGAL DESCRIPTION OF SHOPPING CENTER

THE LAND fS SITUATED IN THE STATE OF CALIFORNIA, COUNTY OF LOS ANGELES, AND IS DESCRIBED AS FOLLOWS:

Parcel 1, in the City of Port Hueneme, County of Ventura, State of California, as shown on a Parcel Map filed in Book 34, Pages 96 and 97 of of Parcel Maps, in the office of the County Recorder of said County.

EXCEPT from that portion of said land lying within the land described in the deed recorded September 13, 1956 in Book 1443, Page 1 of Official Records, all oil, gas, hydrocarbons, hydrocarbon byproducts and minerals lying in or under said land, however, no right of entry is reserved upon the surface for the purpose of exploring for or extracting oil, gas, hydrocarbons, hydrocarbon byproducts or minerals; however reserving the right to enter the subsurface for the purpose of extracting same.

ALSO EXCEPT from that portion of said land lying within the land described in the deed recorded July 24, 1959 in Book 1761, Page 392 of Official Records, all of the oil, minerals and other hydrocarbon substances lying in or under said property.

ALSO EXCEPT from those portion of said land lying within the land described in the deeds recorded January 21, 1960 *in* Book 1820, Page 263; January 29, 1964 in Book 2471, Page 243; March 30, 1973 in Book 4093, Page 848; March 30, 1973 in Book 4093, Page 862; May 4, 1973 in Book 4109, Page 252; May 15, 1973 in Book 4113, Page 668; December 15, 1977 in Book 5015, Page 521; December 28, 1977 in Book 5023, Page 992; December 28, 1977 in Book 5023, Page 994; January 5, 1978 in Book 5028, Page 822; January 5, 1978 in Book 5028, Page 849; January 17, 1978 in Book 5036, Page 958; January 30, 1978 in Book 5044, Page 808; April 13, 1978 in Book 5093, Page 223; December 10, 1981 in Book 1981, Page 116712, all of Official Records, all oil, gas, minerals and hydrocarbon substances in and under said land without, however, any right of surface entry or any right of entry in and to the subsurface thereof at a depth of less than 500 feet beneath the surface for the development or removal of said substances.

EXHIBIT "B"

PLOT PLAN DEPICTING DEMISED PREMISES

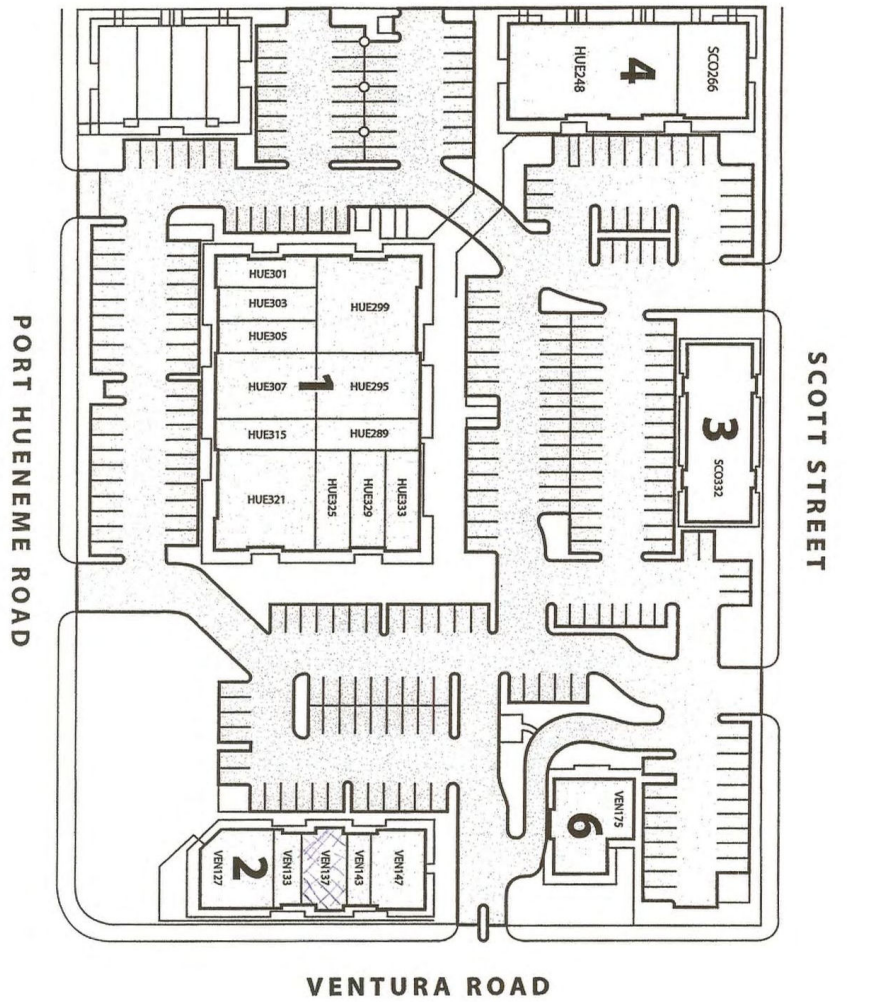


EXHIBIT "C"

CONSTRUCTION OBLIGATIONS

LANDLORD'S OBLIGATIONS:

Landlord shall provide Tenant with an approximate Four Thousand Two Hundred Seventy Two (4272) square feet store space located as described in Section 1 of the Lease. The store space shall constitute the Premises as defined in Section 1.2 of the Lease. The Landlord and Tenant acknowledge, the Tenant has occupied the premises prior to signing this lease and accepts the unit in as-is condition. Landlord shall deliver the Premises to Tenant in an "As-Is" condition with the following:

1. Landlord Will Build One (1) ADA compliant Bathroom, per attached plan
2. Landlord will move walls per the attached plan
3. Landlord will Install Glass above all cubical per attached plan.
4. Landlord will install plumbing to lab room
5. Landlord will paint unit
6. Landlord will install flooring to be chosen by Tenant from Landlords Collection

TENANT SHALL BE RESPONSIBLE FOR THE COST OF ALL IMPROVEMENTS NOT LISTED ABOVE

TENANT'S OBLIGATIONS ARE LISTED ON THE FOLLOWING PAGE

EXHIBIT "C" (Continued)

CONSTRUCTION OBLIGATIONS

TENANT'S OBLIGATIONS: In the event that any improvements are desired by Tenant, Tenant shall first obtain permission from Landlord in accordance with the terms of the Lease and Tenant shall comply with the Tenant's Work obligations listed below. Tenant's Work obligations ("Tenant's Work") shall consist of the following:

1. Tenant shall deliver to Landlord within fifteen (15) days from the date of execution of this Lease, a drawing setting forth those improvements required by Tenant in addition to those improvements to be provided by Landlord in Paragraph A hereinabove in sufficient form and content to be delivered to the County of Ventura, California, and any other agencies necessary, for review and approval. Upon receipt of Tenant's drawings, Landlord shall review said improvement plans and shall, within ten (10) days thereafter, return said improvement plans to Tenant, either indicating approval by signing two (2) copies or indicating disapproval and advising the Tenant of necessary plan changes.

2. Tenant shall, at Tenant's sole cost and expense, commence the installation of fixtures, equipment and any of Tenant's Work upon substantial completion of Landlord's Work as set forth hereinabove, within five (5) days after receiving notice from Landlord as to such substantial completion of Landlord's Work.

3. Tenant shall obtain insurance, in compliance with all the provisions of this Lease, and shall comply with all other provisions of this Lease (except those pertaining to Minimum Rent, Percentage Rent, Real Estate Tax Payments and Common Facilities Payments) after entry upon the Leased Premises, notwithstanding the fact that the term of this Lease shall not have commenced.

4. Tenant shall reimburse Landlord for all fees levied by appropriate governmental jurisdictions which are directly related to Tenant's extra improvements and/or use of the Leased Premises.

5. Tenant agrees that all work performed by him or his contractor or agent shall be of a good and workmanlike quality, and performed in a diligent manner so as not to interfere with Landlord's and/or any other tenant's use of the Shopping Center.

6. Tenant warrants that all contractors shall be reputable contractors approved by Landlord in writing. Tenant further warrants that his contractors shall in no way delay or cause delay or interfere with any other contractor working on the Shopping Center. Tenant agrees to hold Landlord harmless for the cost of any time lost by Landlord's contractor due to the actions or failure to act of Tenant's contractors.

7. In the event Tenant elects to use a contractor other than Landlord's contractor, then prior to construction, Tenant, at Tenant's sole cost, shall provide Landlord with a copy of an agreement between Tenant and a bonded disbursement company, a performance bond or other method which will guarantee the payment of construction funds and final lien-free completion of any and all work performed by Tenant within the Leased Premises. Method of guarantee shall be approved by Landlord. All fees for this service are to be paid by Tenant.

8. All of Tenant's Work shall comply in all respects with each of the following:

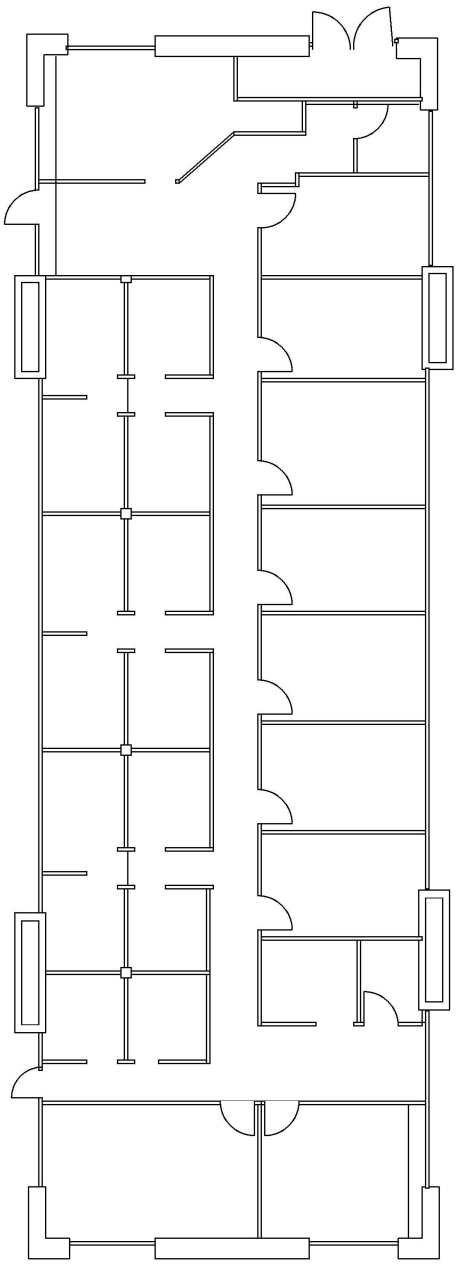
   a. The Uniform Building Code and/or state, county, city or other laws, codes, ordinances, and regulations, as each apply according to the rulings of the controlling public official, agent or other person.

   b. Applicable standards of the National Fire Protection Association, the National Electrical Code, the American Gas Association, and the American Society of Heating, Refrigerating and Air Conditioning Engineers.

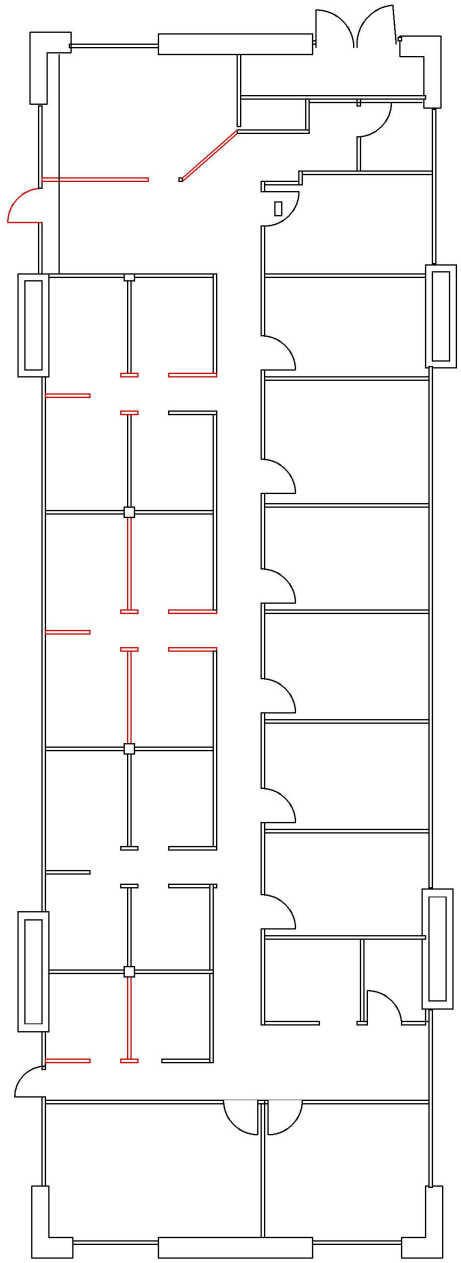
   c. Building Material Manufacturer's Specifications.

9. Landlord shall have the right at all times to inspect, review and approve all phases of Tenant's improvement work.

10. During Tenant's construction / fixturization period, Tenant shall not use any common trash receptacle for its construction trash or other debris. Tenant shall be responsible for the separate pickup and disposal of its construction debris and other trash generated during Tenant's construction / fixturization period.



332 E. Scott
As Is



Landlord Demo

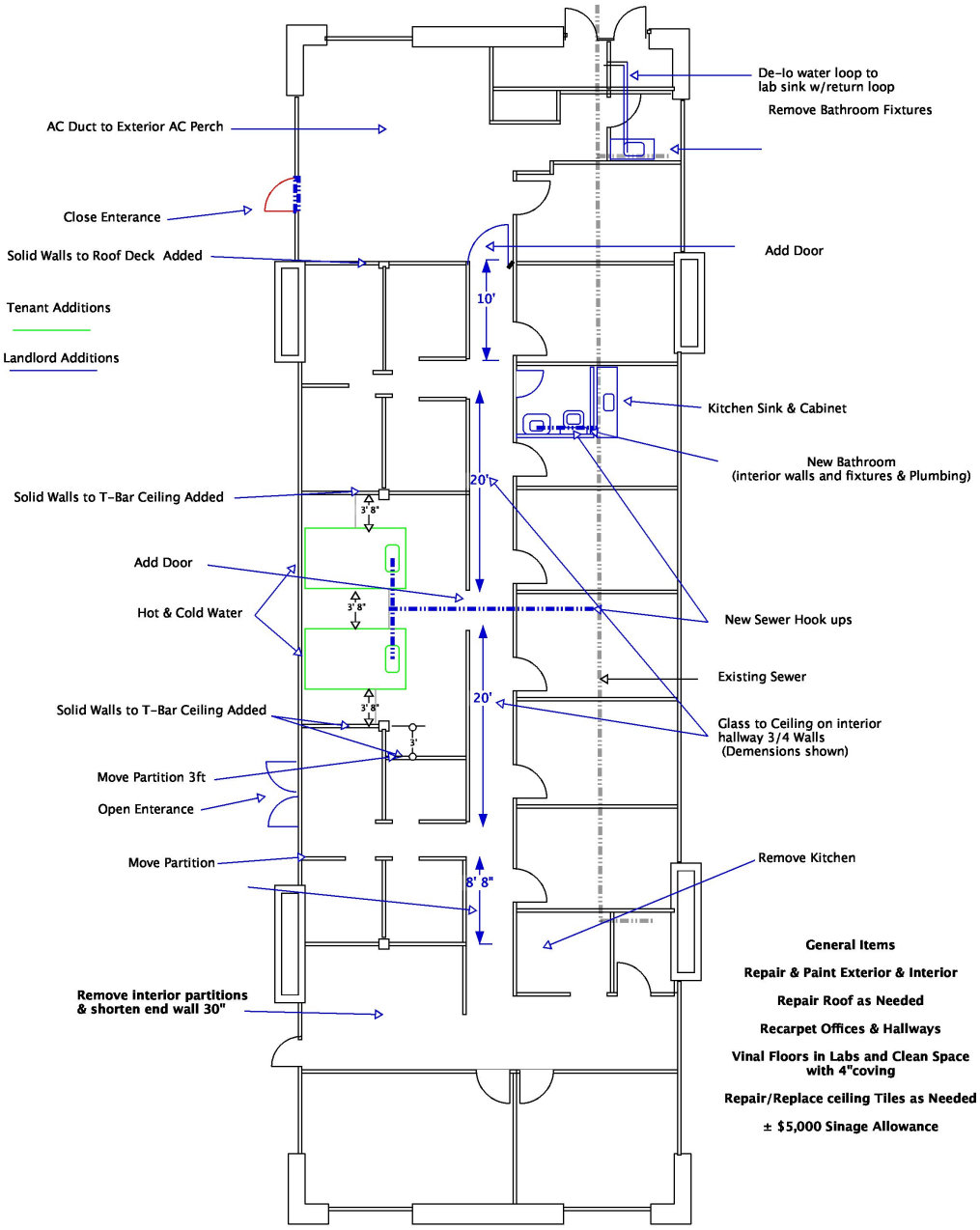


EXHIBIT "D"

LANDLORD'S SIGN CRITERIA

The hereinafter set forth sign criteria have been established for the purpose of assuring a coordinated sign program for the mutual benefit of each tenant of the Shopping Center. Subject to the terms of this Lease, and the limitations imposed by the applicable governmental entity charged with the authority of approval of signs, Tenant shall be allowed to design sign(s) for the Premises in accordance herewith to provide maximum identity and esthetic quality for Tenant and the Shopping Center. Conformance with this criteria shall be strictly enforced by Landlord and any installed non-conforming or unapproved sign must be removed or brought into conformance herewith, at Tenant's expense.

A. GENERAL SPECIFICATIONS

1. One "sign-able area" located on the signage band, by Landlord, shall be allowed for Tenant's channel letter sign.
2. Tenant shall submit three (3) copies of drawings of Tenant's proposed signs to Landlord for approval before fabrication of such signs. Such drawings must include location, size and style of lettering, material, installation details, color selections and logo design. One copy of such drawing of Tenant's proposed sign(s) shall be in color.
3. All permits for signs and the fabrication and installation therefore shall be obtained and paid for by Tenant.
4. All signs and the installation thereof shall comply with all local building codes.
5. Animated, flashing or audible signs will not be permitted.
6. All cabinets, conductors, transformers and other equipment shall be concealed.
7. Painted lettering will not be permitted.
8. Projections above or below the sign-able area will not be permitted. Signs on the roof of the Premises will not be permitted.
9. Wording of signs shall not include the product sold, except as a part of Tenant's trade name or insignia.
10. All signs are to be in English only, unless Landlord gives Tenant written approval to the contrary.

B. LOCATION OF SIGN(S)

1. All signs or advertising devices advertising an individual use, business or building shall be attached to the building only at a location specified by Landlord.

2. In the event the Premises has a non-customer rear door for receiving merchandise, Tenant may have uniformly applied on said door, in the location specified by Landlord, in two inch (2") high block letters, Tenant's name and address. Landlord will designate the color of such letters.

C. DESIGN OF SIGN

1. The total sign area shall not exceed two (2) square feet per lineal foot of frontage of the Premises. The sign area will be measured by circumscribing a rectangle around each individual letter of the sign case.

2. The width of each sign must not exceed Seventy-five percent (75%) of shop width, and must be centered within frontage. (See Sign Diagram herein).

3. The maximum height for letters in each sign shall not exceed twenty-four inches (24").

4. The minimum letter height of each letter shall not be less than eighteen inches (18").

5. The letter depth of each letter shall not be more than six inches (6"), or less than four inches (4").

6. Signs shall be composed of individual or script lettering. Sign boxes and cans will not be permitted. Logos will be considered on a case-by-case basis, at the sole discretion of Landlord. Colors will also be approved on a case-bycase basis.

7. Materials: Plastic surfaces shall be Rohm or Haas or of equal quality, 1/8" thick acrylic plexi-glass. The vinyl film shall be 3-M, or of equal quality. The color of the plastic trim cap edging and the metal side return shall be approved by Landlord.

8. All letters shall have 1/4" drain holes at the bottom of each letter.

D. CONSTRUCTION REQUIREMENTS

1. All signs shall be centered on the "sign-able area" both vertically and horizontally.

2. All exterior signs, bolts, fastenings and clips shall be enameling iron with porcelain enamel finish, stainless steel, aluminum, brass or bronze. No black iron materials of any type will be permitted.

3. All letters shall be fabricated using full welded construction.

4. All penetrations of the building structure required for sign installation and which shall have been approved in writing by Landlord, shall be neatly sealed in a watertight condition.

5. No labels, other than UL labels, will be permitted on the exposed surface of signs, except those required by local ordinance, which such labels shall be applied in an inconspicuous location.

EXHIBIT "D" (Continued)
LANDLORD'S SIGN CRITERIA

5. No labels, other than UL labels, will be permitted on the exposed surface of signs, except those required by local ordinance, which such labels shall be applied **in** an inconspicuous location.

6. Tenant shall cause Tenant's sign contractor to repair (in a good and workmanlike manner) any damage caused by such contractor work within two (2) days after such damage is caused.

7. Tenant shall be fully responsible for the work of its sign contractor.

E. RESTRICTIONS

1. Vertical copy or signs projecting perpendicular to the building will not be permitted.

2. Logos, hours of business and telephone numbers, are limited to a total of 144 square inches per single door entrance. All "Sale" signs or other special announcements will not be permitted on exterior or interior glass except as permitted in Tenant's Lease. Such advertising material must be setback 48" from glass storefront windows.

3. Advertising devices such as attraction boards, posters, banners and flags will not be permitted except as permitted in Tenant's Lease.

SIGN DIAGRAM

CHANNEL LETTER SIGN CRITERIA

ALL SIGN DESIGNS, COLOR & COPY MUST BE APPROVED BY LANDLORD
and
SUBJECT TO OBTAINING A SIGN PERMIT FROM THE CITY

Sign Request to include items in Exhibit "D" above including, but not limited to the following:
Example: Sign color, shape and design are subject to change at anytime by Landlord

Copy:	**"BEACHPORT CENTER"**	**Finish Reveals:**	**Burnt Umber #10201**
Sign Color:	**Red Plexiglas #2795**	**Letter Height:**	**Twenty-four Inches (24")**
Surface Type:	**Rohm 1/8" Acrylic Plexiglas**	**Letter Depth:**	**Six Inches (6")**
Vinyl Film:	**3-M Translucent Vinyl**		

EXHIBIT "E"

ESTOPPEL CERTIFICATE

Tenant:	Stellar Biotechnologies, Inc.
Landlord:	939 S. Serrano Ave. LLC DBA Beachport Center
Date of Lease:	March 29, 2011
Shopping Center:	Beachport Center, N. Ventura Road and Hueneme Road, Port Hueneme, California
Demised Premises:	332 E. Scott St., Port Hueneme, California

To Whom It May Concern:

The undersigned hereby certifies as follows:

1. The undersigned is the tenant ("Tenant") under the above-referenced lease ("Lease") covering the above-referenced premises ("Demised Premises").

2. The Lease constitutes the entire agreement between landlord under the Lease ("Landlord") and Tenant with respect to the Demised Premises and the Lease has not been modified, changed, altered or amended in any respect except as set forth above.

3. The term of the Lease commenced on and, including any presently exercised option or renewal term, will expire on . Tenant has accepted possession of the Demised Premises and is the actual occupant in possession thereof and has not sublet, assigned or hypothecated its leasehold interest. All improvements to be constructed on the Demised Premises by Landlord have been completed and accepted by Tenant and any tenant construction allowances have been paid in full.

4. As of this date, there exists no breach or default, nor state of facts which, with notice, the passage of time, or both, would result in a breach or default on the part of either Tenant or Landlord. To the best of Tenant's knowledge, no claim, controversy, dispute, quarrel or disagreement exists between Tenant and Landlord.

5. Tenant is currently obligated to pay Guaranteed Minimum Monthly Rent in installments of Five Thousand One Hundred Twenty Six 40/100 Dollars ($5,126.40) per month. In addition, the Lease requires Tenant to pay its pro rata share of the Common Area Maintenance expenses of the Shopping Center. No other rent has been paid in advance and Tenant has no claim or defense against Landlord under the Lease and is asserting no offsets or credits against either the rent or Landlord. Tenant has no claim against Landlord for any security or other deposits except Seven Thousand One Hundred Thirty Four 24/100 Dollars ($7,134.24) (see section 32.36) which was paid pursuant to the Lease.

6. Tenant has no option or preferential right to lease or occupy additional space within the Shopping Center of which the Demised Premises are a part. Tenant has no option or preferential right to purchase all of any part of the Demised Premises nor any right or interest with respect to the Demised Premises other than as Tenant under the Lease. Tenant has no right to renew or extend the term of the Lease.

7. Tenant has made no agreements with Landlord or its agent or employees concerning free rent, partial rent, rebate of rental payments or any other type of rent or other concession except as expressly set forth in the Lease.

8. There has not been filed by or against Tenant a petition in bankruptcy, voluntary or otherwise, any assignment for the benefit of creditors, any petition seeking reorganization or arrangement under the bankruptcy laws of the United States, or any state thereof, or any other action brought under said bankruptcy laws with respect to Tenant.

9. All insurance which Tenant is required to maintain under the Lease has been obtained by Tenant and is in full force and effect and all premiums with respect thereto have been paid.

10. The undersigned acknowledges that Robert L. Hertel ("Lender") is the beneficiary under the deed of trust encumbering the Shopping Center that said deed of trust contains an assignment of rents due under the Lease. The undersigned acknowledges that Lender is materially relying on the representations of Tenant herein made.

Dated this 29th Day of April, 2010

TENANT:
Stellar Biotechnologies, Inc.

By:

Its: CEO, Frank Oakes

EXHIBIT "F"
RULES AND REGULATIONS

1. The sidewalks, halls, passages, exits, entrances, stairways and elevators (if any) of the Shopping Center shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress to and egress from their respective Premises. These areas are not for the use of the general public, and Landlord shall in all cases retain the right to control and prevent access thereto of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Shopping Center and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals with in the ordinary course of its business, unless such persons are engaged in illegal activities. No tenant or any employee or invitee of any tenant shall go upon the roof of the Shopping Center unless accompanied by an agent of Landlord, or unless Landlord's approval has been obtained.

2. No tenant shall use or permit its premises to be used as habitation, including the prohibition of sleeping, eating or bathing. The premises may not be used for the storage of merchandise held for sale to the public, and unless ancillary to a restaurant or other food service use specifically authorized in the lease of a particular tenant, no cooking shall be done or permitted by any tenant on the premises, except that the preparation of coffee, tea, hot chocolate and similar items for tenants and their employees shall be permitted.

3. Landlord will furnish each tenant with two keys free of charge. Landlord may make reasonable charge for any additional Keys. No tenant shall have any keys made. No tenant shall alter any lock or install a new or additional lock or any bolt on any door of its premises without the prior written consent of Landlord. Each tenant upon the termination of its tenancy shall deliver to Landlord all keys to doors in the Shopping Center that have been furnished to tenant. Each tenant shall see that the doors of its premises are closed and securely locked at all times as tenant's employee's leave the premises. Each tenant shall see that all water faucets, water apparatus and utilities are shut off before tenant or its employees leave the premises, so as to prevent waste or damage. In the event of any damage from any default or carelessness in this regard a tenant shall be responsible for all damage and/or injuries sustained by Landlord or other tenants of the Shopping Center.

4. No tenant shall use or keep in the premises or in any other part of the Shopping Center any kerosene, gasoline or inflammable or combustible fluid or material except such materials that are customarily used in the operation or cleaning of the premises and then only in accordance with all applicable laws, ordinances and recognized safety procedures. No tenant shall use any method of heating or air conditioning except as provided by Landlord. No tenant shall use, keep or permit to be used or kept any foreign or noxious gas or substance in the premises, or permit or suffer the premises to be occupied or used in a manner offensive or objectionable to Landlord or other tenants of the Shopping Center by reason of noise, odors, vibrations, or interfere in any way with other tenants or those have business therein.

5. Landlord reserves the right to prevent access to the Shopping Center, including closing entrances to the Shopping Center, in circumstances rendering such action advisable in Landlord's opinion, such as mob riot, public excitement, etc..

6. The toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant, tenants employees or invitees shall have caused it.

7. Except with prior consent of Landlord, no tenant shall sell or permit the sale in the premises or use or permit the use of any common area for the sale of newspapers, magazines, periodicals, tickets to entertainment events or any other goods, merchandise or service. No tenant shall carry on, or permit or allow any employee or other person to carry on the business of stenography, typewriting, or any similar business in or from the premises for the service or accommodation of occupants of any other portion of the Shopping Center, nor shall the premises of any tenant be used for manufacturing of any kind, or any business or activity other than that specifically provided for in such tenant's lease.

8. No tenant shall use any advertising media which may be heard outside of the remises or place or permit the placement of any radio or television antenna, loudspeaker, sound amplifier, phonograph, searchlight, flashing light or other device of any nature on the roof or outside the boundaries of the premises (except for a tenant's approved signs) or at any place where the same may be seen or heard outside the premises, except with prior consent of Landlord.

9. All deliveries, loading and unloading of merchandise, supplies, materials, garbage and refuse shall be made only through such entryways and at such times as Landlord shall designate. Each tenant shall not obstruct or permit the obstruction of said loading area and at no time shall park or allow its employees or agents to park vehicles therein except for loading and unloading. All of tenants refuse and rubbish shall be removed to central trash bins located in the Shopping Center at Tenant's sole cost and expense. Tenant shall not burn any trash of any kind in or about the Shopping Center. Hours of operation and delivery hours shall be restricted to the period from 7:00 A.M. to 10:00 PM.

10. The directory of the Shopping Center, if any, will be provided for the display of the name and location of tenants and Landlord reserves the right to exclude any other names therefrom. Landlord must first approve any additional name that any tenant may desire to place upon said directory, and, if so approved, a charge will be made therfor.

11. No curtains, draperies, blinds, shutters, shades, screens or other coverings, or decorations shall be attached to, hung or placed in, or used in any window of the Shopping Center without the prior written consent of Landlord.

12. No tenant shall use any portion of the common area for any purpose when the premises of such tenant are not open for business or conducting work in preparation therefore.

13. Tenant will not allow animals, except seeing-eye dogs, in, about or upon the Demised Premises.

14. Tenant shall only operate the heating and air conditioning during the hours that Tenant is open for business.

15. Tenant is only allowed to place G rated video games within the premises. Tenant is also allowed to have TV's placed throughout the premises which will only play G rated material at all times.

16. These Rules and Regulations are in addition to and shall not be construed in any way to modify, alter, or amend in whole or in part, the terms, covenants, agreements and conditions of any lease of premises in the Shopping Center. Landlord reserves the right to make such other rules and regulations as in Landlords judgment may from time to time be needed for the safety, care, cleanliness and preservation of good order of the Shopping Center. Landlord may, in its reasonable discretion, waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Shopping Center.

EXHIBIT "H"

OCCUPANCY NOTICE

Premises: 332 E. Scott St., Port Hueneme, California

Date: March 29, 2011

Tenant: Stellar Biotechnologies, Inc.

Upon execution of this Occupancy Notice, Tenant accepts possession of the Premises and Tenant acknowledges and agrees to the following:

1. Tenant has received keys to the above referenced Premises on the following date: May 15, 2011.

2. In accordance with paragraphs 4.1 and 5.1 of the Lease, the Gross Minimum Monthly Rent ("GMMR") will commence on the Commencement Date of the Lease.

3. Tenant accepts the Premises in an "As-Is" condition on the Commencement Date of the Lease without any representation or warranty by Lessor as to the Premises condition, quality or adequacy. Lessee agrees to and shall maintain the Premises in the same condition, or better condition, order and repair as Tenant has received delivery of the Premises, excepting only reasonable wear and tear arising from the use of the Premises as specified in this Lease.

4. Tenant agrees to immediately transfer all Utilities provided to this unit into Tenant's name by contacting the appropriate providers and Tenant agrees to assume all costs related to the Premises after the Commencement Date.

LANDLORD:	TENANT:
939 S. Serrano Ave., LLC **DBA Beachport Center**	**Stellar Biotechnologies, Inc.**
By:	By: Its: CEO, Frank Oakes

SMOKE FREE STORE ADDENDUM

This addendum is made and entered into between 939 S. Serrano Ave. DBA Beachport Center "LANDLORD" and Stellar Biotechnologies, Inc. "TENANT", and is made a part of the lease agreement entered into this 29th day of March 2011 for the premises located at 332 E. Scott St., Port Hueneme, California.

Due to the increased risk of fire, and the known health effects of secondhand tobacco smoke, smoking is prohibited in any area of the property, both private and common, whether enclosed or outdoors. This policy applies to all owners, managers, tenants, guests and servicepersons.

Definition of Smoking: The term "smoking" means inhaling, exhaling, breathing, or carrying any lighted cigar, cigarette, or other tobacco product or similarly lighted product in any manner or form.

Tenant acknowledgement:

I/WE hereby acknowledge the above smoking policy as part of the lease agreement. I/WE agree that I/WE will not smoke in the areas of the property listed below. In addition, I will be responsible for notifying any visitors, guests, and relatives who visit the premises of this policy. If I fail to follow this policy, I agree to abide by the consequences contained in the original lease regarding TENANT default.

Smoke-free areas: **Entire Property**

TENANTS

Stellar Biotechnologies, INC.

By:
Its: CEO, Frank Oakes

PROMISSORY NOTE

For good and valuable consideration in the form of a personal loan in the amount of $15,000.00 deposited into the bank account of Stellar Biotechnologies, Inc. on September 9, 2009, the receipt and sufficiency of which are hereby acknowledged, Stellar Biotechnologies, Inc. ("Stellar") hereby promises to pay, to the order of Frank R. Oakes, at the offices of Stellar Biotechnologies, Inc. 321 E. Hueneme Rd., port Hueneme, CA 93041, or such other location as may be designated by Frank Oakes, the sum of fifteen thousand dollars ($15,000.00) in the lawful currency of the United States of America.

Stellar hereby waives the necessity of presentment, protest and notice of dishonour and the protest of this promissory note.

Dated at Port Hueneme, California this 9th day of September, 2009.

STELLAR BIOTECHNOLOGIES, INC.

Per: _____

Per: _____

ORIGINAL

PAID
SEP 16 2009
15,000

paid on full 9/16/09

D+H Group LLP
Chartered Accountants

January 31, 2012

Consent of Independent Registered Chartered Accountants

We hereby consent to the inclusion, in this registration statement on Form 20-F of Stellar Biotechnologies, Inc., of our report dated November 30, 2011 on our audit of the consolidated financial statements of the Company as at August 31, 2011 and 2010 and for the years ended August 31, 2011, 2010 and 2009.

"D&H Group LLP"

Chartered Accountants

D+H Group LLP Chartered Accountants
10th Floor, 1333 West Broadway
Vancouver, British Columbia
Canada V6H 4C1
Telephone: 604 731 5881
Facsimile: 604 731 9923
Email: info@dhgroup.ca
www.DHgroup.ca
A B.C. Limited Liability Partnership of Corporations

STELLAR BIOTECHNOLOGIES, INC.
(formerly, CAG CAPITAL INC.)
(the "Company")

SHARE OPTION PLAN
Dated for Reference October 13, 2009
As amended December 13, 2011

ARTICLE 1
PURPOSE AND INTERPRETATION

Purpose

1.1 The purpose of this Plan is to advance the interests of the Company by encouraging equity participation in the Company through the acquisition of Common Shares of the Company. It is the intention of the Company that this Plan will at all times be in compliance with TSX Venture Policies (or, if applicable, the NEX Policies) and any inconsistencies between this Plan and the TSX Venture Policies) (or, if applicable, the NEX Policies) will be resolved in favour of the latter.

Definitions

1.2 In this Plan

(a) **Affiliate** means a company that is a parent or subsidiary of the Company, or that is controlled by the same entity as the Company;

(b) **Associate** has the meaning set out in the Securities Act;

(c) **Black-out Period** means an interval of time during which the Company has determined that one or more Participants may not trade any securities of the Company because they may be in possession of undisclosed material information pertaining to the Company, or when in anticipation of the release of quarterly or annual financials, to avoid potential conflicts associated with a company's insider-trading policy or applicable securities legislation, (which, for greater certainty, does not include the period during which a cease trade order is in effect to which the Company or in respect of an Insider, that Insider, is subject);

(d) **Board** means the board of directors of the Company or any committee thereof duly empowered or authorized to grant Options under this Plan;

(e) **Change of Control** includes situations where after giving effect to the contemplated transaction and as a result of such transaction:

(i) anyone Person holds a sufficient number of voting shares of the Company or resulting company to affect materially the control of the Company or resulting company, or,

(ii) any combination of Persons, acting in concert by virtue of an agreement, arrangement, commitment or understanding, holds in total a sufficient number of voting shares of the Company or its successor to affect materially the control of the Company or its successor,

where such Person or combination of Persons did not previously hold a sufficient number of voting shares to affect materially control of the Company or its successor. In the absence of evidence to the contrary, any Person or combination of Persons acting in concert by virtue of an agreement, arrangement, commitment or understanding, holding more than 20% of the voting shares of the Company or resulting company is deemed to materially affect control of the Company or resulting company;

(f) **Common Shares** means common shares without par value in the capital of the Company providing such class is listed on the TSX Venture (or NEX, as the case may be);

(g) **Company** means the company named at the top hereof and includes, unless the context otherwise requires, all of its Affiliates and successors according to law;

(h) **Consultant** means an individual or Consultant Company, other than an Employee, Officer or Director that:

(a) provides on an ongoing bona fide basis, consulting, technical, managerial or like services to the Company or an Affiliate of the Company, other than services provided in relation to a Distribution;

(b) provides the services under a written contract between the Company or an Affiliate and the individual or the Consultant Company;

(c) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the business and affairs of the Company or an Affiliate of the Company; and

(d) has a relationship with the Company or an Affiliate of the Company that enables the individual or Consultant Company to be knowledgeable about the business and affairs of the Company;

(i) **Consultant Company** means for an individual consultant, a company or partnership of which the individual is an employee, shareholder or partner;

(j) **Directors** means the directors of the Company as may be elected from time to time;

(k) **Discounted Market Price** has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

(l) **Disinterested Shareholder Approval** means approval by a majority of the votes cast by all the Company's shareholders at a duly constituted shareholders' meeting, excluding votes attached to Common Shares beneficially owned by Insiders who are Service Providers or their Associates;

(m) **Distribution** has the meaning assigned by the Securities Act, and generally refers to a distribution of securities by the Company from treasury;

(n) **Effective Date** for an Option means the date of grant thereof by the Board;

(o) **Employee** means:

(i) an individual who is considered an employee under the Income Tax Act (i.e. for whom income tax, employment insurance and CPP deductions must be made at source);

(ii) an individual who works full-time for the Company or a subsidiary thereof providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source; or

(iii) an individual who works for the Company or its subsidiary on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions need not be made at source;

(p) **Exercise Price** means the amount payable per Common Share on the exercise of an Option, as determined in accordance with the terms hereof;

(q) **Expiry Date** means the day on which an Option lapses as specified in the Option Commitment therefor or in accordance with the terms of this Plan;

(r) **Insider** means an insider as defined in the TSX Venture Policies or as defined in securities legislation applicable to the Company;

(s) **Investor Relations Activities** has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

(t) **Management Company Employee** means an individual employed by a Person providing management services to the Company which are required for the ongoing successful operation of the business enterprise of the Company, but excluding a Person engaged in Investor Relations Activities;

(u) **NEX** means a separate board of the TSX Venture for companies previously listed on the TSX Venture or the Toronto Stock Exchange which have failed to maintain compliance with the ongoing financial listing standards of those markets;

(v) **NEX Issuer** means a company listed on the NEX;

(w) **NEX Policies** means the rules and policies of the NEX as amended from time to time;

(x) **Officer** means a Board appointed officer of the Company;

(y) **Option** means the right to purchase Common Shares granted hereunder to a Service Provider;

(z) **Option Commitment** means the notice of grant of an Option delivered by the Company hereunder to a Service Provider and substantially in the form of Schedule A attached hereto;

(aa) **Optioned Shares** means Common Shares that may be issued in the future to a Service Provider upon the exercise of an Option;

(bb) **Optionee** means the recipient of an Option hereunder;

(cc) **Outstanding Shares** means at the relevant time, the number of issued and outstanding Common Shares of the Company from time to time;

(dd) **Participant** means a Service Provider that becomes an Optionee;

(ee) **Person** includes a company, any unincorporated entity, or an individual;

(ff) **Plan** means this share option plan, the terms of which are set out herein or as may be amended;

(gg) **Plan Shares** means the total number of Common Shares which may be reserved for issuance as Optioned Shares under the Plan as provided in §2.2 of the Plan;

(hh) **Regulatory Approval** means the approval of the TSX Venture and any other securities regulatory authority that has lawful jurisdiction over the Plan and any Options issued hereunder;

(ii) **Securities Act** means the *Securities Act*, R.S.B.C. 1996, c. 418, or any successor legislation;

(jj) **Service Provider** means a Person who is a bona fide Director, Officer, Employee, Management Company Employee, Consultant or Company Consultant, and also includes a company, 100% of the share capital of which is beneficially owned by one or more Service Providers;

(kk) **Share Compensation Arrangement** means any Option under this Plan but also includes any other stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Common Shares to a Service Provider;

(ll) **Shareholder Approval** means approval by a majority of the votes cast by eligible shareholders of the Company at a duly constituted shareholders' meeting;

(mm) **Take Over Bid** means a take over bid as defined in subsection 92(1) of the *Securities Act* (British Columbia) or the analogous provisions of securities legislation applicable to the Company;

(nn) **TSX Venture** means the TSX Venture Exchange and any successor thereto; and

(oo) **TSX Venture Policies** means the rules and policies of the TSX Venture as amended from time to time.

Other Words and Phrases

1.3 Words and phrases used in this Plan but which are not defined in the Plan, but are defined in the TSX Venture Policies (and, if applicable, the NEX Policies), will have the meaning assigned to them in the TSX Venture Policies (and, if applicable, the NEX Policies).

Gender

1.4 Words importing the masculine gender include the feminine or neuter, words in the singular include the plural, words importing a corporate entity include individuals, and vice versa.

ARTICLE 2
SHARE OPTION PLAN

Establishment of Share Option Plan

2.1 The Plan is hereby established to recognize contributions made by Service Providers and to create an incentive for their continuing assistance to the Company and its Affiliates.

Maximum Plan Shares

2.2 The maximum aggregate number of Plan Shares that may be reserved for issuance under the Plan at any point in time is 8,785,000 Common Shares, less any Common Shares reserved for issuance under share options granted under Share Compensation Arrangements other than this Plan, unless this Plan is amended pursuant to the requirements of the TSX Venture Policies and, if applicable, the NEX Policies.

Eligibility

2.3 Options to purchase Common Shares may be granted hereunder to Service Providers from time to time by the Board. Service Providers that are not individuals will be required to undertake in writing not to effect or permit any transfer of ownership or option of any of its securities, or to issue more of its securities (so as to indirectly transfer the benefits of an Option), as long as such Option remains outstanding, unless the written permission of the TSX Venture and the Company is obtained.

Options Granted Under the Plan

2.4 All Options granted under the Plan will be evidenced by an Option Commitment in the form attached as Schedule A, showing the number of Optioned Shares, the term of the Option, a reference to vesting terms, if any, and the Exercise Price.

2.5 Subject to specific variations approved by the Board, all terms and conditions set out herein will be deemed to be incorporated into and form part of an Option Commitment made hereunder.

Limitations on Issue

2.6 Subject to §2.9, the following restrictions on issuances of Options are applicable under the Plan:

(a) no Service Provider can be granted an Option if that Option would result in the total number of Options, together with all other Share Compensation Arrangements granted to such Service Provider in the previous 12 months, exceeding 5% of the Outstanding Shares (unless the Company has obtained Disinterested Shareholder Approval to do so);

(b) no Options can be granted under the Plan if the Company is on notice from TSX Venture to transfer its listed shares to NEX;

(c) the aggregate number of Options granted to Service Providers conducting Investor Relations Activities in any 12-month period cannot exceed 2% of the Outstanding Shares, calculated at the time of grant, without the prior consent of the TSX Venture; and

(d) the aggregate number of Options granted to anyone Consultant in any 12 month period cannot exceed 2% of the Outstanding Shares, calculated at the time of grant, without the prior consent of the TSX Venture.

Options Not Exercised

2.7 In the event an Option granted under the Plan expires unexercised or is terminated by reason of dismissal of the Optionee for cause or is otherwise lawfully cancelled prior to exercise of the Option, the Optioned Shares that were issuable thereunder will be returned to the Plan and will be eligible for re-issuance.

Powers of the Board

2.8 The Board will be responsible for the general administration of the Plan and the proper execution of its provisions, the interpretation of the Plan and the determination of all questions arising hereunder. Without limiting the generality of the foregoing, the Board has the power to

(a) allot Common Shares for issuance in connection with the exercise of Options;

(b) grant Options hereunder;

(c) subject to any necessary Regulatory Approval, amend, suspend, terminate or discontinue the Plan, or revoke or alter any action taken in connection therewith, except that no general amendment or suspension of the Plan will, without the prior written consent of all Optionees, alter or impair any Option previously granted under the Plan unless the alteration or impairment occurred as a result of a change in the TSX Venture Policies or the Company's tier classification thereunder;

(d) delegate all or such portion of its powers hereunder as it may determine to one or more committees of the Board, either indefinitely or for such period of time as it may specify, and thereafter each such committee may exercise the powers and discharge the duties of the Board in respect of the Plan so delegated to the same extent as the Board is hereby authorized so to do; and

(e) amend this Plan (except for previously granted and outstanding Options) to reduce the benefits that may be granted to Service Providers (before a particular Option is granted) subject to the other terms hereof.

Amendments of the Plan by the Board of Directors

2.9 Subject to the requirements of the TSX Venture Policies and the prior receipt of any necessary Regulatory Approval, the Board may in its absolute discretion, amend or modify the Plan or any Option granted as follows:

(a) it may make amendments which are of a typographical, grammatical or clerical nature only;

(b) it may change the vesting provisions of an Option granted hereunder, subject to the prior written approval of the TSX Venture, if applicable;

(c) it may change the termination provision of an Option granted hereunder which does not entail an extension beyond the original Expiry Date of such Option;

(d) it may make amendments necessary as a result in changes in securities laws applicable to the Company;

(e) if the Company becomes listed or quoted on a stock exchange or stock market senior to the TSX Venture, it may make such amendments as may be required by the policies of such senior stock exchange or stock market; and

(f) it may make such amendments as reduce, and do not increase, the benefits of this Plan to Service Providers.

Amendments Requiring Disinterested Shareholder Approval

2.10 The Company will be required to obtain Disinterested Shareholder Approval prior to any of the following actions becoming effective:

(a) the Plan, together with all of the Company's other Share Compensation Arrangements, could result at any time in:

(i) the aggregate number of Common Shares reserved for issuance under Options granted to Insiders exceeding 10% of the Outstanding Shares;

(ii) the number of Optioned Shares issued to Insiders within a one-year period exceeding 10% of the Outstanding Shares; or,

(iii) the issuance to anyone Optionee, within a 12-month period, of a number of Common Shares exceeding 5% of Outstanding Shares; or

(b) any reduction in the Exercise Price of an Option previously granted to an Insider.

Options Granted Under the Company's Previous Share Option Plans

2.11 Any option granted pursuant to a stock option plan previously adopted by the Board which is outstanding at the time this Plan comes into effect shall be deemed to have been issued under this Plan and shall, as of the date this Plan comes into effect, be governed by the terms and conditions hereof.

ARTICLE 3
TERMS AND CONDITIONS OF OPTIONS

Exercise Price

3.1 The Exercise Price of an Option will be set by the Board at the time such Option is allocated under the Plan, and cannot be less than the Discounted Market Price.

Term of Option

3.2 An Option can be exercisable for a maximum of 10 years from the Effective Date.

Option Amendment

3.3 Subject to §2.9(b), the Exercise Price of an Option may be amended only if at least six (6) months have elapsed since the later of the date of commencement of the term of the Option, the date the Common Shares commenced trading on the TSX Venture, and the date of the last amendment of the Exercise Price.

3.4 An Option must be outstanding for at least one year before the Company may extend its term, subject to the limits contained in §3.2.

3.5 Any proposed amendment to the terms of an Option must be approved by the TSX Venture prior to the exercise of such Option.

Vesting of Options

3.6 Subject to §3.7, vesting of Options shall be at the discretion of the Board and, with respect to any particular Options granted under the Plan, in the absence of a vesting schedule being specified at the time of grant, all such Options shall vest immediately. Where applicable, the vesting of Options will be generally subject to:

(a) the Service Provider remaining employed by or continuing to provide services to the Company or any of its Affiliates as well as, at the discretion of the Board, achieving certain milestones which may be defined by the Board from time to time or receiving a satisfactory performance review by the Company or any of its Affiliates during the vesting period; or

(b) the Service Provider remaining as a Director of the Company or any of its Affiliates during the vesting period.

Vesting of Options Granted to Consultants Conducting Investor Relations Activities

3.7 Notwithstanding §3.6, Options granted to Consultants conducting Investor Relations Activities will vest:

(a) 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 previous vesting; or

(b) such longer vesting period as the Board may determine.

Effect of Take Over Bid

3.8 If a Take Over Bid is made to the shareholders generally then the Company shall immediately upon receipt of notice of the Take Over Bid, notify each Optionee currently holding an Option of the Take Over Bid, with full particulars thereof whereupon such Option may, notwithstanding Sections 3.6 and 3.7 or any vesting requirements set out in the Option Commitment, be immediately exercised in whole or in part by the Optionee.

Extension of Options Expiring During Blackout Period

3.9 Should the Expiry Date for an Option fall within a Blackout Period, or within nine (9) Business Days following the expiration of a Blackout Period, such Expiry Date shall, subject to approval of the TSX Venture (or the NEX, as the case may be), be automatically extended without any further act or formality to that day which is the tenth (10th) Business Day after the end of the Blackout Period, such tenth Business Day to be considered the Expiry Date for such Option for all purposes under the Plan. Notwithstanding Section 2.8, the tenth Business Day period referred to in this Section 4.3 may not be extended by the Board, subject to approval of the TSX Venture (or the NEX, as the case may be).

Optionee Ceasing to be Director, Employee or Service Provider

3.10 Options may be exercised after the Service Provider has left his employ/office or has been advised by the Company that his services are no longer required or his service contract has expired until the expiration of the term applicable to such Option, except as follows:

(a) in the case of the death of an Optionee, any vested Option held by him at the date of death will become exercisable by the Optionee's lawful personal representatives, heirs or executors until the earlier of one year after the date of death of such Optionee and the date of expiration of the term otherwise applicable to such Option;

(b) unless this provision is waived by the Board, an Option granted to any Service Provider will expire within one year (or such other time, not to exceed one year, as shall be determined by the Board as at the date of grant or agreed to by the Board and the Optionee at any time prior to expiry of the Option), after the date the Optionee ceases to be employed by or provide services to the Company, but only to the extent that such Option has vested at the date the Optionee ceased to be so employed by or to provide services to the Company; and

(c) in the case of an Optionee being dismissed from employment or service for cause, such Optionee's Options, whether or not vested at the date of dismissal will immediately terminate without right to exercise same.

Non Assignable

3.11 Subject to §3.10, all Options will be exercisable only by the Optionee to whom they are granted and will not be assignable or transferable.

Adjustment of the Number of Optioned Shares

3.12 The number of Common Shares subject to an Option will be subject to adjustment in the events and in the manner following:

(a) in the event of a subdivision of Common Shares as constituted on the date hereof, at any time while an Option is in effect, into a greater number of Common Shares, the Company will thereafter deliver at the time of purchase of Optioned Shares hereunder, in addition to the number of Optioned Shares in respect of which the right to purchase is then being exercised, such additional number of Common Shares as result from the subdivision without an Optionee making any additional payment or giving any other consideration therefor;

(b) in the event of a consolidation of the Common Shares as constituted on the date hereof, at any time while an Option is in effect, into a lesser number of Common Shares, the Company will thereafter deliver and an Optionee will accept, at the time of purchase of Optioned Shares hereunder, in lieu of the number of Optioned Shares in respect of which the right to purchase is then being exercised, the lesser number of Common Shares as result from the consolidation;

(c) in the event of any change of the Common Shares as constituted on the date hereof, at any time while an Option is in effect, the Company will thereafter deliver at the time of purchase of Optioned Shares hereunder the number of shares of the appropriate class resulting from the said change as an Optionee would have been entitled to receive in respect of the number of Common Shares so purchased had the right to purchase been exercised before such change;

(d) in the event of a capital reorganization, reclassification or change of outstanding equity shares (other than a change in the par value thereof) of the Company, a consolidation, merger or amalgamation of the Company with or into any other company or a sale of the property of the Company as or substantially as an entirety at any time while an Option is in effect, an Optionee will thereafter have the right to purchase and receive, in lieu of the Optioned Shares immediately theretofore purchasable and receivable upon the exercise of the Option, the kind and amount of shares and other securities and property receivable upon such capital reorganization, reclassification, change, consolidation, merger, amalgamation or sale which the holder of a number of Common Shares equal to the number of Optioned Shares immediately theretofore purchasable and receivable upon the exercise of the Option would have received as a result thereof. The subdivision or consolidation of Common Shares at any time outstanding (whether with or without par value) will not be deemed to be a capital reorganization or a reclassification of the capital of the Company for the purposes of this §3.12;

(e) an adjustment will take effect at the time of the event giving rise to the adjustment, and the adjustments provided for in this section are cumulative;

(f)

the Company will not be required to issue fractional shares in satisfaction of its obligations hereunder. Any fractional interest in a Common Share that would, except for the provisions of this §3.l2, be deliverable upon the exercise of an Option will be cancelled and not be deliverable by the Company; and

(g) if any questions arise at any time with respect to the Exercise Price or number of Optioned Shares deliverable upon exercise of an Option in any of the events set out in this §3.12, such questions will be conclusively determined by the Company's auditors, or, if they decline to so act, any other firm of Chartered Accountants, in Vancouver, British Columbia (or in the city of the Company's principal executive office) that the Company may designate and who will be granted access to all appropriate records, and such determination will be binding upon the Company and all Optionees.

ARTICLE 4
COMMITMENT AND EXERCISE PROCEDURES

Option Commitment

4.1 Upon grant of an Option hereunder, an authorized officer of the Company will deliver to the Optionee an Option Commitment detailing the terms of such Options and upon such delivery the Optionee will be subject to the Plan and have the right to purchase the Optioned Shares at the Exercise Price set out therein subject to the terms and conditions hereof.

Manner of Exercise

4.2 An Optionee who wishes to exercise his Option may do so by delivering

(a) a written notice to the Company specifying the number of Optioned Shares being acquired pursuant to the Option; and

(b) a certified cheque, wire transfer or bank draft payable to the Company for the aggregate Exercise Price for the Optioned Shares being acquired.

Delivery of Certificate and Hold Periods

4.3 As soon as practicable after receipt of the notice of exercise described in §4.2 and payment in full for the Optioned Shares being acquired, the Company will direct its transfer agent to issue a certificate to the Optionee for the appropriate number of Optioned Shares. Such certificate issued will bear a legend stipulating any resale restrictions required under applicable securities laws. Further, if the Exercise Price is set below the then current market price of the Common Shares on the TSX Venture, the certificate will also bear a legend stipulating that the Optioned Shares are subject to a four-month TSX Venture hold period commencing the date of the Option Commitment.

ARTICLES
GENERAL

Employment and Services

5.1 Nothing contained in the Plan will confer upon or imply in favour of any Optionee any right with respect to office, employment or provision of services with the Company, or interfere in any way with the right of the Company to lawfully terminate the Optionee's office, employment or service at any time pursuant to the arrangements pertaining to same. Participation in the Plan by an Optionee is voluntary.

No Representation or Warranty

5.2 The Company makes no representation or warranty as to the future market value of Common Shares issued in accordance with the provisions of the Plan or to the effect of the *Income Tax Act* (Canada) or any other taxing statute governing the Options or the Common Shares issuable thereunder or the tax consequences to a Service Provider. Compliance with applicable securities laws as to the disclosure and resale obligations of each Participant is the responsibility of each Participant and not the Company.

Withholding Tax

5.3 If the Company is required under the Income Tax Act (Canada) or any other applicable law to make source deductions in respect of employee stock option benefits and to remit to the applicable governmental authority an amount on account of tax on the value of the taxable benefit associated with the issuance of Common Shares on exercise of Options, then the Optionee shall:

(a) pay to the Company, in addition to the exercise price for the Options, sufficient cash as is reasonably determined by the Company to be the amount necessary to permit the required tax remittance;

(b) authorize the Company, on behalf of the Optionee, to sell in the market on such terms and at such time or times as the Company determines a portion of the Common Shares being issued upon exercise of the Options to realize cash proceeds to be used to satisfy the required tax remittance; or

(c) make other arrangements acceptable to the Company to fund the required tax remittance.

Interpretation

5.4 The Plan will be governed and construed in accordance with the laws of the Province of British Columbia.

Effective Date of Plan

5.5 The Plan will become effective from and after completion of the Corporation's Qualifying Transaction in accordance with TSX Venture Policies, and will remain effective provided that the Plan, or any amended version thereof receives Shareholder Approval at each annual general meeting of the holders of Common Shares of the Company subsequent to completion of the Corporation's Qualifying Transaction.

Amendment of the Plan

5.6 The Board reserves the right, in its absolute discretion, to at any time amend, modify or terminate the Plan with respect to all Common Shares in respect of Options which have not yet been granted hereunder. Any amendment to any provision of the Plan will be subject to any necessary Regulatory Approvals unless the effect of such amendment is intended to reduce (but not to increase) the benefits of this Plan to Service Providers.

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SCHEDULE A
SHARE OPTION PLAN
OPTION COMMITMENT

Notice is hereby given that, effective this day of_____ (the "Effective Date") Stellar Biotechnologies, Inc. (the "Company") has granted to _____ (the "Optionee"), an Option to acquire _____ Common Shares ("Optioned Shares") up to 5:00 p.m. Vancouver Time on the day of (the "Expiry Date") at an Exercise Price of Cdn $ ____ per share.

At the date of grant of the Option, the Company is classified as [a Tier __ Issuer under TSX Venture Policies] [a NEX issuer].

[If applicable] Optioned Shares will vest and may be exercised as follows:

[INSERT VESTING SCHEDULE] / [INSERT VESTING TERMS]

[OR]

Optioned Shares are to vest immediately.

The Option shall expire ___ days after the Optionee ceases to be employed by or provide services to the Company.

The grant of the Option evidenced hereby is made subject to the terms and conditions of the Plan, which are hereby incorporated herein and form part hereof.

To exercise your Option, deliver a written notice specifying the number of Optioned Shares you wish to acquire, together with a certified cheque, wire transfer or bank draft payable to the Company for the aggregate Exercise Price. A certificate for the Optioned Shares so acquired will be issued by the transfer agent as soon as practicable thereafter and may bear a minimum four month non-transferability legend from the date of this Option Commitment, the text of which is as follows. [An Issuer may grant stock options without a hold period, provided the exercise price of the options is set at or above the market price of the Company's shares rather than below.]

> "WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECA TED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL 12:00 A.M. (MIDNIGHT) ON [insert date 4 months from the date of grant]".

The Company and the Optionee represent that the Optionee under the terms and conditions of the Plan is a bona fide Service Provider (as defined in the Plan), entitled to receive Options under TSX Venture Policies.

The Optionee also acknowledges and consents to the collection and use of Personal Information (as defined in the Policies of the TSX Venture Exchange) by both the Company and the TSX Venture (or the NEX, as the case may be) as more particularly set out in the Acknowledgement - Personal Information in use by the TSX Venture (or the NEX, as the case may be) on the date of this Share Option Plan.

STELLAR BIOTECHNOLOGIES, INC.

Per:

Authorized Signatory

(SIGNATURE OF OPTIONEE)

STELLAR BIOTECHNOLOGES INC.

SHAREHOLDER RIGHTS PLAN AGREEMENT

DATED AS OF DECEMBER 13, 2011

BETWEEN

STELLAR BIOTECHNOLOGIES INC.

AND

COMPUTERSHARE INVESTOR SERVICES INC.

AS RIGHTS AGENT

Effective: December 13, 2011

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STELLAR BIOTECHNOLOGIES INC.

SHAREHOLDER RIGHTS PLAN AGREEMENT

THIS AGREEMENT is dated as of December 13, 2011.

BETWEEN:

STELLAR BIOTECHNOLOGIES INC., a corporation incorporated under the laws of British Columbia

(the "**Company**")

AND:

COMPUTERSHARE INVESTOR SERVICES INC., a corporation incorporated under the laws of Canada

(the "**Rights Agent**")

WHEREAS:

(A) The Board of Directors of the Company, in the exercise of its fiduciary duties to the Company, has determined that it is advisable and in the best interests of the Company to adopt a shareholder rights plan (the "**Agreement**") to

(i) ensure, to the extent possible, that all holders of the Common Shares (as hereinafter defined) of the Company and the Board of Directors have adequate time to consider and evaluate any unsolicited bid for the Common Shares,

(ii) provide the Board of Directors with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited bid,

(iii) encourage the fair treatment of the Company's securityholders in connection with any Takeover Bid (as hereinafter defined) made for the Common Shares, and

(iv) generally to assist the Board of Directors in enhancing shareholder value;

(B) The Board of Directors has determined that the Agreement should take effect immediately, but that its ongoing effectiveness should be subject to the approval of the shareholders of the Company;

(C) In order to implement the adoption of a shareholder rights plan as established by this Agreement, the Company has:

(i) authorized the issuance, effective at the close of business (Vancouver time) on the Effective Date, of one Right in respect of each Common Share outstanding at the close of business (Vancouver time) on the Effective Date (the "**Record Time**"); and

(ii) authorized the issuance of one Right in respect of each Common Share of the Company issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time;

(D) Each Right entitles the holder, after the Separation Time, to purchase securities of the Company pursuant to the terms and subject to the conditions set forth herein;

(E) The Company desires to appoint the Rights Agent to act on behalf of the Company and the holders of Rights, and the Rights Agent is willing to so act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates, the exercise of Rights and other matters referred to herein;

NOW THEREFORE, in consideration of the premises and the respective covenants and agreements set forth herein, and subject to such covenants and agreements, the parties hereby agree as follows:

ARTICLE I

INTERPRETATION

Certain Definitions

1.1 For purposes of this Agreement, the following terms have the meanings indicated:

(a) "**Acquiring Person**" means any Person who is the Beneficial owner of 20% or more of the outstanding Voting Shares of any class; but does not include:

(i) the Company or any Subsidiary of the Company;

(ii) any Person who becomes the Beneficial owner of 20% or more of the outstanding Voting Shares of any class as a result of one or any combination of (A) a Voting Share Reduction, (B) Permitted Bid Acquisitions, (C) Exempt Acquisitions, or (D) Pro Rata Acquisitions; provided, however, that if a Person becomes the Beneficial owner of 20% or more of the outstanding Voting Shares of any class as a result of one or any combination of the operation of (A), (B), (C) or (D) above and such Person thereafter becomes the Beneficial owner of an additional 1% of the Voting Shares of that particular class other than as a result of one or any combination of the operation of (A), (B), (C) or (D) above, then as of the date such Person becomes the Beneficial owner of such additional Voting Shares of that particular class, such Person shall become an "Acquiring Person";

(iii) for a period of 10 days after the Disqualification Date, any Person who becomes the Beneficial owner of 20% or more of the outstanding Voting Shares as a result of such Person becoming disqualified from relying on §1.1(f)(iii)(B) solely because such Person or the Beneficial owner of such Voting

Shares has participated in, proposes or intends to make or is participating in a Take Over Bid or any plan or proposal relating thereto or resulting therefrom, either alone or by acting jointly or in concert with any other Person. For the purposes of this definition, "**Disqualification Date**" means the first date of a public announcement of facts indicating that any Person has participated in, has made, proposes or intends to make or is participating in a Take Over Bid;

(iv) an underwriter or member of a banking or selling group that becomes the Beneficial owner of 20% or more of the Voting Shares in connection with a *bona fide* distribution to the public of securities of the Company; or

(v) a Person (a "**Grandfathered Person**") who is the Beneficial owner of more than 20% of the outstanding Voting Shares determined as at the Record Time, provided, however, that this exception shall not be, and shall cease to be, applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after the Record Time, become the Beneficial owner of any additional Voting Shares that increases its Beneficial ownership of Voting Shares by more than 1% of the number of Voting Shares outstanding as at the Record Time, other than through one or any combination of a Permitted Bid Acquisition, an Exempt Acquisition, a Voting Share Reduction, or a Pro Rata Acquisition; and provided, further, that a Person shall cease to be a Grandfathered Person in the event that such Person ceases to Beneficially own 20% or more of the then outstanding Voting Shares at any time after the Record Time;

(b) "**Affiliate**", when used to indicate a relationship with a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such a specified Person;

(c) "**Agreement**" means this shareholder rights plan agreement dated as of December 13, 2011 between the Company and the Rights Agent, as amended or supplemented from time to time; "hereof", "herein", "hereto" and similar expressions mean and refer to this Agreement as a whole and not to any particular part of this Agreement;

(d) "**Annual cash dividend**" means cash dividends paid in any fiscal year of the Company, to the extent that such cash dividends do not exceed in the aggregate, the greatest of:

(i) 200% of the aggregate amount of cash dividends declared payable by the Company on its Common Shares in its immediately preceding fiscal year;

(ii) 300% of the arithmetic mean of the aggregate amounts of the annual cash dividends declared payable by the Company on its Common Shares in its three immediately preceding fiscal years;

(iii) 100% of the aggregate consolidated net income of the Company, before extraordinary items, for its immediately preceding fiscal year;

(e) "**Associate**" means, when used to indicate a relationship with a specified Person, a spouse of that Person, any Person of the same or opposite sex with whom that Person is living in a conjugal relationship outside marriage, a child of that Person, or a relative of that Person who has the same residence as that Person;

(f) A Person shall be deemed the "**Beneficial owner**" of, and to have "**Beneficial ownership**" of, and to "**Beneficially own**",

(i) any securities of which such Person or any of such Person's Affiliates or Associates is the owner at law or in equity;

(ii) any securities of which such Person or any of such Person's Affiliates or Associates has the right to become the owner at law or in equity (whether such right is exercisable immediately or within a period of 60 days thereafter and whether or not on condition or the happening of any contingency or otherwise) pursuant to any agreement, arrangement, pledge or understanding, whether or not in writing (other than customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a public offering of securities and other than pledges of securities in the ordinary course of business), or upon the exercise of any conversion right, exchange right, share purchase right (other than the Rights), warrant or option, or otherwise; and

(iii) any securities which are Beneficially owned within the meaning of §1.1(f)(i) or (ii) by any other Person with whom such Person is acting jointly or in concert,

provided, however, that a Person shall not be deemed the "Beneficial owner" of, or to have "Beneficial ownership" of, or to "Beneficially own", any security:

(A) solely because such security has been deposited or tendered pursuant to any Take Over Bid made by such Person, made by any of such Person's Affiliates or Associates or made by any other Person referred to in §1.1(f)(iii) until such deposited or tendered security has been taken up or paid for, whichever shall first occur;

(B) solely because such Person, any of such Person's Affiliates or Associates or any other Person referred to in §1.1(f)(iii), holds or exercises dispositive power over such security in circumstances where, (1) the ordinary business of any such Person (the "**Investment Manager**") includes the management of investment funds for others (which others, for greater certainty, may include or be limited to one or more employee benefit plans or pension plans) and such dispositive power over such security is held by the Investment Manager in the ordinary course of such business in the performance of such Investment Manager's duties for the account of any other Person (a "**Client**"); or (2) such Person ("**Computershare**") is licensed to carry on the business of a trust company under applicable laws and, as such, acts as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent Persons and holds such dispositive power over such security in the ordinary course of such duties for the estate of any such deceased or incompetent Person (each an "**Estate Account**") or for such other accounts (each an "**Other Account**"); or (3) such Person is established by statute for purposes that include, and the ordinary business or activity of such Person (the "**Statutory Body**") includes, the management of investment funds for employee benefit plans, pension plans, insurance plans or various public bodies; or (4) such Person (the "**Administrator**") is the administrator or trustee of one or more pension funds or plans (a "**Plan**") registered under the laws of Canada or any Province thereof or the laws of the United States of America or any state thereof or is a Plan, and holds such securities for the purposes of its activities as an Administrator or as a Plan; or (5) such Person is a securities depositary (a "**Depositary**"); or (6) such Person is a Crown agent or agency;

provided, in any of the above cases, that the Investment Manager, Computershare, the Statutory Body, the Administrator, the Plan, the Depositary or the Crown agent or agency, as the case may be, is not then making a Take Over Bid or has not then announced an intention to make a Take Over Bid whether acting alone or jointly or in concert with any other Person, other than an Offer to Acquire Voting Shares or other securities by means of a distribution by the Company or by means of ordinary market transactions (including pre-arranged trades entered into in the ordinary course of business of such Person) executed through the facilities of a stock exchange or organized over-the-counter market;

(C) solely because such Person is, (1) a Client of the same Investment Manager as another Person on whose account the Investment Manager holds or exercises dispositive power over such security, or (2) an Estate Account or an Other Account of Computershare as another Person on whose account Computershare holds or exercises dispositive power over such security, or (3) a Plan with the same Administrator as another Plan;

(D) where such Person is, (1) a Client of an Investment Manager and such security is owned at law or in equity by the Investment Manager, or (2) an Estate Account or an Other Account of Computershare and such security is owned at law or in equity by Computershare, or (3) a Plan and such security is owned at law or in equity by the Administrator of the Plan; or

(E) because such security has been, or has been agreed to be, deposited or tendered pursuant to a Lock-up Agreement, or is otherwise deposited or tendered, to any Take Over Bid made by such Person, made by any of such Person's Affiliates or Associates or made by any other Person acting jointly or in concert with such Person until such deposited or tendered security has been taken up or paid for, whichever shall first occur;

(g) "**Board of Directors**" means the board of directors of the Company or any duly constituted and empowered committee thereof;

(h) "**Business Corporations Act**" means the *Business Corporations Act* (British Columbia), S.B.C. 2002, c. 57, as amended, and the regulations made thereunder and any comparable or successor laws or regulations thereto;

(i) "**Business Day**" means any day other than a Saturday, Sunday or a day on which banking institutions in Vancouver, British Columbia are authorized or obligated by law to close;

(j) "**Canadian Dollar Equivalent**" of any amount which is expressed in United States Dollars means, on any date, the Canadian dollar equivalent of any such amount determined by multiplying such amount by the U.S. - Canadian Exchange Rate in effect on such date;

(k) "**Canadian - U.S. Exchange Rate**" means, on any date, the inverse of the U.S. - Canadian Exchange Rate in effect on such date;

(l) "**Close of business**" on any given date means the time on such date (or, if such date is not a Business Day, the time on the next succeeding Business Day) at which the principal transfer office in Vancouver, British Columbia of the transfer agent for the Common Shares of the Company (or, after the Separation Time, the principal transfer office in Vancouver, British Columbia of the Rights Agent) is closed to the public;

(m) "**Common Shares**" means the common shares without par value in the capital of the Company;

(n) "**Competing Permitted Bid**" means a Take Over Bid which also complies with the following additional provisions:

(i) the Take Over Bid is made after a Permitted Bid or another Competing Permitted Bid has been made and prior to the expiry, termination or withdrawal of such Permitted Bid or Competing Permitted Bid;

(ii) the Take Over Bid complies with all of the provisions of a Permitted Bid other than the condition set forth in §(iii) of the definition of a Permitted Bid; and

(iii) no Voting Shares are taken up or paid for pursuant to the Take Over Bid prior to the close of business on the date that is no earlier than the later of (A) 35 days after the date of the Take Over Bid constituting the Competing Permitted Bid; and (B) 60 days following the date on which the earliest Permitted Bid or Competing Permitted Bid which preceded the Competing Permitting Bid was made;

(o) "**Controlled**" means a corporation shall be deemed to be "controlled" by another Person or two or more Persons if:

(i) securities entitled to vote in the election of directors carrying more than 50% of the votes for the election of directors are held, directly or indirectly, by or on behalf of the other Person or Persons; and

(ii) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such corporation;

(p) "**Co-Rights Agents**" has the meaning assigned in §4.1(a);

(q) "**Dividend Reinvestment Acquisition**" means an acquisition of Voting Shares of any class pursuant to a Dividend Reinvestment Plan;

(r) "**Dividend Reinvestment Plan**" means a regular dividend reinvestment or other plan of the Company made available by the Company to holders of its securities and to holders of securities of a Subsidiary of the Company, where such plan permits the holder to direct that some or all of:

(i) dividends paid in respect of shares of any class of the Company or a Subsidiary;

(ii) proceeds of redemption of shares of the Company or a Subsidiary;

(iii) interest paid on evidences of indebtedness of the Company or a Subsidiary; or

(iv) optional cash payments;

are applied to the purchase from the Company of Common Shares;

(s) "**Effective Date**" means December 13, 2011;

(t) "**Election to Exercise**" has the meaning assigned in 2.2(d)(ii);

(u) "**Exempt Acquisition**" means a share acquisition in respect of which the Board of Directors has waived the application of §3.1 pursuant to the provisions of 5.1 (a) or (b);

(v) "**Exercise Price**" shall mean the price at which a holder may purchase the securities issuable upon exercise of one whole Right in accordance with the terms hereof and, until adjustment thereof in accordance with the terms hereof, the Exercise Price shall be:

(i) an amount equal to three times the Market Price, from time to time, per Common Share; and

(ii) from and after the Separation Time, an amount equal to three times the Market Price, as at the Separation Time, per Common Share.

(w) "**Expansion Factor**" has the meaning assigned in §2.3(a)(v);

(x) "**Expiration Time**" means the earlier of: (i) the Termination Time, and (ii) the close of business on the day immediately following the date of the Company's annual meeting of shareholders to be held in 2014;

(y) "**Flip-in Event**" means a transaction whereby or pursuant to which any Person becomes an Acquiring Person;

(z) "**holder**" has the meaning assigned in §2.8;

(aa) "**Independent Shareholders**" means holders of Voting Shares, other than (a) any Acquiring Person, (b) any Offeror (other than any Person who pursuant to §1.1(f) is not deemed to Beneficially own the Voting Shares held by such Person), (c) any Affiliates or Associates of any Acquiring Person or Offeror, (d) any Person acting jointly or in concert with any Acquiring Person or Offeror, and (e) any employee benefit plan, stock purchase plan, deferred profit sharing plan and any similar plan or trust for the benefit of employees of the Company or a Subsidiary of the Company, unless the beneficiaries of the plan or trust direct the manner in which the Voting Shares are to be voted or direct whether the Voting Shares are to be tendered to a Take Over Bid;

(bb) "**Lock-up Agreement**" means an agreement (the terms of which are publicly disclosed and a copy of which is made available to the public (including the Company) not later than the date on which the Lock-up Bid (defined below) is publicly announced or if the Lock-up Bid has been made prior to the date of the Lock-up Agreement not later than the date of the Lock-up Agreement) between an Offeror, any of its Affiliates or Associates or any other Person acting jointly or in concert with the Offeror and a Person (the "**Locked-up Person**") who is not an Affiliate or Associate of the Offeror or a Person acting jointly or in concert with the Offeror whereby the Locked-up Person agrees to deposit or tender the Voting Shares held by the Locked-up Person to the Offeror's Take Over Bid or to any Take Over Bid made by any of the Offeror's Affiliates or Associates or made by any other Person acting jointly or in concert with the Offeror (the "**Lock-up Bid**'), where the agreement:

(i) (A) subject to §1.1(bb)(iv), permits the Locked-up Person to withdraw Voting Shares from, or to terminate its obligation to deposit or tender Voting Shares to or not to withdraw Voting Shares from, the Lock-up Bid in order to tender or deposit the Voting Shares to another Take Over Bid or to support another transaction that in either case will provide greater value to the Locked-up Person than the Lock-up Bid, and (B) does not provide or require that such greater value be more than 7% higher than the offering price or value contained in or proposed to be contained in the Lock-up Bid to which the Locked-up Person has agreed to deposit or tender Voting Shares pursuant to the Lock-up Agreement;

(ii) permits the Locked-up Person to withdraw Voting Shares in order to tender or deposit the Voting Shares to another Take Over Bid (or terminate the agreement in order to support another transaction) that represents an offering price for each Voting Share that exceeds, or provides a value for each Voting Share that is greater than, the offering price or value represented by or proposed to be represented by, the Lock-up Bid by as much or more than a specified amount (the "**Specified Amount**") and the Specified Amount is not greater than 7% of the offering price or value that is represented by the Lock-up Bid;

(iii) does not provide for payment by a Locked-up Person of any "break-up" fees "top-up" fees, penalties, expenses or other amounts that exceed in the aggregate the greater of (A) the cash equivalent of 2.5% of the price or value payable under the Lock-up Bid to the Locked-up Person, and (B) 50% of the amount by which the price or value payable under another Take Over Bid or transaction to a Locked-up Person exceeds the price or value of the consideration that such Locked-up Person would have received under the Lock-up Bid, in the event that the Locked-up Person fails to deposit or tender Voting Shares pursuant thereto or withdraws Voting Shares previously deposited or tendered thereto in order to accept another Take Over Bid or to support another transaction; and

(iv) may include a right to match or require a period of delay to give the Person who made the Lock-up Bid an opportunity to match a higher price or value contained in another Take Over Bid or transaction or other similar limitation on a Locked-up Person's right to withdraw Voting Shares from the agreement; provided, however, that the limitation does not preclude the Locked-up Person from withdrawing Voting Shares from the Lock-up Bid in order to tender or deposit the Voting Shares to another Take Over Bid or to support another transaction that in either case will provide greater value to the Locked-up Person than the Lock-up Bid or which, in the circumstances described in §1.1(bb)(ii), would result in all of the Locked-up Person's Voting Shares being taken up or otherwise acquired and paid for.

(cc) "**Market Price**" per share of any securities on any date of determination means the average of the daily closing prices per share of such securities (determined as described below) on each of the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, however, that if an event of a type analogous to any of the events described in §2.3 causes closing prices used to determine the Market Price on any Trading Days not to be fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day, each such closing price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in §2.3 in order to make it fully comparable with the closing price on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day. The closing price per share of any securities on any date shall be:

(i) the closing board lot sale price or, if such price is not available, the average of the closing bid and asked prices, for each of such securities as reported by the principal Canadian securities exchange (as determined by the Board of Directors) on which such securities are listed or admitted to trading;

(ii) if for any reason neither of such prices is available on such day or the securities are not listed or admitted to trading on a Canadian securities exchange, the closing board lot sale price or, if such price is not available, the average of the closing bid and asked prices, for each share as reported by the principal national United States securities exchange (as determined by the Board of Directors) on which such securities are listed or admitted for trading;

(iii) if for any reason none of such prices is available on such date or the securities are not listed or admitted to trading on a Canadian stock exchange or a national United States securities exchange, the last sale price, or in case no sale takes place on such date, the average of the high bid and low asked prices for each of such securities in the over-the-counter market, as quoted by any reporting system then in use (as determined by the Board of Directors); or

(iv) if for any reason none of such prices is available on such day or the securities are not listed or admitted to trading on a Canadian stock exchange or a United States securities exchange or quoted by any such reporting system, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the securities selected by the Board of Directors;

provided, however, that if on any such date none of such prices is available, the closing price per share of such securities on such date shall mean the fair value per share of the securities on such date as determined in good faith by the Board of Directors, after consultation with a nationally or internationally recognized investment dealer or investment banker. The Market Price shall be expressed in Canadian dollars and, if initially determined in respect of any day forming part of the 20 consecutive Trading Day period in question in United States dollars, such amount shall be translated into Canadian dollars on such date at the Canadian Dollar Equivalent thereof.

(dd) "**Nominee**" has the meaning assigned in §2.2(c);

(ee) "**Offer to Acquire**" includes:

(i) an offer to purchase or a solicitation of an offer to sell Voting Shares of any class or classes, and

(ii) an acceptance of an offer to sell Voting Shares of any class or classes, whether or not such offer to sell has been solicited,

or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an Offer to Acquire to the Person that made the offer to sell;

(ff) "**Offeror**" means a Person who has announced, and has not withdrawn, an intention to make or who has made, and has not withdrawn, a Take Over Bid other than a Person who has completed a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition;

(gg) "**Offeror's Securities**" means Voting Shares Beneficially owned by an Offeror and by any Person acting jointly or in concert with such Person on the date of the Offer to Acquire;

(hh) "**Permitted Bid**" means a Take Over Bid made by an Offeror that is made by means of a Take Over Bid circular and which also complies with the following additional provisions:

(i) the Take Over Bid is made to all holders of Voting Shares on the books of the Company, other than the Offeror;

(ii) no Voting Shares are taken up or paid for pursuant to the Take Over Bid unless more than 50% of the Voting Shares held by Independent Shareholders: (x) shall have been deposited or tendered pursuant to the Take Over Bid and not withdrawn; and (y) have previously been or are taken up at the same time;

(iii) no Voting Shares are taken up or paid for pursuant to the Take Over Bid prior to the close of business on the date that is no earlier than the later of: (A) 35 days after the date of the Take Over Bid; and (B) 60 days following the date of the Take Over Bid;

(iv) Voting Shares may be deposited pursuant to such Take Over Bid at any time during the period of time between the date of the Take Over Bid and the date on which Voting Shares may be taken up and paid for and any Voting Shares deposited pursuant to the Take Over Bid may be withdrawn until taken up and paid for; and

(v) if on the date on which Voting Shares may be taken up and paid for under the Take Over Bid, more than 50% of the Voting Shares held by Independent Shareholders have been deposited or tendered pursuant to the Take Over Bid and not withdrawn, the Offeror makes a public announcement of that fact and the Take Over Bid is extended to remain open for deposits and tenders of Voting Shares for not less than ten Business Days from the date of such public announcement.

For purposes of this Agreement: (A) should a Take Over Bid which qualified as a Permitted Bid cease to be a Permitted Bid because it ceases to meet any or all of the requirements mentioned above prior to the time it expires (after giving effect to any extension) or is withdrawn, any acquisition of Voting Shares made pursuant to such Take Over Bid shall not be a Permitted Bid Acquisition; and (B) the term "Permitted Bid" shall include a Competing Permitted Bid;

(ii) "**Permitted Bid Acquisition**" means an acquisition of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid;

(jj)

"**Person**" includes an individual, firm, body corporate, trust, partnership, syndicate or other form of unincorporated association, a government and its agencies or instrumentalities, any entity or group whether or not having legal personality and any of the foregoing acting in any derivative, representative or fiduciary capacity;

(kk) "**Pro Rata Acquisition**" means an acquisition of Voting Shares; (i) as a result of a stock dividend, stock split or other event pursuant to which a Person receives or acquires Voting Shares on the same pro rata basis as all other holders of Voting Shares; or (ii) pursuant to a Dividend Reinvestment Plan; or (iii) pursuant to the receipt and/or exercise of rights issued by the Company to all the holders of Voting Shares of the Company to subscribe for or purchase Voting Shares of the Company, provided that such rights are acquired directly from the Company as part of a bona fide rights offering and not from any other Person and provided further that the Person does not thereby acquire a greater percentage of such Voting Shares, or securities convertible or exchangeable for Voting Shares, than the Person's percentage of Voting Shares Beneficially owned immediately prior to such acquisition; or (iv) pursuant to a distribution by the Company of Voting Shares, or securities convertible into or exchangeable for Voting Shares (and the conversion or exchange of such convertible or exchangeable securities) made pursuant to a prospectus or by way of private placement by the Company, provided that the Person does not thereby acquire a greater percentage of such Voting Shares, or securities convertible or exchangeable for Voting Shares, than the Person's percentage of Voting Shares Beneficially owned immediately prior to such acquisition;

(ll) "**Record Time**" has the meaning assigned in recital C to this Agreement;

(mm) "**Redemption Price**" has the meaning assigned in §5.1(c) of this Agreement;

(nn) "**Right**" means a right to purchase a Common Share of the Company, upon the terms and subject to the conditions set forth in this Agreement;

(oo) "**Rights Certificate**" means the certificates representing the Rights after the Separation Time, which shall be substantially in the form attached as Attachment 1;

(pp) "**Rights Holders' Special Meeting**" means a meeting of the holders of Rights called by the Boa rd of Directors for the purpose of approving a supplement or amendment to this Agreement pursuant to §5.4(c);

(qq) "**Rights Register**" has the meaning assigned in §2.6(a);

(rr) "**Securities Act**" means the *Securities Act* (British Columbia), R.S.B.C. 1996, c. 418, as amended, and the regulations thereunder, and any comparable or successor laws or regulations thereto;

(ss) "**Separation Time**" means the close of business on the tenth Trading Day after the earlier of:

(i) the Stock Acquisition Date;

(ii) the date of the commencement of or first public announcement of the intent of any Person (other than the Company or any Subsidiary of the Company) to commence a Take Over Bid (other than a Permitted Bid or a Competing Permitted Bid, as the case may be); and

(iii) the date on which a Permitted Bid or Competing Permitted Bid ceases to qualify as such;

or such later time as may be determined by the Board of Directors, provided that, if any Take Over Bid referred to in §(ii) above expires, is not made, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such Take Over Bid shall be deemed, for the purposes of this definition, never to have been made and further provided that if the Board of Directors determines, pursuant to §5.1, to waive the application of §3.1 to a Flip-In Event, then the Separation Time in respect of such Flip-In Event shall be deemed never to have occurred and further provided that if the foregoing results in the Separation Time being prior to the Record Time, the Separation Time shall be the Record Time;

(tt) "**Special Meeting**" means a special meeting of the holders of Voting Shares, called by the Board of Directors for the purpose of approving a supplement, amendment or variation to this Agreement pursuant to §5.4(b) or §5.4(c);

(uu) "**Stock Acquisition Date**" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 5.2 of MI 62-104 of the Securities Act) by the Company or an Acquiring Person that an Acquiring Person has become such;

(vv) "**Subsidiary**" - a corporation shall be deemed to be a Subsidiary of another corporation if:

(i) it is controlled by:

(A) that other, or

(B) that other and one or more corporations each of which is controlled by that other, or

(C) two or more corporations each of which is controlled by that other, or

(ii) it is a Subsidiary of a corporation that is that other's Subsidiary;

(ww) "**Take Over Bid**" means an Offer to Acquire Voting Shares or securities convertible into Voting Shares if, assuming that the Voting Shares or convertible securities subject to the Offer to Acquire are acquired and are Beneficially Owned at the date of such Offer to Acquire by the Person making such Offer to Acquire, such Voting Shares (including Voting Shares that may be acquired upon conversion of securities convertible into Voting Shares) together with the Offeror's Securities, constitute in the aggregate 20% or more of the outstanding Voting Shares at the date of the Offer to Acquire;

(xx) "**Termination Time**" means the time at which the right to exercise the Rights shall terminate pursuant to §5.1(c), §5.1(e) or §5.17;

(yy) "**Trading Day**", when used with respect to any securities, means a day on which the principal Canadian securities exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if the securities are not listed or admitted to trading on any Canadian securities exchange, a Business Day;

(zz) "**U.S.-Canadian Exchange Rate**" means, on any date:

(i) if on such date the Bank of Canada sets an average noon spot rate of exchange for the conversion of one United States dollar into Canadian dollars, such rate; and

(ii) in any other case, the rate for such date for the conversion of one United States dollar into Canadian dollars calculated in such manner as may be determined by the Board of Directors from time to time acting in good faith;

(aaa) "**U.S. Dollar Equivalent**" of any amount which is expressed in Canadian dollars means, on any date, the United States dollar equivalent of such amount determined by multiplying such amount by the Canadian - U.S. Exchange Rate in effect on such date;

(bbb) "**Voting Share Reduction**" means an acquisition or redemption by the Company of Voting Shares of any class which, by reducing the number of Voting Shares of that particular class outstanding, increases the proportionate number of Voting Shares of that particular class Beneficially owned by such Person to 20% or more of the Voting Shares of that particular class then outstanding; and

(ccc) "**Voting Shares**" means the Common Shares of the Company and any other shares in the capital of the Company entitled to vote generally in the election of all elected directors.

Currency

1.2 All sums of money which are referred to in this Agreement are expressed in lawful money of Canada, unless otherwise specified.

Headings

1.3 The division of this Agreement into Articles, Sections, Subsections, Clauses, Paragraphs, Subparagraphs or other portions hereof and the insertion of headings, subheadings and a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

Calculation of Number and Percentage of Beneficial Ownership of Outstanding Voting Shares

1.4 For purposes of this Agreement, the percentage of Voting Shares of any class Beneficially owned by any Person, shall be and be deemed to be the product determined by the formula:

100 x A/B

where:

A = the number of votes for the election of all directors generally attaching to the Voting Shares Beneficially owned by such Person; and

B = the number of votes for the election of all directors generally attaching to all outstanding Voting Shares.

Where any Person is deemed to Beneficially own unissued Voting Shares, such Voting Shares shall be deemed to be outstanding for the purpose of calculating the percentage of Voting Shares owned by such Person.

Acting Jointly or in Concert

1.5 For purposes of this Agreement, whether Persons are acting jointly or in concert is a question of fact in each circumstance, however, a Person shall be deemed to be acting jointly or in concert with every Person who, as a result of any agreement, commitment or understanding, whether formal or informal and whether or not in writing, with the first Person, any Affiliate or Associate of the first Person or any person acting jointly or in concert with the first Person, acquires or offers to acquire Voting Shares (other than customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a public offering or private placement of securities or pledges of securities in the ordinary course of business).

International Financial Reporting Standards (IFRS)

1.6 Wherever in this Agreement reference is made to International Financial Reporting Standards (IFRS), such reference shall be deemed to be the recommendations at the relevant time of the IFRS rather than Canadian generally accepted accounting principles and determined by the Canadian Institute of Chartered Accountants. Where the character or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other accounting computation is required to be made for the purpose of this Agreement or any document, such determination or calculation shall, to the extent applicable and except as otherwise specified herein or as otherwise agreed in writing by the parties, be made in accordance with generally accepted accounting principles applied on a consistent basis.

ARTICLE 2

THE RIGHTS

Legend on Common Share Certificates

2.1 Certificates for the Common Shares that are issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time, shall also represent and evidence one Right for each Common Share represented thereby and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

> Until the Separation Time (defined in the Shareholder Rights Plan Agreement referred to below), this certificate also evidences rights of the holder described in a Shareholder Rights Plan Agreement, dated as of December 13, 2011 (the "**Shareholder Rights Plan Agreement**"), between Stellar Biotechnologies Inc. (the "**Corporation**") and Computershare Investor Services Inc., the terms of which are incorporated herein by reference and a copy of which is on file at the principal executive offices of the Corporation. Under certain circumstances set out in the Shareholder Rights Plan Agreement, the rights may expire, may become null and void or may be evidenced by separate certificates and no longer evidenced by this certificate. The Corporation will mail or arrange for the mailing of a copy of the Shareholder Rights Plan Agreement to the holder of this certificate without charge as soon as practicable after the receipt of a written request therefor.

Certificates representing Common Shares that are issued and outstanding at the Record Time, which as at the Effective Date represent Common Shares, shall also represent and evidence one Right for each Common Share evidenced thereby, notwithstanding the absence of the foregoing legend, until the close of business on the earlier of the Separation Time and the Expiration Time.

Initial Exercise Price; Exercise of Rights; Detachment of Rights

2.2 (a) Subject to adjustment as herein set forth, each Right will entitle the holder thereof, from and after the Separation Time and prior to the Expiration Time, to purchase one Common Share for the Exercise Price (and the Exercise Price and number of Common Shares are subject to adjustment as set forth below). Notwithstanding any other provision of this Agreement, any Rights held by the Company or any of its Subsidiaries shall be void.

(b) Until the Separation Time,

(i) the Rights shall not be exercisable and no Right may be exercised; and

(ii) each Right will be represented and evidenced by the certificate for the associated Common Share of the Company registered in the name of the holder thereof (which certificate shall also be deemed to represent a Rights Certificate) and will be transferable only together with, and will be transferred by a transfer of, such associated Common Share of the Company.

(c) From and after the Separation Time and prior to the Expiration Time:

(i) the Rights shall be exercisable; and

(ii) the registration and transfer of Rights shall be separate from and independent of Common Shares of the Company.

Promptly following the Separation Time, the Company will prepare and the Rights Agent will mail to each holder of record of Common Shares as of the Separation Time (other than an Acquiring Person and, in respect of any Rights Beneficially owned by such Acquiring Person which are not held of record by such Acquiring Person, the holder of record of such Rights (a "**Nominee**")), at such holder's address as shown by the records of the Company (the Company hereby agreeing to furnish copies of such records to the Rights Agent for this purpose):

(i)

a Rights Certificate appropriately completed, representing the number of Rights held by such holder at the Separation Time and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law, rule or regulation or with any rule or regulation of any self-regulatory organization, stock exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage; and

(ii) a disclosure statement describing the Rights, provided that a Nominee shall be sent the materials provided for in (i) and (ii) in respect of all Common Shares of the Company held of record by it which are not Beneficially owned by an Acquiring Person.

(d) Rights may be exercised, in whole or in part, on any Business Day after the Separation Time and prior to the Expiration Time by submitting to the Rights Agent:

(i) the Rights Certificate evidencing such Rights;

(ii) an election to exercise such Rights (an "**Election to Exercise**") substantially in the form attached to the Rights Certificate appropriately completed and executed by the holder or his executors or administrators or other personal representatives or his or their legal attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Rights Agent; and

(iii) payment by certified cheque, banker's draft or money order payable to the order of the Company, of a sum equal to the Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being exercised.

(e) Upon receipt of a Rights Certificate, together with a completed Election to Exercise executed in accordance with §2.2(d)(ii), which does not indicate that such Right is null and void as provided by §3.1(b), and payment as set forth in §2.2(d)(iii), the Rights Agent (unless otherwise instructed by the Company in the event that the Company is of the opinion that the Rights cannot be exercised in accordance with this Agreement) will thereupon promptly:

(i) requisition from the transfer agent certificates representing the number of such Common Shares to be purchased (the Company hereby irrevocably authorizing its transfer agent to comply with all such requisitions);

(ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuing fractional Common Shares;

(iii) after receipt of the certificates referred to in §2.2(e)(i), deliver the same to or to the order of the registered holder of such Rights Certificates, registered in such name or names as may be designated by such holder;

(iv) when appropriate, after receipt, deliver the cash referred to in §2.2(e)(ii) to or to the order of the registered holder of such Rights Certificate; and

(v) tender to the Company all payments received on the exercise of the Rights.

(f) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder's Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised (subject to the provisions of §5.5(a)) will be issued by the Rights Agent to such holder or to such holder's duly authorized assigns.

(g) The Company covenants and agrees that it will:

(i) take all such action as may be necessary and within its power to ensure that all Common Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such Common Shares (subject to payment of the Exercise Price), be duly and validly authorized, executed, issued and delivered as fully paid and non-assessable;

(ii) take all such action as may be necessary and within its power to comply with the requirements of the Business Corporations Act and the Securities Act, and the applicable securities laws or comparable legislation of each of the provinces and territories of Canada, and any other applicable law, rule or regulation, in connection with the issuance and delivery of the Rights Certificates and the issuance of any Common Shares upon exercise of Rights;

(iii) use reasonable efforts to cause all Common Shares issued upon exercise of Rights to be listed on the principal stock exchanges on which such Common Shares were traded immediately prior to the Stock Acquisition Date;

(iv) cause to be reserved and kept available out of the authorized and unissued Common Shares, the number of Common Shares that, as provided in this Agreement, will from time to time be sufficient to permit the exercise in full of all outstanding Rights;

(v) pay when due and payable, if applicable, any and all United States, federal, provincial, state and municipal transfer taxes and charges (not including any income or capital taxes of the holder or exercising holder or any liability of the Company to withhold tax) which may be payable in respect of the original issuance or delivery of the Rights Certificates, or certificates for Common Shares to be issued upon exercise of any Rights, provided that the Company shall not be required to pay any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Common Shares in a name other than that of the holder of the Rights being transferred or exercised; and

(vi) after the Separation Time, except as permitted by §5.1 or §5.4, not take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

Adjustments to Exercise Price; Number of Rights

2.3 The Exercise Price, the number and kind of securities subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this §2.3.

(a) In the event the Company shall at any time after the Record Time and prior to the Expiration Time:

(i) declare or pay a dividend on Common Shares payable in Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other securities of the Company) other than pursuant to any optional stock dividend program;

(ii) subdivide or change all of the then outstanding Common Shares into a greater number of Common Shares;

(iii) consolidate or change all of the then outstanding Common Shares into a smaller number of Common Shares; or

(iv) issue any Common Shares (or other securities exchangeable for or convertible into or giving a right to acquire Common Shares or other securities of the Company) in respect of, in lieu of or in exchange for all of the existing outstanding Common Shares except as otherwise provided in this §2.3,

the Exercise Price and the number of Rights outstanding, or, if the payment or effective date therefor shall occur after the Separation Time, the securities purchasable upon exercise of Rights shall be adjusted as of the payment or effective date in the manner set forth below.

If an event occurs which would require an adjustment under both this §2.3 and §3.1(a), the adjustment provided for in this §2.3 shall be in addition to, and shall be made prior to, any adjustment required under §3.1(a).

If the Exercise Price and number of Rights outstanding are to be adjusted:

(v)

the Exercise Price in effect after such adjustment will be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number of Common Shares (or other capital stock) (the "**Expansion Factor**") that a holder of one Common Share immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result thereof; and

(vi) each Right held prior to such adjustment will become that number of Rights equal to the Expansion Factor,

and the adjusted number of Rights will be deemed to be distributed among the Common Shares with respect to which the original Rights were associated (if they remain outstanding) and the shares issued in respect of such dividend, subdivision, change, consolidation or issuance, so that each such Common Share (or other capital stock) will have exactly one Right associated with it.

For greater certainty, if the securities purchasable upon exercise of Rights are to be adjusted, the securities purchasable upon exercise of each Right after such adjustment will be the securities that a holder of the securities purchasable upon exercise of one Right immediately prior to such dividend, subdivision, change, consolidation or issuance would hold thereafter as a result of such dividend, subdivision, change, consolidation or issuance.

If, after the Record Time and prior to the Expiration Time, the Company shall issue any shares in its capital other than Common Shares in a transaction of a type described in §2.3(a)(i) or (iv), such shares shall be treated herein as nearly equivalent to Common Shares as may be practicable and appropriate under the circumstances and the Company and the Rights Agent agree to amend this Agreement in order to effect such treatment.

If the Company at any time after the Record Time and prior to the Separation Time issues any Common Shares otherwise than in a transaction referred to in this §0, each such Common Share so issued shall automatically have one new Right associated with it, which Right shall be represented and evidenced by the certificate representing such associated Common Share.

(b) If the Company at any time after the Record Time and prior to the Separation Time fixes a record date for the issuance of rights, options or warrants to all holders of Common Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Shares (or securities convertible into or exchangeable for or carrying a right to purchase Common Shares) at a price per Common Share (or, if a security convertible into or exchangeable for or carrying a right to purchase or subscribe for Common Shares, having a conversion, exchange or exercise price, including the price required to be paid to purchase such convertible or exchangeable security or right per share) less than the Market Price per Common Share on such record date, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:

(i) the numerator of which shall be the number of Common Shares outstanding on such record date, plus the number of Common Shares that the aggregate offering price of the total number of Common Shares so to be offered (and/or the aggregate initial conversion, exchange or exercise price of the convertible or exchangeable securities or rights so to be offered, including the price required to be paid to purchase such convertible or exchangeable securities or rights) would purchase at such Market Price per Common Share; and

(ii) the denominator of which shall be the number of Common Shares outstanding on such record date, plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible or exchangeable securities or rights so to be offered are initially convertible, exchangeable or exercisable).

In case such subscription price may be paid by delivery of consideration, part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights, options or warrants are not so issued, or if issued, are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed, or to the Exercise Price which would be in effect based upon the number of Common Shares (or securities convertible into, or exchangeable or exercisable for Common Shares) actually issued upon the exercise of such rights, options or warrants, as the case may be.

For purposes of this Agreement, the granting of the right to purchase Common Shares (whether from treasury or otherwise) pursuant to a Dividend Reinvestment Plan or any employee benefit plan, stock option plan, defined or restricted stock unit plan or any similar plan shall be deemed not to constitute an issue of rights, options or warrants by the Company.

(c) If the Company at any time after the Record Time and prior to the Separation Time fixes a record date for the making of a distribution to all holders of Common Shares (including any such distribution made in connection with a merger or amalgamation) of evidences of indebtedness, cash (other than an annual cash dividend or a dividend referred to in §2.3(a)(i), but including any dividend payable in securities other than Common Shares), assets or rights, options or warrants (excluding those referred to in §2.3(b) hereof), the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction:

(i) the numerator of which shall be the Market Price per Common Share on such

(ii) record date, less the fair market value (as determined in good faith by the Board of Directors, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights), on a per share basis, of the portion of the cash, assets, evidences of indebtedness, rights, options or warrants so to be distributed; and

(iii) the denominator of which shall be such Market Price per Common Share.

Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such a distribution is not so made, the Exercise Price shall be adjusted to be the Exercise Price which would have been in effect if such record date had not been fixed.

(d) Notwithstanding anything herein to the contrary, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price; provided, however, that any adjustments which by reason of this §2.3(d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under §2.3 shall be made to the nearest cent or to the nearest ten-thousandth of a share. Notwithstanding the first sentence of this §2.3(d), any adjustment required by §2.3 shall be made no later than the earlier of:

(i) three years from the date of the transaction which gives rise to such adjustment; or

(ii) the Expiration Time.

(e) Whenever an adjustment to the Exercise Price or a change in the securities purchasable upon exercise of the Rights is made pursuant to this §2.3, the Company shall promptly and in any event, where such change or adjustment occurs prior to the Separation Time, not later than the Separation Time:

(i) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment; and

(ii) promptly file with the Rights Agent and with each transfer agent for the Common Shares a copy of such certificate and mail a brief summary thereof to each holder of Rights.

Failure to file such certificate or to cause such notice to be given as aforesaid, or any defect therein, shall not affect the validity of such adjustment or change.

(f) If the Company at any time after the Record Time and prior to the Separation Time issue any shares in its capital (other than Common Shares), or rights, options or warrants to subscribe for or purchase any such shares, or securities convertible into or exchangeable for any such capital stock in a transaction referred to in §2.3(a)(i) or (iv) or §2.3(b) or (c) above, if the Board of Directors acting in good faith determines that the adjustments contemplated by §0, (b) and (c) above in connection with such transaction will not appropriately protect the interests of the holders of Rights, the Board of Directors may determine what other adjustments to the Exercise Price, number of Rights and/or securities purchasable upon exercise of Rights would be appropriate and, notwithstanding §0, (b) and (c) above, such

adjustments, rather than the adjustments contemplated by §0, (b) and (c) above, shall be made. Subject to the prior consent of the holders of the Voting Shares or the Rights as set forth in §5.4(b) or (c), the Company and the Rights Agent shall have authority to amend this Agreement as appropriate to provide for such adjustments.

(g) Each Right originally issued by the Company subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of Common Shares purchasable from time to time hereunder upon exercise of a Right immediately prior to such issue, all subject to further adjustment as provided herein.

(h) Irrespective of any adjustment or change in the Exercise Price or the number of Common Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Exercise Price per Common Share and the number of Common Shares which were expressed in the initial Rights Certificates issued hereunder.

(i) In any case in which this §2.3 requires that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of Common Shares and other securities of the Company, if any, issuable upon such exercise over and above the number of Common Shares and other securities of the Company, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or other securities upon the occurrence of the event requiring such adjustment.

(j) Notwithstanding anything contained in this §2.3 to the contrary, the Company shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this §2.3, as and to the extent that in their good faith judgment the Board of Directors shall determine to be advisable, in order that any:

(i) consolidation or subdivision of Common Shares;

(ii) issuance (wholly or in part for cash) of Common Shares or securities that by their terms are convertible into or exchangeable for Common Shares;

(iii) stock dividends; or

(iv) issuance of rights, options or warrants referred to in this §2.3,

hereafter made by the Company to holders of its Common Shares, shall not be taxable to such shareholders.

Date on Which Exercise Is Effective

2.4 Each Person in whose name any certificate for Common Shares or other securities, if applicable, is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares or other securities, if applicable, represented thereon, and such certificate shall be dated the date upon which the Rights Certificate evidencing such Rights was duly surrendered in accordance with §2.2(d) (together with a duly completed Election to Exercise) and payment of the Exercise Price for such Rights (and any applicable transfer taxes and other governmental charges payable by the exercising holder hereunder) was made; provided, however, that if the date of such surrender and payment is a date upon which the Common Share transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Common Share transfer books of the Company are open.

Execution, Authentication, Delivery and Dating of Rights Certificates

2.5 (a) The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, Chief Executive Officer, President or Chief Financial Officer and by its Secretary under the corporate seal of the Company reproduced thereon. The signature of any of these officers on the Rights Certificates may be manual or facsimile. Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices either before or after the countersignature and delivery of such Rights Certificates.

(b) Promptly after the Company learns of the Separation Time, the Company will notify the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Company to the Rights Agent for countersignature, and the Rights Agent shall countersign manually or by facsimile signature (in a manner satisfactory to the Company) and send such Rights Certificates to the holders of the Rights pursuant to §2.2(c) hereof. No Rights Certificate shall be valid for any purpose until countersigned by the Rights Agent as aforesaid.

(c) Each Rights Certificate shall be dated the date of countersignature thereof.

Registration, Transfer and Exchange

2.6 (a) The Company will cause to be kept a register (the "**Rights Register**") in which, subject to such reasonable regulations as it may prescribe, the Company will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed registrar for the Rights (the "**Rights Registrar**") for the purpose of maintaining the Rights Register for the Company and registering Rights and transfers of Rights as herein provided and the Rights Agent hereby accepts such appointment. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times.

After the Separation Time and prior to the Expiration Time, upon surrender for registration of a transfer or exchange of any Rights Certificate, and subject to the provisions of §2.6(c), the Company will execute, and the Rights Agent will countersign, register and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificates so surrendered.

(b) All Rights issued upon any registration of a transfer or exchange of Rights Certificates shall be the valid obligations of the Company, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.

(c) Every Rights Certificate surrendered for registration of a transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder's attorney duly authorized in writing and shall be guaranteed by a chartered bank or an eligible guarantor institution with membership in an approved signature guarantee medallion program. As a condition to the issuance of any new Rights Certificate under this §2.6, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.

Mutilated, Destroyed, Lost and Stolen Rights Certificates

2.7 (a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, the Company shall execute and the Rights Agent shall countersign register and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so surrendered.

(b) If there shall be delivered to the Company and the Rights Agent prior to the Expiration Time:

(i) evidence to their reasonable satisfaction of the destruction, loss or theft of any Rights Certificate; and

(ii) such security or indemnity as may be reasonably required by them to save each of them and any of their agents harmless, then, in the absence of notice to the Company or the Rights Agent that such Rights Certificate has been acquired by a bona fide purchaser, the Company shall execute and upon the

Company request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost, or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.

(c) As a condition to the issuance of any new Rights Certificate under this §2.7, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.

(d) Every new Rights Certificate issued pursuant to this §2.7 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence the contractual obligation of the Company, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued hereunder.

Persons Deemed Owners of Rights

2.8 The Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the Person in whose name a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term "holder" of any Rights shall mean the registered holder of such Rights (or, prior to the Separation Time, of the associated Common Share).

Delivery and Cancellation of Certificates

2.9 All Rights Certificates surrendered upon exercise or for redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Company may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificate shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this §2.9, except as expressly permitted by this Agreement. The Rights Agent shall, subject to applicable laws, destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Company.

Agreement of Rights Holders

2.10 Every holder of Rights, by accepting the Rights, consents and agrees with the Company and the Rights Agent and with every other holder of Rights:

(a) to be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Rights held;

(b) that prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Common Share certificate representing such Right;

(c) that after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;

(d) that prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) for registration of a transfer, the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on such Rights Certificate or the associated Common Share certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary;

(e) that such holder of Rights has waived his right to receive any fractional Rights or any fractional shares or other securities upon exercise of a Right (except as provided herein);

(f) that, subject to the provisions of §5.4, without the approval of any holder of Rights or Voting Shares and upon the sole authority of the Board of Directors, acting in good faith, this Agreement may be supplemented or amended from time to time to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with the intent of this Agreement or is otherwise defective, as provided herein; and

(g) that notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right to any other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a government, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation.

Rights Certificate Holder Not Deemed a Shareholder

2.11 No holder, as such, of any Rights or Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose whatsoever the holder of any Common Share or any other share or security of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed or deemed or confer upon the holder of any Right or Rights Certificate, as such, any right, title, benefit or privilege of a holder of Common Shares or any other shares or securities of the Company or any right to vote at any meeting of shareholders of the Company whether for the election of directors or otherwise or upon any matter submitted to holders of Common Shares or any other shares of the Company at any meeting thereof, or to give or withhold consent to any action of the Company, or to receive notice of any meeting or other action affecting any holder of Common Shares or any other shares of the Company except as expressly provided herein, or to receive dividends, distributions or subscription rights, or otherwise, until the Right or Rights evidenced by Rights Certificates shall have been duly exercised in accordance with the terms and provisions hereof.

ARTICLE 3

ADJUSTMENTS TO THE RIGHTS IN THE EVENT OF CERTAIN TRANSACTIONS

Flip-In Event

3.1 (a) Subject to §3.1(b) and §5.1, in the event that prior to the Expiration Time a Flip-in Event shall occur, then thereafter, each Right shall constitute, effective at the close of business on the tenth Trading Day after the Stock Acquisition Date, the right to purchase from the Company, upon exercise thereof in accordance with the terms hereof, that number of Common Shares having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to two times the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustment provided for in §2.3 in the event that after the consummation or occurrence or event, an event of a type analogous to any of the events described in §2.3 shall have occurred).

(b) Notwithstanding anything in this Agreement to the contrary, upon the occurrence of any Flip-in Event, any Rights that are or were Beneficially owned on or after the earlier of the Separation Time or the Stock Acquisition Date by:

(i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or with any Affiliate or Associate of an Acquiring Person); or

(ii) a transferee of Rights, directly or indirectly, from an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or with any Affiliate or Associate of an Acquiring Person), where such transferee becomes a transferee concurrently with or subsequent to the Acquiring Person becoming such in a transfer that the Board of Directors has determined is part of a plan, arrangement

or scheme of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or with any Associate or Affiliate of an Acquiring Person), that has the purpose or effect of avoiding §3.1(b)(i),

shall become null and void without any further action, and any holder of such Rights (including transferees) shall thereafter have no right to exercise such Rights under any provision of this Agreement and further shall thereafter not have any other rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The holder of any Rights represented by a Rights Certificate which is submitted to the Rights Agent upon exercise or for registration or transfer or exchange which does not contain the necessary certifications set forth in the Rights Certificate establishing that such Rights are not null and void under this §3.1(b) shall be deemed to be an Acquiring Person for the purposes of this §3.1 and such Rights shall become null and void.

(c) From and after the Separation Time, the Company shall do all such acts and things as shall be necessary and within its power to ensure compliance with the provisions of §3.1, including without limitation, all such acts and things as may be required to satisfy the requirements of the Business Corporations Act, the Securities Act, the U.S. Securities Act, the U.S. Exchange Act and the applicable securities laws or comparable legislation in each of the provinces and territories of Canada and States of the United States in respect of the issue of Common Shares upon the exercise of Rights in accordance with this Agreement.

(d) Any Rights Certificate that represents Rights Beneficially owned by a Person described in either §3.1(b)(i) or (ii) or transferred to any nominee of any such Person, and any Rights Certificate issued upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain the following legend:

> The Rights represented by this Rights Certificate were issued to a Person who was an Acquiring Person or an Affiliate or an Associate of an Acquiring Person (as such terms are defined in the Shareholder Rights Plan Agreement) or a Person who was acting jointly or in concert with an Acquiring Person or with an Affiliate or Associate of an Acquiring Person. This Rights Certificate and the Rights represented hereby are void or shall become void in the circumstances specified in §3.1(b) of the Shareholder Rights Plan Agreement.

Provided, however, that the Rights Agent shall not be under any responsibility to ascertain the existence of facts that would require the imposition of such legend but shall impose such legend only if instructed to do so by the Company in writing or if a holder fails to certify upon transfer or exchange in the space provided on the Rights Certificate that such holder is not a Person described in such legend. The issuance of a Rights Certificate without the legend referred to in this §3.1(d) shall be of no effect on the provisions of §3.1(b).

ARTICLE 4

THE RIGHTS AGENT

General

4.1 (a) The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents ("**Co-Rights Agents**") as it may deem necessary or desirable, subject to the prior approval of the Rights Agent. In the event the Company appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and Co-Rights Agents shall be as the Company may determine with the approval of the Rights Agent and the Co-Rights Agent. The Company also agrees to indemnify the Rights Agent its officers, directors and employees for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability, which right to indemnification will survive the termination of this Agreement.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any certificate for Common Shares, Rights Certificate, certificate for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, opinion, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

(c) The Company shall inform the Rights Agent in a reasonably timely manner of events which may materially affect the administration of this Agreement by the Rights Agent and, at any time upon request, shall provide to the Rights Agent an incumbency certificate certifying the then current officers of the Company; provided that failure to inform the Rights Agent of any such events, or any defect therein shall not affect the validity of any action taken hereunder in relation to such events.

(d) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time on demand of the Rights Agent, its reasonable expenses and counsel fees and any other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder.

Merger, Amalgamation or Consolidation or Change of Name of Rights Agent

4.2 (a) Any corporation into which the Rights Agent may be merged or amalgamated or with which it may be consolidated, or any corporation resulting from any merger, amalgamation, statutory arrangement or consolidation to which the Rights Agent is a party, or any corporation succeeding to the shareholder or stockholder services business of the Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation is eligible for appointment as a successor Rights Agent under the provisions of §4.4 hereof. If at the time such successor Rights Agent succeeds to the agency created by this Agreement any of the Rights Certificates have been countersigned but not delivered, any successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights have not been countersigned, any successor Rights Agent may countersign such Rights Certificates in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.

(b) If at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and if at that time any of the Right Certificates have not been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates will have the full force provided in the Right Certificates and in this Agreement.

Duties of Rights Agent

4.3 The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, all of which the Company and the holders of certificates for Common Shares and Rights Certificates, by their acceptance thereof, shall be bound:

(a) the Rights Agent, at the expense of the Company, may consult with such other experts as it reasonably considers necessary to perform its duties hereunder and retain legal counsel (who may be legal counsel for the Company) and the opinion of such counsel will be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion;

(b) whenever in the performance of its duties under this Agreement, the Rights Agent deems it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a Person believed by the Rights Agent to be the Chairman of the Board, President, any Vice President, Treasurer or Secretary of the Company and delivered to the Rights Agent; and such certificate will be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate;

(c) notwithstanding anything to the contrary, the Rights Agent will be liable hereunder for its own gross negligence, bad faith or willful misconduct;

(d) the Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates for Common Shares or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Company only;

(e) the Rights Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any certificate for a Common Share or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor will it be responsible for any change in the exerciseability of the Rights (including the Rights becoming void pursuant to §3.1(b) hereof) or any adjustment required under the provisions of §2.3 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by §2.3 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Common Shares to be issued pursuant to this Agreement or any Rights or as to whether any Common Shares will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and non-assessable;

(f) the Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement;

(g) the Rights Agent is hereby authorized and directed to accept instructions in writing with respect to the performance of its duties hereunder from any individual believed by the Rights Agent to be the Chairman of the Board, Chief Executive Officer, President, any Vice President, Treasurer or Corporate Secretary of the Company, and to apply to such individuals for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such individual;

(h) the Rights Agent and any shareholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Common Shares, Rights or other securities of the Company or have a pecuniary interest in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity; and

(i) the Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

Change of Rights Agent

4.4 The Rights Agent may resign and be discharged from its duties under this Agreement upon 60 days' notice (or such lesser notice as is acceptable to the Company) in writing mailed to the Company and to each transfer agent of Common Shares by registered or certified mail. The Company may remove the Rights Agent upon 60 days' notice in writing, mailed to the Rights Agent and to each transfer agent of the Common Shares by registered or certified mail. If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Company will appoint a successor to the Rights Agent. If the Company fails to make such appointment within a period of 60 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent, then by prior written notice to the Company the resigning Rights Agent or the holder of any Rights (which holder shall, with such notice, submit such holder's Rights Certificate, if any, for inspection by the Company), may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a corporation incorporated under the laws of Canada or a province thereof authorized to act as the Rights Agent in the Province of British Columbia. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company will file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares, and mail a notice thereof in writing to the holders of the Rights in accordance with §5.9. Failure to give any notice provided for in this §4.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of any successor Rights Agent, as the case may be.

ARTICLE 5

MISCELLANEOUS

Redemption, Waiver and Extension

5.1 (a) The Board of Directors acting in good faith may waive the application of §3.1 in respect of the occurrence of any Flip-in Event if the Board of Directors has determined within ten Trading Days following a Stock Acquisition Date that a Person became an Acquiring Person by inadvertence and without any intention to become, or knowledge that it would become, an Acquiring Person under this Agreement and such Acquiring Person has reduced its Beneficial ownership of Voting Shares (or has entered into a contractual arrangement with the Company, acceptable to the Board of Directors, to do so within 30 days of the date such contractual arrangement is entered into) such that at the time the waiver becomes effective pursuant to this §5.1(a) it is no longer an Acquiring Person and, in the event that such a waiver is granted by the Board of Directors, such Flip-in Event shall be deemed not to have occurred and the Separation Time shall be deemed not to have occurred as a result of such Person becoming an Acquiring Person.

(b) The Board of Directors acting in good faith may, prior to a Flip-in Event having occurred, upon prior written notice delivered to the Rights Agent, determine to waive the application of §3.1 to such particular Flip-in Event that would result from a Take Over Bid made by means of a Take Over Bid circular to all holders of Voting Shares (which for greater certainty shall not include the circumstances described in §5.1(a)), provided that if the Board waives the application of §3.1 to a particular Flip-in Event pursuant to this §5.1(b), the Board shall be deemed to have waived the application of §3.1 to any other Flip-in Event occurring by reason of any other Take Over Bid which is made by means of a Take Over Bid circular to all holders of Voting Shares prior to the expiry of any Take Over Bid (as the same may be extended from time to time) in respect of which a waiver is, or is deemed to have been granted under this §5.1(b).

(c) In the event that prior to the occurrence of a Flip-in Event a Person acquires, pursuant to a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition under §5.1(b), outstanding Voting Shares, other than Voting Shares Beneficially owned at the date of the Permitted Bid, Competing Permitted Bid or Exempt Acquisition under §5.1(b) by such Person, then the Board of Directors shall, immediately upon the consummation of such acquisition without further formality be deemed to have elected to redeem the Rights at a redemption price of $0.0001 per Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in §2.3 if an event of the type analogous to any of the events described in §2.3 shall have occurred (such redemption price being herein referred to as the "**Redemption Price**").

(d) With the prior approval of the holders of Voting Shares or Rights given in accordance with §5.4, the Board of Directors of the Company acting in good faith may, at its option, at any time prior to the provisions of §3.1 becoming applicable as a result of the occurrence of a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at the Redemption Price appropriately adjusted in a manner analogous to the applicable adjustments provided for in §2.3, which adjustments shall only be made in the event that an event of the type analogous to any of the events described in §2.3 shall have occurred.

(e) Where a Take Over Bid that is not a Permitted Bid Acquisition is withdrawn or otherwise terminated after the Separation Time has occurred and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price.

(f) If the Board of Directors is deemed under §5.1(c) to have elected or elects under §5.1(d) or (e) to redeem the Rights, then subject to §5.1(h), the right to exercise the Rights will thereupon, without further action and without notice, terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price.

(g) Within 10 Business Days after the Board of Directors is deemed under §5.1(c) to have elected or elects under §5.1(d) or (e) to redeem the Rights, the Company shall give notice of redemption to the holders of the then outstanding Rights by mailing such notice to each such holder at his last address as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the transfer agent for the Voting Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.

(h) Upon the Rights being redeemed pursuant to §5.1(e), all the provisions of this Agreement shall continue to apply as if the Separation Time had not occurred and Rights Certificates representing the number of Rights held by each holder of record of Common Shares as of the Separation Time had not been mailed to each such holder and for all purposes of this Agreement the Separation Time shall be deemed not to have occurred.

(i) The Company shall give prompt written notice to the Rights Agent of any waiver of the application of §3.1 pursuant to this §5.1.

Expiration

5.2 No Person shall have any rights whatsoever pursuant to this Agreement or in respect of any Right after the Expiration Time, except the Rights Agent as specified in §4.1(a) of this Agreement.

Issuance of New Rights Certificates

5.3 Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board of Directors to reflect any adjustment or change in the number or kind or class of securities purchasable upon exercise of Rights made in accordance with the provisions of this Agreement.

Supplements and Amendments

5.4 (a) The Company may, prior to any shareholders' meeting called to approve this Agreement, supplement or amend this Agreement without the approval of any holder of Rights or Voting Shares. Thereafter, the Company may from time to time supplement or amend this Agreement without the approval of any holders of Rights or Voting Shares to correct any clerical or typographical error or to maintain the validity of the Agreement as a result of a change in any applicable legislation or regulations or rules thereunder. Notwithstanding anything in this §5.4 to the contrary, no amendment shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent to such supplement or amendment.

(b) Subject to §5.4(a), the Company may, with the prior consent of the holders of Voting Shares obtained as set forth below, at any time before the Separation Time, amend, vary or rescind any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally). Such consent shall be deemed to have been given if provided by the holders of Voting Shares at a Special Meeting, called and held in compliance with applicable laws and regulatory requirements and the requirements in the articles of the Company. Subject to compliance with any requirements imposed by the foregoing, consent shall be given if the proposed amendment, variation or rescission is approved by the affirmative vote of a majority of the votes cast by all holders of Voting Shares (other than any holder of Voting Shares who is an Offeror pursuant to a Take Over Bid that is not a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition, with respect to all Voting Shares Beneficially owned by such Person), represented in person or by proxy at the Special Meeting.

(c) The Company may, with the prior consent of the holders of Rights obtained as set forth below, at any time after the Separation Time and before the Expiration Time, amend, vary or rescind any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally). Such consent shall be deemed to have been given if provided by the holders of Rights at a Rights Holders' Special Meeting called and held in compliance with applicable laws and regulatory requirements and, to the extent possible, with the requirements in the articles of the Company applicable to meetings of holders of Voting Shares, applied *mutatis mutandis*.

(d) Any consent or approval of the holders of Rights shall be deemed to have been given if the action requiring such approval is authorized by the affirmative votes of the holders of Rights present or represented at and entitled to be voted at a meeting of the holders of Rights and representing a majority of the votes cast in respect thereof. For the purposes hereof, each outstanding Right (other than Rights which are void pursuant to the provisions hereof) shall be entitled to one vote, and the procedures for the calling, holding and conduct of the meeting shall be those, as nearly as may be, which are provided in the Company's articles and the Business Corporations Act with respect to the meetings of shareholders of the Company.

(e) Any amendments made by the Company to this Agreement pursuant to §5.4(a) which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation or regulations or rules thereunder, or are made at the request of a stock exchange on which the Common Shares are traded from time to time, shall:

(i) if made before the Separation Time, be submitted to the shareholders of the Company at the next meeting of shareholders and the shareholders may, by the majority referred to in §5.4(b), confirm or reject such amendment; or

(ii) if made after the Separation Time, be submitted to the holders of Rights at a meeting to be called for on a date not later than immediately following the next meeting of shareholders of the Company and the holders of Rights may, by resolution passed by the majority referred to in §5.4(d) confirm or reject such amendment.

Any such amendment shall be effective from the date of the resolution of the Board of Directors adopting such amendment, until it is confirmed or rejected or until it ceases to be effective (as described in the next sentence) and, where such amendment is confirmed, it continues in effect in the form so confirmed. If such amendment is rejected by the shareholders or the holders of Rights or is not submitted to the shareholders or holders of Rights as required, then such amendment shall cease to be effective from and after the termination of the meeting at which it was rejected or to which it should have been but was not submitted or from and after the date of the meeting of holders of Rights that should have been but was not held, and no subsequent resolution of the Board of Directors to amend this Agreement to substantially the same effect shall be effective until confirmed by the shareholders or holders of Rights as the case may be.

Fractional Rights and Fractional Shares

5.5 (a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights and the Company shall not be required to pay any amount to a holder of record of Rights Certificates in lieu of such fractional Rights.

(b) The Company shall not be required to issue fractions of Common Shares upon exercise of Rights or to distribute certificates which evidence fractional Common Shares and the Company shall not be required to pay any amount in lieu of such fractional Common Shares.

Rights of Action

5.6 Subject to the terms of this Agreement, all rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights. Any holder of Rights, without the consent of the Rights Agent or of the holder of any other Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce such holder's right to exercise such holder's Rights or Rights to which such holder is entitled in the manner provided in such holder's Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holder of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

Regulatory Approvals

5.7 Any obligation of the Company or action or event contemplated by this Agreement or any amendments thereto shall be subject to the receipt of any requisite approval or consent from any governmental or regulatory authority, and without limiting the generality of the foregoing, necessary approvals of any stock exchange shall be obtained, such as to the issuance of Common Shares upon the exercise of Rights under §2.2(d).

Declaration as to Non-Canadian Holders

5.8 If in the opinion of the Board of Directors (who may rely upon the advice of counsel) any action or event contemplated by this Agreement would require compliance by the Company with the securities laws or comparable legislation of a jurisdiction outside Canada, the Board of Directors acting in good faith shall take such actions as it may deem appropriate to ensure such compliance. In no event shall the Company or the Rights Agent be required to issue or deliver Rights or securities issuable on exercise of Rights to persons who are citizens, residents or nationals of any jurisdiction other than Canada, in which such issue or delivery would be unlawful without registration of the relevant Persons or securities for such purposes.

Notices

5.9 (a) Notices or demands authorized or required by this Agreement to be given or made by the Rights Agent or by the holder of any Rights to or on the Company shall be sufficiently given or made if delivered, sent by registered or certified mail, postage prepaid (until another address is filed in writing with the Rights Agent), or sent by facsimile or other form of recorded electronic communication, charges prepaid and confirmed in writing, as follows:

Stellar Biotechnologies Inc.
332 East Scott Street
Port Hueneme, California
93041

Attention: Frank R. Oakes
Fax No.: (805) 488-2147

(b) Notices or demands authorized or required by this Agreement to be given or made by the Company or by the holder of any Rights to or on the Rights Agent shall be sufficiently given or made if delivered, sent by registered or certified mail, postage prepaid (until another address is filed in writing with the Company), or sent by facsimile or other form of recorded electronic communication, charges prepaid, and confirmed in writing, as follows:

Computershare Investor Services Inc.
510 Burrard Street, 3rd Floor
Vancouver, British Columbia V6C 3B9

Attention: Manager, Client Services
Fax No.: 604-661-9401

(c) Notices or demands authorized or required by this Agreement to be given or made by the Company or the Rights Agent to or on the holder of any Rights shall be sufficiently given or made if delivered or sent by ordinary mail, postage prepaid, addressed to such holder at the address of such holder as it appears upon the register of the Rights Agent or, prior to the Separation Time, on the register of the Company for its Common Shares. Any notice which is mailed or sent in the manner herein provided shall be deemed given, whether or not the holder receives the notice.

(d) Any notice given or made in accordance with §5.9 shall be deemed to have been given and to have been received on the day of delivery, if so delivered, on the third Business Day (excluding each day during which there exists any general interruption of postal service due to strike, lockout or other cause) following the mailing thereof, if so mailed, and on the day of telecopying or sending of the same by other means of recorded electronic communication (provided such sending is during the normal business hours of the addressee on a Business Day and if not, on the first Business Day thereafter). Each of the Company and the Rights Agent may from time to time change its address for notice by notice to the other given in the manner aforesaid.

Costs of Enforcement

5.10 The Company agrees that if the Company fails to fulfill any of its obligations pursuant to this Agreement, then the Company will reimburse the holder of any Rights for the costs and expenses (including legal fees) incurred by such holder to enforce his rights pursuant to any Rights or this Agreement.

Successors

5.11 All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Benefits of this Agreement

5.12 Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the holders of the Rights any legal or equitable right, remedy or claim under this Agreement; further, this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the holders of the Rights.

Governing Law

5.13 This Agreement and each Right issued hereunder shall be deemed to be a contract made under the laws of the Province of British Columbia and for all purposes shall be governed by and construed in accordance with the laws of such Province applicable to contracts to be made and performed entirely within such Province.

Severability

5.14 If any term or provision hereof or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such term or provision shall be ineffective only as to such jurisdiction and to the extent of such invalidity or unenforceability in such jurisdiction without invalidating or rendering unenforceable or ineffective the remaining terms and provisions hereof in such jurisdiction or the application of such term or provision in any other jurisdiction or to circumstances other than those as to which it is specifically held invalid or unenforceable.

Effective Date

5.15 This Agreement is effective and in full force and effect in accordance with its terms from and after the Effective Date.

Determinations and Actions by the Board of Directors

5.16 All actions, calculations and determinations (including all omissions with respect to the foregoing) which are done or made by the Board of Directors, in good faith, shall not subject the Board of Directors or any director of the Company to any liability to the holders of the Rights.

Confirmation

5.17 The Company shall request the confirmation of this Agreement at a general meeting of holders of Voting Shares to be held within six months of the date of this Agreement. If the Agreement is not confirmed at such meeting by a majority of votes cast by holders of Voting Shares who vote in respect of the confirmation of this Agreement (subject to any other shareholder or other approvals as may be required by the TSX Venture Exchange), this Agreement and all outstanding Rights shall terminate and be void and of no further force and effect on and from the close of business on the date of termination of such meeting; provided that termination shall not occur if a Flip-

in Event has occurred (other than a Flip-in Event which has been waived pursuant to §5.1(a) or (b) hereof) prior to the date upon which this Agreement would otherwise terminate pursuant to this §5.17.

Time of the Essence

5.18 Time shall be of the essence in this Agreement.

Compliance with Money Laundering Legislation

5.19 The Rights Agent shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Rights Agent reasonably determines that such an act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Rights Agent reasonably determine at any time that its acting under this Agreement has resulted in it being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 10 days written notice to the Company provided; (i) the Rights Agent's written notice shall describe the circumstances of such non-compliance; and (ii) that if such circumstances are rectified to the Rights Agent's satisfaction within such 10 day period, then such resignation shall not be effective.

Privacy Provision

5.20 The parties acknowledge that federal and/or provincial legislation that addresses the protection of individual's personal information (collectively, "**Privacy Laws**") applies to obligations and activities under this Agreement. Despite any other provision of this Agreement, neither party will take or direct any action that would contravene, or cause the other to contravene, applicable Privacy Law. The Company will, prior to transferring or causing to be transferred personal information to the Rights Agent, obtain and retain required consents of the relevant individuals to the collection, use and disclosure of their personal information, or will have determined that such consents either have previously been given upon which the parties can rely or are not required under the Privacy Laws. The Rights Agent will use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws.

Execution in Counterpart

5.21 This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original and all such counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

STELLAR BIOTECHNOLOGIES INC.

Per:

Authorized Signatory

COMPUTERSHARE INVESTOR SERVICES INC.

Per:

Authorized Signatory

Per:

Authorized Signatory

ATTACHMENT 1

STELLAR BIOTECHNOLOGIES INC.

SHAREHOLDER RIGHTS PLAN AGREEMENT

[Form of Rights Certificate]

Certificate No. _____ Rights _____

THE RIGHTS ARE SUBJECT TO TERMINATION ON THE TERMS SET FORTH IN THE SHAREHOLDER RIGHTS PLAN AGREEMENT. UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SUBSECTION 3.1(b) OF THE SHAREHOLDER RIGHTS PLAN AGREEMENT), RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR CERTAIN RELATED PARTIES, OR TRANSFEREES OF AN ACQUIRING PERSON OR CERTAIN RELATED PARTIES, MAY BECOME VOID.

RIGHTS CERTIFICATE

This certifies that _____, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Shareholder Rights Plan Agreement, dated as of December 13, 2011 (the "**Shareholder Rights Plan Agreement**"), between STELLAR BIOTECHNOLOGIES INC. (the "**Company**"), a corporation incorporated under the laws of British Columbia, and COMPUTERSHARE INVESTOR SERVICES INC. (the "**Rights Agent**") (which term shall include any successor Rights Agent under the Shareholder Rights Plan Agreement), to purchase from the Company at any time after the Separation Time (as such term is defined in the Shareholder Rights Plan Agreement) and prior to the Expiration Time (as such term is defined in the Shareholder Rights Plan Agreement), one fully paid common share of the Company (a "**Common Share**") at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate with the Form of Election to Exercise (in the form provided hereinafter) duly executed and submitted to the Rights Agent at its principal office in the city of Vancouver. The Exercise Price shall initially be $_____ (Cdn.) per Right and shall be subject to adjustment in certain events as provided in the Shareholder Rights Plan Agreement.

This Rights Certificate is subject to all of the terms and provisions of the Shareholder Rights Plan Agreement, which terms and provisions are incorporated herein by reference and made a part hereof and to which Shareholder Rights Plan Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Rights Agent, the Company and the holders of the Rights Certificates. Copies of the Shareholder Rights Plan Agreement are on file at the registered office of the Company.

This Rights Certificate, with or without other Rights Certificates, upon surrender at any of the offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing an aggregate number of Rights equal to the aggregate number of Rights

evidenced by the Rights Certificate or Rights Certificates surrendered. If the Rights evidenced by this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Common Shares or of any other securities which may at any time be issuable upon the exercise hereof, nor shall anything contained in the Shareholder Rights Plan Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Shareholder Rights Plan Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised as provided in the Shareholder Rights Plan Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Rights Certificate to be duly executed as of the date first above written.

STELLAR BIOTECHNOLOGIES INC.

Per:

Authorized Signatory

COMPUTERSHARE INVESTOR SERVICES INC.

Per:

Authorized Signatory

FORM OF TRANSFER

(To be executed by the registered holder if the holder wishes to transfer the Rights Certificate.)

FOR VALUE RECEIVED _____ hereby sells, assigns

and transfers unto _____

(Please print name and address of transferee.)

the Rights represented by this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint

_____, as attorney, to transfer the within Rights on the books of STELLAR BIOTECHNOLOGIES INC., with full power of substitution.

Dated: _____ _____

Signature

Signature Guaranteed:	(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

The signature of the person executing this form of transfer must be guaranteed by a chartered bank or an eligible guarantor institution with membership in an approved signature guarantee medallion program.

CERTIFICATE

(To be completed if true.)

The undersigned party transferring Rights hereunder, hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially owned by an Acquiring Person or an Affiliate or Associate thereof or a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Plan Agreement.

Dated: _____ _____ Signature

(To be attached to each Rights Certificate.)

FORM OF ELECTION TO EXERCISE

(To be exercised by the registered holder if such holder desires to exercise the Rights Certificate.)

TO: STELLAR BIOTECHNOLOGIES INC. and COMPUTERSHARE INVESTOR SERVICES INC.

The undersigned hereby Irrevocably elects to exercise _____ whole Rights represented by the attached Rights Certificate to purchase the Common Shares or other securities, if applicable, issuable upon the exercise of such Rights and requests that certificates for such securities be issued in the name of:

_____
(Name)

_____
(Address)

_____
(City and Province)

_____
Social Insurance Number or other taxpayer identification number

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

_____
(Name)

_____
(Address)

_____
(City and Province)

_____
Social Insurance Number or other taxpayer identification number

Dated: _____ _____
Signature

Signature Guaranteed:	(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

*The signature of the person executing this form of transfer must be guaranteed by a chartered bank or an eligible guarantor institution with membership in an approved signature guarantee medallion program.

CERTIFICATE

(To be completed if true.)

The undersigned party exercising Rights hereunder, hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially owned by an Acquiring Person or an Affiliate or Associate thereof or a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Plan Agreement.

Dated: _____ _____
Signature

(To be attached to each Rights Certificate.)

NOTICE

In the event the certification set forth above in the Forms of Transfer and Election is not completed, STELLAR BIOTECHNOLOGIES INC. will deem the Beneficial owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof. No Rights Certificates shall be issued in exchange for a Rights Certificate owned or deemed to have been owned by an Acquiring Person or an Affiliate or Associate thereof, or by a Person acting jointly or in concert with an Acquiring Person or an Affiliate or Associate thereof.

CAG CAPITAL INC.
(the "Company")

PERFORMANCE SHARE PLAN

Dated for Reference April 9, 2010

ARTICLE 1
PURPOSE AND INTERPRETATION

Purpose

1.1 The purpose of this Plan is to incentivize individuals key to the success of the Company by providing them with the right to receive shares in the Company upon the achievement of certain defined milestones in the Company's development.

Definitions

1.2 In this Plan

(a) **Affiliate** means a company that is a parent or subsidiary of the Company, or that is controlled by the same entity as the Company;

(b) **Associate** has the meaning set out in the Securities Act;

(c) **Board** means the board of directors of the Company or any committee thereof duly empowered or authorized to grant Options under this Plan;

(d) **Common Shares** means common shares without par value in the capital of the Company;

(e) **Company** means the company named at the top hereof and includes, unless the context otherwise requires, all of its Affiliates and successors according to law;

(f) **Consultant** means an individual, other than an Employee, Officer or Director that provides on an ongoing bona fide basis, consulting, technical, managerial or like services to the Company or an Affiliate of the Company;

(g) **Directors** means the directors of the Company as may be elected from time to time;

(h) **Effective Date** for a Right means the date of grant thereof by the Board;

(i) **Employee** means:

(i) an individual who is considered an employee under the Income Tax Act (i.e. for whom income tax, employment insurance and CPP deductions must be made at source);

(ii) an individual who works full-time for the Company or a subsidiary thereof providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source; or

(iii) an individual who works for the Company or its subsidiary on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions need not be made at source;

(j) **Key Person** means a Service Provider that is granted a Right hereunder;

(k) **Milestones** means these events detailed in Schedule "A" hereto;

(l) **Officer** means a Board appointed officer of the Company;

(m) **Performance Shares** means Common Shares that may be issued in the future to a Key Person in accordance with the terms of the Plan;

(n) **Outstanding Shares** means at the relevant time, the number of issued and outstanding Common Shares of the Company from time to time;

(o) **Plan** means this performance share plan, the terms of which are set out herein or as may be amended;

(p) **Plan Shares** means the total number of Common Shares which may be reserved for issuance as Performance Shares under the Plan as provided in §2.2;

(q) **Right** means the right to be issued Performance Shares in accordance with the terms of the Plan;

(r) **Securities Act** means the *Securities Act*, R.S.B.C. 1996, c. 418, or any successor legislation;

(s) **Service Provider** means a person who is a bona fide Director, Officer, Employee, Consultant or otherwise is determined by the Board to be providing services of benefit to the Company;

(t) **Take Over Bid** means a take over bid as defined in subsection 92(1) of the *Securities Act* (British Columbia) or the analogous provisions of securities legislation applicable to the Company;

Gender

1.3 Words importing the masculine gender include the feminine or neuter, words in the singular include the plural, words importing a corporate entity include individuals, and vice versa.

ARTICLE 2
PERFORMANCE SHARE PLAN

Establishment of Plan

2.1 The Plan is hereby established to recognize contributions made by Service Providers and to create an incentive for their continuing assistance to the Company and its Affiliates.

Maximum Plan Shares

2.2 The number of Performance Shares that are reserved for issuance under the Plan is 10,000,000 Common Shares.

Eligibility

2.3 Rights to receive Performance Shares may be granted hereunder to such Key Persons or may be identified from time to time by the Board.

Rights Granted Under the Plan

2.4 All Rights granted under the Plan will be evidenced by notice in writing in such form as the Board may determine.

Rights Not Exercised

2.5 In the event a Right granted under the Plan is terminated in accordance with the terms of the Plan, the Performance Shares that were issuable thereunder will be returned to the Plan and will be eligible for re-issuance.

Powers of the Board

2.6 The Board will be responsible for the general administration of the Plan and the proper execution of its provisions, the interpretation of the Plan and the determination of all questions arising hereunder. Without limiting the generality of the foregoing, the Board has the power to

(a) allot Performance Shares for issuance in accordance with the provisions of the Plan;

(b) grant Rights hereunder;

(c) extend a Key Person's entitlement to a Right as contemplated by section 3.3 hereof;

(d) amend a Right granted under this Plan so as to increase the number of Performance Shares issuable thereunder; and

(e) delegate all or such portion of its powers hereunder as it may determine to one or more committees of the Board, either indefinitely or for such period of time as it may specify, and thereafter each such committee may exercise the powers and discharge the duties of the Board in respect of the Plan so delegated to the same extent as the Board is hereby authorized so to do.

ARTICLE 3
TERMS AND CONDITIONS OF RIGHTS

Vesting of Rights

3.1 Performance Shares issued to Key Persons who have been grants Rights by the Board under the Plan will vest and be issuable as to one-third upon the occurrence of each of the three Milestones, as determined by the Board.

Effect of Take Over Bid

3.2 If a Take Over Bid is made to the shareholders generally then the Company shall immediately upon receipt of notice of the Take Over Bid, notify each Key Person currently holding a Right and, notwithstanding the provisions of section 3.1, the Performance Shares shall become immediately issuable in full.

Key Person Ceasing to be a Service Provider

3.3 In circumstances where a Key Person ceases to be a Service Provider before the occurrence of one or more Milestones, the Right then held by such Key Person shall be deemed to be cancelled and of no further force and effect unless otherwise extended by the Board on such terms as the Board, in its sole discretion, determines appropriate.

Non Assignable

3.4 The Rights granted under the Plan will not be assignable or transferable.

Adjustment of the Number of Performance Shares

3.5 The number of Performance Shares subject to a Right will be subject to adjustment in the events and in the manner following:

(a) in the event of a subdivision of Common Shares as constituted on the date hereof, at any time while a Right is in effect, into a greater number of Common Shares, the Company will thereafter deliver at the time of issuance of Performance Shares hereunder, in addition to the number of Performance Shares in respect of which the Key Person holding the Right is then entitled, such additional number of Common Shares as result from the subdivision;

(b) in the event of a consolidation of the Common Shares as constituted on the date hereof, at any time while a Right is in effect, into a lesser number of Common Shares, the Company will thereafter deliver and a Key Person will accept, at the time of issuance of Performance Shares hereunder, in lieu of the number of Performance Shares in respect of which Key Person then holding the Right is entitled, the lesser number of Common Shares as result from the consolidation;

(c) in the event of any change of the Common Shares as constituted on the date hereof, at any time while a Right is in effect, the Company will thereafter deliver at the time of issuance of Performance Shares hereunder the number of shares of the appropriate class resulting from the said change as a Key Person would have been entitled to receive in respect of the number of Performance Shares so issued had such Performance Shares been issued before such change;

(d) in the event of a capital reorganization, reclassification or change of outstanding equity shares (other than a change in the par value thereof) of the Company, a consolidation, merger or amalgamation of the Company with or into any other company or a sale of the property of the Company as or substantially as an entirety at any time while a Right is in effect, a Key Person will thereafter have the right to receive, in lieu of the Performance Shares immediately theretofore receivable in accordance with the terms of the Right, the kind and amount of shares and other securities and property receivable upon such capital reorganization, reclassification, change, consolidation, merger, amalgamation or sale which the holder of a number of Common Shares equal to the number of Performance Shares immediately theretofore receivable in accordance with the terms of the Right would have received as a result thereof. The subdivision or consolidation of Common Shares at any time outstanding (whether with or without par value) will not be deemed to be a capital reorganization or a reclassification of the capital of the Company for the purposes of this §3.5;

(e) an adjustment will take effect at the time of the event giving rise to the adjustment, and the adjustments provided for in this section are cumulative;

(f) the Company will not be required to issue fractional shares in satisfaction of its obligations hereunder. Any fractional interest in a Performance Share that would, except for the provisions of this §3.5, be deliverable in accordance with the terms of a Right will be cancelled and not be deliverable by the Company; and

(g) if any questions arise at any time with respect to the number of Performance Shares deliverable in accordance with the terms of a Right in any of the events set out in this §3.5, such questions will be conclusively determined by the Company's auditors, or, if they decline to so act, any other firm of Chartered Accountants, in Vancouver, British Columbia (or in the city of the Company's principal executive office) that the Company may designate and who will be granted access to all appropriate records. Such determination will be binding upon the Company and all Optionees.

ARTICLE 4
GENERAL

Employment and Services

4.1 Nothing contained in the Plan will confer upon or imply in favour of any Key Person any right with respect to office, employment or provision of services with the Company, or interfere in any way with the right of the Company to lawfully terminate the Key Person's office, employment or service at any time pursuant to the arrangements pertaining to same.

No Representation or Warranty

4.2 The Company makes no representation or warranty as to the future market value of Common Shares issuable in accordance with the provisions of the Plan or to the effect of the *Income Tax Act* (Canada) or any other taxing statute governing the Performance Shares issuable thereunder or the tax consequences to a Key Person. Compliance with applicable securities laws as to the disclosure and resale obligations of each Key Person is the responsibility of each Key Person and not the Company.

Interpretation

4.3 The Plan will be governed and construed in accordance with the laws of the Province of British Columbia.

Effective Date of Plan

4.4 The Plan will become effective from and after April 9, 2010

SCHEDULE A

EARN-OUT MILESTONES

1. Completion of method development for commercial-scale manufacture of IMG KLH (Immunogenic Keyhole Limpet Hemocyanin) with applicable cGMP (Good Manufacturing Practice) as a pharmaceutical intermediate, evidenced by completion of three GMP lots meeting all quality and product release specifications required for stability studies and process validation.
2. Compilation and regulatory submittal of all required Chemistry, Manufacturing, and Control (CMC) data compiled in the Common Technical Document (CTD) format and evidenced by filing as a Drug Master File (DMF) with the USFDA.
3. Completion of preclinical toxicity and immunogenicity testing of IMG KLH and Subunit KLH in rodent and non-rodent species as evidenced by study protocols and completion reports available to support customer FDA and EMEA filings.

TSX VENTURE
EXCHANGE

FORM 2F
CPC ESCROW AGREEMENT

THIS AGREEMENT is made as of the 29th day of April, 2008

AMONG: CAG CAPITAL INC., of 7936 Lakefield Drive, Burnaby, BC V5E 3W8

(the Issuer)

AND: COMPUTERSHARE INVESTOR SERVICES INC., of 510 Burrard Street, 2nd Floor, Vancouver, British Columbia V6C 3B9
(the Escrow Agent)

AND: EACH OF THE UNDERSIGNED SECURITYHOLDERS OF THE ISSUER
(a Securityholder or you)

(collectively, the Parties)

This Agreement is being entered into by the Parties under Exchange *Policy 2.4 - Capital Pool Companies* (the Policy) in connection with a listing of a Capital Pool Company on the TSX Venture Exchange (the Exchange).

For good and valuable consideration, the Parties agree as follows:

PART 1 ESCROW

1.1 Appointment of Escrow Agent

The Issuer and the Securityholders appoint the Escrow Agent to act as escrow agent under this Agreement. The Escrow Agent accepts the appointment.

1.2 Deposit of Escrow Securities in Escrow

(1) You are depositing the securities (escrow securities) listed opposite your name in Schedule "A" with the Escrow Agent to be held in escrow under this Agreement. You will immediately deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of these securities which you have or which you may later receive.

(2) If you receive any shares of the Issuer upon exercise of a stock option granted by the Issuer prior to Completion of the Qualifying Transaction, **(option securities)** you will deposit them with the Escrow Agent. You will deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of those option securities. When this Agreement refers to **escrow securities,** it includes option securities.

(3) If you receive any other securities **(additional escrow securities):**

(a) as a dividend or other distribution on escrow securities;

(b) on the exercise of a right of purchase, conversion or exchange attaching to escrow securities, including securities received on conversion of special warrants;

(c) on a subdivision, or compulsory or automatic conversion or exchange of escrow securities; or

(d) from a successor issuer in a business combination, if Part 7 of this Agreement applies,

you will deposit them in escrow with the Escrow Agent. You will deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of those additional escrow securities. When this Agreement refers to **escrow securities,** it includes additional escrow securities.

(4) You will immediately deliver to the Escrow Agent any replacement share certificates or other evidence of option securities or additional escrow securities issued to you.

1.3 Direction to Escrow Agent

The Issuer and the Securityholders direct the Escrow Agent to hold the escrow securities in escrow until they are released from escrow under this Agreement.

PART 2 RELEASE OF ESCROW SECURITIES

2.1 Release Provisions

The provisions of Schedules **B(1) - CPC Escrow Securities and B(2) - Tier 1 Issuer Escrow Securities** are incorporated into and form part of this Agreement.

2.2 Release Provisions for Option Securities

The Escrow Agent will release any option securities upon receiving notice from the Exchange that the Issuer has completed a Qualifying Transaction.

2.3 Additional escrow securities

If you acquire additional escrow securities in connection with the transaction to which this agreement relates, those securities will be added to the securities already in escrow, to increase the number of remaining escrow securities. After that, all of the escrow securities will be released in accordance with the applicable release schedule.

2.4 Delivery of Share Certificates for Escrow Securities

The Escrow Agent will send to each Securityholder any share certificates or other evidence of that Securityholder's escrow securities in the possession of the Escrow Agent released from escrow as soon as reasonably practicable after the release.

2.5 Replacement Certificates

If, on the date a Securityholder's escrow securities are to be released, the Escrow Agent holds a share certificate or other evidence representing more escrow securities than are to be released, the Escrow Agent will deliver the share certificate or other evidence to the Issuer or its transfer agent and request replacement share certificates or other evidence. The Issuer will cause replacement share certificates or other evidence to be prepared and delivered to the Escrow Agent. After the Escrow Agent receives the replacement share certificates or other evidence, the Escrow Agent will send to the Securityholder or at the Securityholder's direction, the replacement share certificate or other evidence of the escrow securities released. The Escrow Agent and Issuer will act as soon as reasonably practicable.

2.6 Release upon Death

(1) If a Securityholder dies, the Securityholder's escrow securities will be released from escrow. The Escrow Agent will deliver any share certificates or other evidence of the escrow securities in the possession of the Escrow Agent to the Securityholder's legal representative provided that:

(a) the legal representative of the deceased Securityholder provides written notice to the Exchange of the intent to release the escrow securities as at a specified date which is at least 10 business days and not more than 30 business days prior to the proposed release; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to delivery the Escrow Agent must receive:

(a) a certified copy of the death certificate; and
(b) any evidence of the legal representative's status that the Escrow Agent may reasonably require.

2.7 Exchange Discretion to Terminate

If the Escrow Agent receives a request from the Exchange to halt or terminate the release of escrow securities from escrow, then the Escrow Agent will comply with that request, and will not release any escrow securities from escrow until it receives the written consent of the Exchange.

2.8 Discretionary Applications

The Exchange may consent to the release from escrow of escrow securities in other circumstances and on terms and on conditions it deems appropriate. Escrow securities may be released from escrow provided that the Escrow Agent receives written notice from the Exchange.

PART 3 EARLY RELEASE ON CHANGE OF ISSUER STATUS

3.1 Early Release — Graduation to Tier 1

(1) When a CPC or Resulting Issuer becomes a Tier 1 Issuer, the release schedule for its escrow securities changes.

(2) If the Issuer reasonably believes that it meets the Minimum Listing Requirements of a Tier 1 Issuer as described in *Policy 2.1 — Minimum Listing Requirements*, the Issuer may make application to the Exchange to be listed as a Tier 1 Issuer. The Issuer must also concurrently provide notice to the Escrow Agent that it is making such an application.

(3) If the graduation to Tier 1 is accepted by the Exchange, the Exchange will issue an Exchange Bulletin confirming final acceptance for listing of the Issuer on Tier 1. Upon issuance of this Bulletin the Issuer must immediately:

(a) issue a news release disclosing:
  (i) that it has been accepted for graduation to Tier 1; and
  (ii) the number of escrow securities to be released and the dates of release under the new schedule; and
(b) provide the news release, together with a copy of the Exchange Bulletin, to the Escrow Agent.

(4) Upon completion of the steps in section 3.1(3) above, the Issuer's release schedule B(1) will be replaced with release schedule B(2).

(5) Within 10 days of the Exchange Bulletin confirming the Issuer's listing on Tier 1, the Escrow Agent must release any escrow securities from escrow which under the new release schedule would have been releasable at a date prior to the Exchange Bulletin.

PART 4 CANCELLATION OF ESCROWED SECURITIES

4.1 Delisting of the CPC

If the Issuer fails to complete a Qualifying Transaction, as defined in the applicable Exchange Policy, within 24 months following the date of listing of the Issuer and the Exchange issues an Exchange Bulletin that the Issuer will be delisted, the Issuer must immediately notify the Escrow Agent.

4.2 Cancellation of Certain Escrow Securities Held by Related Parties of the CPC

(1) If the Issuer is delisted prior to Completion of a Qualifying Transaction,

(a) the Escrow Agent will deliver a notice to the Issuer, including any certificates possessed by the Escrow Agent which evidence the escrow securities held by Related Parties to the CPC which were purchased prior to the IPO of the CPC at a discount to the IPO price. (the **Discount Seed Shares);** and

(b) the Issuer and the Escrow Agent must either:

(i) take such action as is necessary to cancel the Discount Seed Shares pursuant to the Policy, or

(ii) if the Issuer is moved to NEX, take such action as is necessary to immediately cancel that number of Discount Seed Shares held by Related Parties to the CPC as determined by a vote of the shareholders of the Issuer pursuant to section 14.13 of the Policy.

(2) For the purposes of cancellation of Discount Seed Shares, each Securityholder irrevocably appoints the Escrow Agent as his or her attorney, with authority to appoint substitute attorneys, as necessary.

4.3 Cancellation of Other Escrow Securities

(1) Any escrow securities which have not been released from escrow under this Agreement as at 4:30 p.m. (Vancouver time) or 5:30 p.m. (Calgary time) on the date which is the 10th anniversary of the date of delisting from the Exchange must immediately be cancelled. The Escrow Agent must deliver a notice to the Issuer, including any certificates possessed by the Escrow Agent which evidence the escrowed securities. The Issuer and Escrow Agent must take all actions as may be necessary to expeditiously effect cancellation.

(2) For the purposes of cancellation of escrow securities under this Agreement, each Securityholder hereby irrevocably appoints the Escrow Agent as his or her attorney, with authority to appoint substitute attorneys, as necessary.

PART 5. DEALING WITH ESCROW SECURITIES

5.1 Restriction on Transfer, etc.

Unless it is expressly permitted in this Agreement, you will not sell, transfer, assign, mortgage, enter into a derivative transaction concerning, or otherwise deal in any way with your escrow securities or any related share certificates or other evidence of the escrow securities. If a Securityholder is a private company controlled by one or more Principals of the Issuer, the Securityholder may not participate in a transaction that results in a change **of** its control or a change in the economic exposure of the Principals to the risks of holding escrow securities.

5.2 Pledge, Mortgage or Charge as Collateral for a Loan

Subject to Exchange Acceptance, you may pledge, mortgage or charge your escrow securities to a financial institution as collateral for a loan, provided that no escrow securities or any share certificates or other evidence of escrow securities will be transferred or delivered by the Escrow Agent to the financial institution for this purpose. The loan agreement must provide that the escrow securities will remain in escrow if the lender realizes on the escrow securities to satisfy the loan.

5.3 Voting of Escrow Securities

Although you may exercise voting rights attached to your escrow securities, you may not, while your securities are held in escrow, exercise voting rights attached to any securities (whether in escrow or not) in support of one or more arrangements that would result in the repayment of capital being made on the escrow securities prior to a winding up of the Issuer.

5.4 Dividends on Escrow Securities

You may receive a dividend or other distribution on your escrow securities, and elect the manner of payment from the standard options offered by the Issuer. If the Escrow Agent receives a dividend or other distribution on your escrow securities, other than additional escrow securities, the Escrow Agent will pay the dividend or other distribution to you on receipt.

5.5 Exercise of Other Rights Attaching to Escrow Securities

You may exercise your rights to exchange or convert your escrow securities in accordance with this agreement.

PART 6 PERMITTED TRANSFERS WITHIN ESCROW

6.1 Transfer to Directors and Senior Officers

(1) You may transfer escrow securities within escrow to existing or, upon their appointment, incoming directors or senior officers of the Issuer or any of its material operating subsidiaries, if the Issuer's board of directors has approved the transfer and provided that

(a) you make application under the applicable Exchange Policy of the intent to transfer at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a certified copy of the resolution of the board of directors of the Issuer approving the transfer;

(b) a certificate signed by a director or officer of the Issuer authorized to sign, stating that the transfer is to a director or senior officer of the Issuer or a material operating subsidiary and that any required acceptance from the Exchange on which the Issuer is listed has been received;

(c) an acknowledgment in the form of Form 5E signed by the transferee; and

(d) a transfer power of attorney, completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent.

(3) transfer within escrow is a trade within the meaning of securities legislation and may require an exemption or discretionary order.

6.2 Transfer to Other Principals

(1) You may transfer escrow securities within escrow:

(a) to a person or company that before the proposed transfer holds more than 20% of the voting rights attached to the Issuer's outstanding securities; or

(b) to a person or company that after the proposed transfer

(i) will hold more than 10% of the voting rights attached to the Issuer's outstanding securities, and

(ii) has the right to elect or appoint one or more directors or senior officers of the Issuer or any of its material operating subsidiaries,

provided that:

(a) you make application under the applicable Exchange Policy of the intent to transfer at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a certificate signed by a director or officer of the Issuer authorized to sign, stating that:

(i) the transfer is to a person or company that the officer believes, after reasonable investigation, holds more than 20% of the voting rights attached to the Issuer's outstanding securities before the proposed transfer; Or

(ii) the transfer is to a person or company that:

(A) the officer believes, after reasonable investigation, will hold more than 10% of the voting rights attached to the Issuer's outstanding securities; and

(B) has the right to elect or appoint one or more directors or senior officers of the Issuer or any of its material operating subsidiaries

after the proposed transfer; and

(iii) any required approval from the Exchange has been received;

(b) an acknowledgment in the form of Form 5E signed by the transferee; and

(c) a transfer power of attorney, completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent.

6.3 Transfer upon Bankruptcy

(1) You may transfer escrow securities within escrow to a trustee in bankruptcy or another person or company entitled to escrow securities on bankruptcy provided that

(a) you make application under the applicable Exchange Policy of the intent to transfer at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 am. (Calgary time) on such specified date.

(2) Prior to the transfer, the Escrow Agent must receive:

(a) a certified copy of either

(i) the assignment in bankruptcy filed with the Superintendent of Bankruptcy,
or

(ii) the receiving order adjudging the Securityholder bankrupt;

(b) a certified copy of a certificate of appointment of the trustee in bankruptcy;

(c) a transfer power of attorney, duly completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and

(d) an acknowledgment in the form of Form 5E signed by

(i) the trustee in bankruptcy or

(ii) on direction from the trustee, with evidence of that direction attached to the acknowledgment form, another person or company legally entitled to the escrow securities.

6.4 Transfer Upon Realization of Pledged, Mortgaged or Charged Escrow Securities

(1) You may transfer within escrow to a financial institution provided that:

(a) you make application under the applicable Exchange Policy of the intent to transfer at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a statutory declaration of an officer of the financial institution that the financial institution is legally entitled to the escrow securities;

(b) evidence that the Exchange has accepted the pledge, mortgage or charge of escrow securities to the financial institution;

(c) a transfer power of attorney, executed by the transferor in accordance with the requirements of the Issuer's transfer agent;

and

(d) an acknowledgement in the form of Form 5E signed by the financial institution.

6.5 Transfer to Certain Plans and Funds

(1) You may transfer escrow securities within escrow to or between a registered retirement savings plan (RRSP), registered retirement income fund (RRIF) or other similar registered plan or fund with a trustee, where the beneficiaries of the plan or fund are limited to you and your spouse, children and parents provided that.

(a) you make application under the applicable Exchange Policy of the intent to transfer at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) evidence from the trustee of the transferee plan or fund, or the trustee's agent, stating that, to the best of the trustee's knowledge, the annuitant of the RRSP or RRIF or the beneficiaries of the other registered plan or fund do not include any person or company other than you and your spouse, children and parents;

(b) a transfer power of attorney, executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and

(c) an acknowledgement in the form of Form 5E signed by the trustee of the plan or fund.

6.6 Effect of Transfer Within Escrow

After the transfer of escrow securities within escrow, the escrow securities will remain in escrow and released from escrow under this Agreement as if no transfer has occurred, on the same terms that applied before the transfer. The Escrow Agent will not deliver any share certificates or other evidence of escrow securities to the transferees under this Part 6.

6.7 Discretionary Applications

The Exchange may consent to the transfer within escrow of escrow securities in other circumstances and on such terms and conditions as it deems appropriate.

PART 7 BUSINESS COMBINATIONS

7.1 Business Combinations

This Part applies to the following **(business combinations):**

(a) a formal take-over bid for all outstanding equity securities of the Issuer or which, if successful, would result in a change of control of the Issuer
(b) formal issuer bid for all outstanding equity securities of the Issuer
(c) a statutory arrangement
(d) an amalgamation
(e) a merger
(f) a reorganization that has an effect similar to an amalgamation or merger

7.2 Delivery to Escrow Agent

You may tender your escrow securities to a person or company in a business combination. At least five business days prior to the date the escrow securities must be tendered under the business combination, you must deliver to the Escrow Agent:

(a) a written direction signed by you that directs the Escrow Agent to deliver to the depositary under the business combination any share certificates or other evidence of the escrow securities, and a completed and executed cover letter or similar document and, where required, transfer power of attorney completed and executed for transfer in accordance with the requirements of the Issuer's depository, and any other documentation specified or provided by you and required to be delivered to the depositary under the business combination;

(b) written consent of the Exchange; and

(c) any other information concerning the business combination as the Escrow Agent may reasonably require.

7.3 Delivery to Depositary

As soon as reasonably practicable, and in any event no later than three business days after the Escrow Agent receives the documents and information required under section 7.2, the Escrow Agent will deliver to the depositary, in accordance with the direction, any share certificates or other evidence of the escrow securities and a letter addressed to the depositary that

(a) identifies the escrow securities that are being tendered;

(b) states that the escrow securities are held in escrow;

(c) states that the escrow securities are delivered only for the purposes of the business combination and that they will be released from escrow only after the Escrow Agent receives the information described in section 7.4;

(d) if any share certificates or other evidence of the escrow securities have been delivered to the depositary, requires the depositary to return to the Escrow Agent, as soon as practicable, the share certificates or other evidence of escrow securities that are not released from escrow into the business combination; and

(e)

where applicable, requires the depositary to deliver or cause to be delivered to the Escrow Agent, as soon as practicable, share certificates or other evidence of additional escrow securities that you acquire under the business combination.

7.4 Release of Escrow Securities to Depositary

(1) The Escrow Agent will release from escrow the tendered escrow securities provided that:

(a) you or the Issuer make application under the applicable Exchange Policy of the intent to release the tendered securities on a date at least 10 business days and not more than 30 business days prior to the date of the proposed release date; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date;

(c) the Escrow Agent receives a declaration signed by the depositary or, if the direction identifies the depositary as acting on behalf of another person or company in respect of the business combination, by that other person or company, that

(i) the terms and conditions of the business combination have been met or waived; and

(ii) the escrow securities have either been taken up and paid for or are subject to an unconditional obligation to be taken up and paid for under the business combination.

7.5 Escrow of New Securities

If you receive securities **(new securities)** of another issuer **(successor issuer)** in exchange for your escrow securities, the new securities will be subject to escrow in substitution for the tendered escrow securities.

7.6 Release from Escrow of New Securities

(1) The Escrow Agent will send to a Securityholder share certificates or other evidence of the Securityholder's new securities as soon as reasonably practicable after the Escrow Agent receives

(a) a certificate from the successor issuer signed by a director or officer of the successor issuer authorized to sign

(i) stating that it is a successor issuer to the Issuer as a result of a business combination;

(ii) containing a list of the securityholders whose new securities are subject to escrow under section 7.5;

(iii) containing a list of the securityholders whose new securities are not subject to escrow under section 7.5; and

(b) written confirmation from the Exchange that it has accepted the list of Securityholders whose new securities are not subject to escrow under section 7.5; and

(2) If your new securities are subject to escrow, unless subsection (3) applies, the Escrow Agent will hold your new securities in escrow on the same terms and conditions, including release dates, as applied to the escrow securities that you exchanged.

(3) If the Issuer is a Tier 2 Issuer, and the successor issuer is a Tier I Issuer, the release provisions relating to graduation will apply.

PART 8 RESIGNATION OF ESCROW AGENT

8.1 Resignation of Escrow Agent

(1) If the Escrow Agent wishes to resign as escrow agent, the Escrow Agent will give written notice to the Issuer and the Exchange.

(2) If the Issuer wishes to terminate the Escrow Agent as escrow agent, the Issuer will give written notice to the Escrow Agent and the Exchange.

(3) If the Escrow Agent resigns or is terminated, the Issuer will be responsible for ensuring that the Escrow Agent is replaced not later than the resignation or termination date by another escrow agent that is acceptable to the Exchange and that has accepted such appointment, which appointment will be binding on the Issuer and the Securityholders.

(4) The resignation or termination of the Escrow Agent will be effective, and the Escrow Agent will cease to be bound by this Agreement, on the date that is 60 days after the date of receipt of the notices referred to above by the Escrow Agent or Issuer, as applicable, or on such other date as the Escrow Agent and the Issuer may agree upon (the "resignation or termination date"), provided that the resignation or termination date will not be less than 10 business days before a release date.

(5) If the Issuer has not appointed a successor escrow agent within 60 days of the resignation or termination date, the Escrow Agent will apply, at the Issuer's expense, to a court of competent jurisdiction for the appointment of a successor escrow agent, and the duties and responsibilities of the Escrow Agent will cease immediately upon such appointment.

(6) On any new appointment under this section, the successor Escrow Agent will be vested with the same powers, rights, duties and obligations as if it had been originally named herein as Escrow Agent, without any further assurance, conveyance, act or deed. The predecessor Escrow Agent, upon receipt of payment for any outstanding account for its services and expenses then unpaid, will transfer, deliver and pay over to the successor Escrow Agent, who will be entitled to receive, all securities, records or other property on deposit with the predecessor Escrow Agent in relation to this Agreement and the predecessor Escrow Agent will thereupon be discharged as Escrow Agent.

(7) If any changes are made to Part 9 of this Agreement as a result of the appointment of the successor Escrow Agent, those changes must not be inconsistent with the Policy and the terms of this Agreement and the Issuer to this Agreement will file a copy of the new Agreement with the securities regulators with jurisdiction over this Agreement and the escrow securities.

PART 9 OTHER CONTRACTUAL ARRANGEMENTS

9.1 Escrow Agent Not a Trustee

The Escrow Agent accepts duties and responsibilities under this Agreement and the escrow securities and any share certificates or other evidence of these securities, solely as a custodian, bailee and agent. No trust is intended to be, or is or will be, created hereby and the Escrow Agent shall owe no duties hereunder as trustee.

9.2 Escrow Agent Not Responsible for Genuineness

The Escrow Agent will not be responsible or liable in any manner whatever for the sufficiency, correctness, genuineness or validity of any escrow security deposited with it.

9.3 Escrow Agent Not Responsible for Furnished Information

The Escrow Agent will have no responsibility for seeking, obtaining, compiling, preparing or determining the accuracy of any information or document, including the representative capacity in which a party purports to act, that the Escrow Agent received as a condition to a release from escrow or a transfer of escrow securities within escrow under this Agreement.

9.4 Escrow Agent Not Responsible after Release

The Escrow Agent will have no responsibility for escrow securities that it has released to a Securityholder or at a Securityholder's direction according to this Agreement.

9.5 Indemnification of Escrow Agent

The Issuer and each Securityholder hereby jointly and severally agree to indemnify and hold harmless the Escrow Agent, its affiliates, and their current and former directors, officers, employees and agents from and against any and all claims, demands, losses, penalties, costs, expenses, fees and liabilities, including, without limitation, legal fees and expenses, directly or indirectly arising out of, in connection with, or in respect of, this Agreement, except where same result directly and principally from gross negligence, willful misconduct or bad faith on the part of the Escrow Agent. This indemnity survives the release of the escrow securities, the resignation or termination of the Escrow Agent and the termination of this Agreement.

9.6 Additional Provisions

(1) The Escrow Agent will be protected in acting and relying reasonably upon any notice, direction, instruction, order, certificate, confirmation, request, waiver, consent, receipt, statutory declaration or other paper or document (collectively referred to as "Documents") furnished to it and purportedly signed by any officer or person required or entitled to execute and deliver to the Escrow Agent any such Document in connection with this Agreement, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth or accuracy of any information therein contained, which it in good faith believes to be genuine.

(2) The Escrow Agent will not be bound by any notice of claim or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Agreement unless received by it in writing, and signed by the other Parties and approved by the Exchange, and, if the duties or indemnification of the Escrow Agent in this Agreement are affected, unless it has given its prior written consent.

(3) The Escrow Agent may consult with or retain such legal counsel and advisors as it may reasonably require for the purpose of discharging its duties or determining its rights under this Agreement and may rely and act upon the advice of such counsel or advisor. The Escrow Agent will give written notice to the Issuer as soon as practicable that it has retained legal counsel or other advisors. The Issuer will pay or reimburse the Escrow Agent for any reasonable fees, expenses and disbursements of such counsel or advisors.

(4) In the event of any disagreement arising under the terms of this Agreement, the Escrow Agent will be entitled, at its option, to refuse to comply with any and all demands whatsoever until the dispute is settled either by a written agreement among the Parties or by a court of competent jurisdiction.

(5) The Escrow Agent will have no duties or responsibilities except as expressly provided in this Agreement and will have no duty or responsibility under the Policy or arising under any other agreement, including any agreement referred to in this Agreement, to which the Escrow Agent is not a party.

(6) The Escrow Agent will have the right not to act and will not be liable for refusing to act unless it has received clear and reasonable documentation that complies with the terms of this Agreement. Such documentation must not require the exercise of any discretion or independent judgment.

(7) The Escrow Agent is authorized to cancel any share certificate delivered to it and hold such Securityholder's escrow securities in electronic or uncertificated form only, pending release of such securities from escrow.

(8) The Escrow Agent will have no responsibility with respect to any escrow securities in respect of which no share certificate or other evidence or electronic or uncertificated form of these securities has been delivered to it, or otherwise received by it.

9.7 Limitation of Liability of Escrow Agent

The Escrow Agent will not be liable to any of the Parties hereunder for any action taken or omitted to be taken by it under or in connection with this Agreement, except for losses directly, principally and immediately caused by its bad faith, willful misconduct or gross negligence. Under no circumstances will the Escrow Agent be liable for any special, indirect, incidental, consequential, exemplary, aggravated or punitive losses or damages hereunder, including any loss of profits, whether foreseeable or unforeseeable. Notwithstanding the foregoing or any other provision of this Agreement, in no event will the collective liability of the Escrow Agent under or in connection with this Agreement to any one or more Parties, except for losses directly caused by its bad faith or willful misconduct, exceed the amount of its annual fees under this Agreement or the amount of three thousand dollars ($3,000.00), whichever amount shall be greater.

9.8 Remuneration of Escrow Agent

The Issuer will pay the Escrow Agent reasonable remuneration for its services under this Agreement, which fees are subject to revision from time to time on 30 days' written notice. The Issuer will reimburse the Escrow Agent for its expenses and disbursements. Any amount due under this section and unpaid 30 days after request for such payment, will bear interest from the expiration of such period at a rate per annum equal to the then current rate charged by the Escrow Agent, payable on demand.

PART 10 INDEMNIFICATION OF THE EXCHANGE

10.1 Indemnification

(1) The Issuer and each Securityholder jointly and severally:

(a) release, indemnify and save harmless the Exchange from all costs (including legal cost, expenses and disbursements), charges, claims, demands, damages, liabilities, losses and expenses incurred by the Exchange;

(b) agree not to make or bring a claim or demand, or commence any action, against the Exchange; and

(c) agree to indemnify and save harmless the Exchange from all costs (including legal costs) and damages that the Exchange incurs or is required by law to pay as a result of any person's claim, demand or action,

arising from any and every act or omission committed or omitted by the Exchange, in connection with this Agreement, even if said act or omission was negligent, or constituted a breach of the terms of this Agreement.

(2) This indemnity survives the release of the escrow securities and the termination of this Agreement.

PART 11 NOTICES

11.1 Notice to Escrow Agent

Documents will be considered to have been delivered to the Escrow Agent on the next business day following the date of transmission, if delivered by fax, the date of delivery, if delivered by hand or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the following:

Computershare Investor Services Inc.
510 Burrard Street, 3rd Floor
Vancouver, British Columbia
V6C 3B9

Attention: Manager, Client Services
Fax: 604-661-9401

11.2 Notice to Issuer

Documents will be considered to have been delivered to the Issuer on the next business day following the date of transmission, if delivered by fax, the date of delivery, if delivered by hand during normal business hours or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the following:

CAG Capital Inc.
7936 Lakefield
Drive Burnaby, B.C.
V5E 3W8

Attention: Benjamin W. Catalano, President & C.E.O.
Fax: (604) 520-7707

11.3 Deliveries to Securityholders

Documents will be considered to have been delivered to a Securityholder on the date of delivery, if delivered by hand or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the address on the Issuer's share register.

Any share certificates or other evidence of a Securityholder's escrow securities will be sent to the Securityholder's address on the Issuer's share register unless the Securityholder has advised the Escrow Agent in writing otherwise at least ten business days before the escrow securities are released from escrow. The Issuer will provide the Escrow Agent with each securityholder's address as listed on the Issuer's share register.

11.4 Change of Address

(1) The Escrow Agent may change its address for delivery by delivering notice of the change of address to the Issuer and to each Securityholder.

(2) The Issuer may change its address for delivery by delivering notice of the change of address to the Escrow Agent and to each Securityholder.

(3) A Securityholder may change that Securityholder's address for delivery by delivering notice of the change of address to the Issuer and to the Escrow Agent.

11.5 Postal Interruption

A party to this Agreement will not mail a Document if the party is aware of an actual or impending disruption of postal service.

PART 12 GENERAL

12.1 Interpretation — holding securities

Unless the context otherwise requires, all capitalized terms that are not otherwise defined in this Agreement, shall have the meanings as defined in *Policy 1.1 - Interpretation* or in *Policy 5.4 -Escrow, Vendor Consideration and Resale Restrictions.*

When this Agreement refers to securities that a Securityholder "holds", it means that the Securityholder has direct or indirect beneficial ownership of or control or direction over the securities.

12.2 Enforcement by Third Parties

The Issuer enters this Agreement both on its own behalf and as trustee for the Exchange and the Securityholders of the Issuer, and this Agreement may be enforced by either the Exchange, or the Securityholders of the Issuer, or both.

12.3 Termination, Amendment, and Waiver of Agreement

(1) Subject to subsection 12.3(3), this Agreement shall only terminate:

(a) with respect to all the Parties:

(i) as specifically provided in this Agreement;

(ii) subject to section 12.3(2), upon the agreement of all Parties; or

(iii) when the escrow securities of all Securityholders have been released from escrow pursuant to this Agreement; and

(b) with respect to a Party:

(i) as specifically provided in this Agreement; or

(ii) if the Party is a Securityholder, when all of the Securityholder's escrow securities have been released from escrow pursuant to this Agreement.

(2) An agreement to terminate this Agreement pursuant to section 12.3(1)(a)(ii) shall not be effective unless and until the agreement to terminate

(a) is evidenced by a memorandum in writing signed by all Parties;
(b) has been consented to in writing by the Exchange; and

(c) has been approved by a majority of securityholders of the Issuer who are not Securityholders.

(3) Notwithstanding any other provision in this Agreement, the obligations set forth in section 10.1 shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

(4) No amendment or waiver of this Agreement or any part of this Agreement shall be effective unless the amendment or waiver:

(a) is evidenced by a memorandum in writing signed by all Parties;

(b) has been approved in writing by the Exchange; and

(c) has been approved by a majority of securityholders of the Issuer who are not Securityholders.

(5) No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision (whether similar or not), nor shall any waiver constitute a continuing waiver, unless expressly provided.

12.4 Severance of Illegal Provision

Any provision or part of a provision of this Agreement determined by a court of competent jurisdiction to be invalid, illegal or unenforceable shall be deemed stricken to the extent necessary to eliminate any invalidity, illegality or unenforceability, and the rest of the Agreement and all other provisions and parts thereof shall remain in full force and effect and be binding upon the parties hereto as though the said illegal and/or unenforceable provision or part thereof had never been included in this Agreement.

12.5 Further Assurances

The Parties will execute and deliver any further documents and perform any further acts reasonably requested by any of the Parties to this Agreement which are necessary to carry out the intent of this Agreement.

12.6 Time

Time is of the essence of this Agreement.

12.7 Consent of Exchange to Amendment

The Exchange must approve any amendment to this Agreement.

12.8 Additional Escrow Requirements

A Canadian exchange may impose escrow terms or conditions in addition to those set out in this Agreement.

12.9 Governing Laws

The laws of {insert principal jurisdiction} and the applicable laws of Canada will govern this Agreement.

12.10 Counterparts

The Parties may execute this Agreement by fax and in counterparts, each of which will be considered an original and all of which will be one agreement.

12.11 Singular and Plural

Wherever a singular expression is used in this Agreement, that expression is considered as including the plural or the body corporate where required by the context.

12.12 Language

This Agreement has been drawn up in the [English/French] language at the request of all parties. Cet acte a ete redige en [anglais/francais] a la demande de toutes les parties.

12.13 Benefit and Binding Effect

This Agreement will benefit and bind the Parties and their heirs, executors, administrators, successors and permitted assigns and all persons claiming through them as if they had been a Party to this Agreement.

12.14 Entire Agreement

This is the entire agreement among the Parties concerning the subject matter set out in this Agreement and supersedes any and all prior understandings and agreements.

12.15 Successor to Escrow Agent

Any corporation with which the Escrow Agent may be amalgamated, merged or consolidated, or any corporation succeeding to the business of the Escrow Agent will be the successor of the Escrow Agent under this Agreement without any further act on its part or on the part or any of the Parties, provided that the successor is recognized by the Exchange.

The Parties have executed and delivered this Agreement as of the date set out above.

COMPUTERSHARE INVESTOR SERVICES INC.

Authorized signatory

Authorized signatory

CAG CAPITAL INC.

Authorized signatory

Authorized signatory

The Parties have executed and delivered this Agreement as of the date set out above.

COMPUTERSHARE INVESTOR SERVICES INC.

Authorized signatory

Authorized signatory

CAG CAPITAL INC.

Authorized signatory

Authorized signatory Alan Ji

Signed, sealed and delivered by **Alan G. Ji** in the presence of:

Name

Address

Occupation

Alan G. Ji

Signed, sealed and delivered by **Darrell Brookstein** in the presence of:

David Mann

Name

4720 Everts St

Address

San Diego, CA 92109

CEO

Occupation

Darrell Brookstein

Signed, sealed and delivered by)
Alan G. Ji in the presence of:)
)
_____)
Name)
Lu Feng)
Address)
2166 Chisin Street)
)
San Jose, CA 95121)
Occupation)
Engineering Manager)

Alan G. Ji

Signed, sealed and delivered by)
Darrell Brookstein in the presence of:)
)
_____)
Name)
)
_____)
Address)
)
_____)
)
_____)
Occupation)

Darrell Brookstein

Signed, sealed and delivered by)
Martin Woodward in the presence of:)
)
_____)
Name)
)
_____)
Address)
)
_____)
)
_____)
Occupation)

Martin Woodward

Signed, sealed and delivered by)
Benjamin W. Catalano in the presence of:)
)
_____)
Name)
Tracie Catalano)
Address)
7936 Lakefield Drive)
)
Burnaby BC V5E3W8)
Occupation)
Teacher.

Benjamin W. Catalano

Signed, sealed and delivered by)
Martin Woodward in the presence of:)
)
Alex Mohammed Hoursil)
Name)
12559 - 74A Avenue)
Address)
Surrey BC. V3W 0R4)
Ballard Power Systems)
IT Security Administrator)
Occupation)

Martin Woodward

Signed, sealed and delivered by)
Benjamin W. Catalano in the presence of:)
)
_____)
Name)
)
_____)
Address)
)
_____)
)
_____)
Occupation)

Benjamin W. Catalano

Schedule "A" to Escrow Agreement

Securityholder

Name: **Alan G. Ji**

Signature: _____

Address for Notice: **2166 Chisin Street, San Jose, CA 95121 USA**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	500,000	

Securityholder

Name: **Darrell Brookstein**

Signature: _____

Address for Notice: **3404 Cmto. Santa Fe Downs, Del Mar, California USA 92014**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	500,000	

Securityholder

Name: **Martin Woodward**

Signature: _____

Address for Notice: **935 Shavington Street, North Vancouver, B.C. V7L 1K6**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	300,000	

Securityholder

Name: **Benjamin W. Catalano**

Signature: _____

Address for Notice: **7936 Lakefield Drive, Burnaby, BC V5E 3W8**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	700,000	

Securityholder

Name: **Martin Woodward**

Signature: _____

Address for Notice: **935 Shavington Street, North Vancouver, B.C. V7L 1K6**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	300,000	

Securityholder

Name: **Benjamin W. Catalano**

Signature: _____

Address for Notice: **7936 Lakefield Drive, Burnaby, BC V5E 3W8**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	700,000	

Schedule "A" to Escrow Agreement

Securityholder

Name: **Alan G. Ji**

Signature: _____

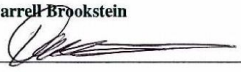
Address for Notice: **2166 Chisin Street, San Jose, CA 95121 USA**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	500,000	

Securityholder

Name: **Darrell Brookstein**

Signature: 

Address for Notice: **3404 Cmto. Santa Fe Downs, Del Mar, California USA 92014**

Securities:

Class or description	*Number*	*Certificate(s) (if applicable)*
Common Shares	500,000	

SCHEDULE B(1) — CPC ESCROW SECURITIES

RELEASE SCHEDULE

Timed Release

Release Dates	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
[Insert date of Final Exchange Bulletin]	10% 1/10 of your escrow securities	200,000
[Insert date 6 months following Final Exchange Bulletin]	1/6 of your remaining escrow securities	300,000
[Insert date 12 months following Final Exchange Bulletin]	1/5 of your remaining escrow securities	300,000
[Insert date 18 months following Final Exchange Bulletin]	1/4 of your remaining escrow securities	300,000
[Insert date 24 months following Final Exchange Bulletin]	1/3 of your remaining escrow securities	300,000
[Insert date 30 months following Final Exchange Bulletin]	1/2 of your remaining escrow securities	300,000
[Insert date 36 months following Final Exchange Bulletin]	all of your remaining escrowed securities	300,000
TOTAL	100%	2,000,000

* In the simplest case, where there are no changes to the escrow securities initially deposited and no additional escrow securities, the release schedule outlined above results in the escrow securities being released in equal tranches of 15% after completion of the release on the date of the Final Exchange Bulletin.

SCHEDULE B(2) — TIER 1 ISSUER - ESCROW SECURITIES

RELEASE SCHEDULE

Timed Release

Release Dates	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
[Insert date of Final Exchange Bulletin]	1/4 of your escrow securities	
[Insert date 6 months following Final Exchange Bulletin]	25% 1/3 of your remaining escrow securities	
[Insert date 12 months following Final Exchange Bulletin]	1/2 of your remaining escrow securities	
[Insert date 18 months following Final Exchange Bulletin]	all of your remaining escrowed securities	
TOTAL	100%	

* In the simplest case, where there are no changes to the escrow securities initially deposited and no additional escrow securities, then the release schedule outlined above results in the escrow securities being released in equal tranches of 25%.

TSX venture EXCHANGE

FORM 50

ESCROW AGREEMENT

VALUE SECURITY;

THIS AGREEMENT is made as of the 7th day of April, 2010

AMONG: **STELLAR BIOTECHNOLOGIES, INC.** of 7936 Lakefield Drive, Burnaby, Vancouver, British Columbia, Canada V5E 3W8 (the **"Issuer")**

AND **COMPUTERSHARE INVESTOR SERVICES INC. of 510 Burrard Street, 2nd Floor, Vancouver, British Columbia, Canada V6C 3B9** (the **"Escrow Agent")**

AND: **EACH OF THE UNDERSIGNED SECURITYHOLDERS OF THE ISSUER** (a **"Securityholder" or "you")**

(collectively, the **"Parties")**

This Agreement is being entered into by the Parties under Exchange Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions* **(the Policy)** in connection with a Qualifying Transaction. The Issuer is a Tier 2 Issuer as described in Policy 2.1 - *Minimum Listing* Requirement & For, good and valuable consideration**,** the Parties agree as follows:

PART 1 ESCROW

1.1 Appointment of Escrow Agent

The Issuer and the Securityholders appoint the Escrow Agent to act as escrow agent under this Agreement. The Escrow Agent accepts the appointment

1.2 Deposit of Escrow Securities in Escrow

(1) You are depositing the securities **(escrow securities)** listed opposite your name in Schedule "A" with the Escrow Agent to be held in escrow under this Agreement. You will immediately deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of these securities which you have or which **you** may later receive.

(2) If you receive any other securities **(additional escrow securities):**

(a) as a dividend or other distribution on escrow securities;

(b) on the exercise of a right of purchase, conversion or exchange attaching to escrow securities, including securities received on conversion of special warrants;

(c) on a subdivision, or compulsory or automatic conversion or exchange of escrow securities; or

(d) from a successor issuer in a business combination, if Part 6 of this Agreement applies,

you will deposit them in escrow with the Escrow Agent. You will deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of those additional escrow securities. When this Agreement refers to escrow securities, it includes additional escrow securities.

(3) You will immediately deliver to the Escrow Agent any replacement share certificates or other evidence of additional escrow securities issued to you.

1.3 Direction to Escrow Agent

The Issuer and the Securityholders direct the Escrow Agent to hold the escrow securities in escrow until they are released from escrow under this Agreement.

PART 2 RELEASE OF ESCROW SECURITIES

2.1 Release Provisions

The provisions of Schedule **B(2)** are incorporated into and form part of this Agreement..

2.2 Additional escrow securities

If you acquire additional escrow securities in connection with the transaction to which this agreement relates, those securities will be added to the securities already in escrow, to increase the number of remaining escrow securities. After that, all of the escrow securities will be released in accordance with the applicable release schedule.

2.3 Additional Requirements for Tier 2 Surplus Escrow Securities

Where securities are subject to a Tier 2 Surplus Security Escrow Agreement Schedule 13(4), the following additional conditions apply:

(1) The escrow securities will be cancelled if the asset, property, .business or interest therein in consideration of which the securities were issued, is lost, or abandoned, or the operations or development of such asset, property or business is discontinued.

(2) The Escrow Agent will not release escrow securities from escrow under schedule B(4) unless the Escrow. Agent has received, within the 15 days prior to the release date, a certificate from the Issuer that:

(a) is signed by two directors or officers of the Issuer;

(b) is dated not more than 30 days prior to the release date;

(c) states that the assets for which the escrow securities were issued (the "Assets") were included as assets on the balance sheet of the Issuer in the most recent financial statements filed by the. Issuer with the Exchange; and

(d) states that the Issuer has no reasonable knowledge that the Assets will not be included as assets on the balance sheet of the Issuer in the next financial statements to be filed by the Issuer with the Exchange.

(3) If, at, any time during the term of this Agreement, the Escrow Agent is prohibited from releasing escrow securities on a release date specified schedule B(4) as a result of section 23(2) above, then the Escrow Agent will not release any further escrow securities from escrow without the written consent of the Exchange.

(4) If as a result of this section 2.3, the Escrow Agent does not release escrow securities from escrow for a period of five years, then:

(a) the Escrow Agent will deliver a notice to the Issuer, and will include with the notice any certificates that the Escrow Agent holds which evidence the escrow securities; and

(b) the Issuer and the Escrow Agent will take such action as is necessary to cancel the escrow securities.

(5) For the purposes of cancellation of escrow securities under this section, each Securityholder irrevocably appoints the Escrow Agent as his or her attorney, with authority to appoint substitute attorneys, as necessary.

2.4 Delivery of Share Certificates for Escrow Securities

The Escrow Agent will send to each Securityholder any share certificates or other evidence of that Securityholder's escrow securities in the possession of the Escrow Agent released from escrow as soon as reasonably practicable after the release.

2.5 Replacement Certificates

If, on the date a Securityholder's escrow securities are to be released, the Escrow Agent holds a share certificate or other evidence representing more escrow securities than are to be released, the Escrow Agent will deliver the share certificate or other evidence to the Issuer or its transfer agent and request replacement share certificates or other evidence. The Issuer will cause replacement share certificates or other evidence to be prepared and delivered to the. Escrow Agent. After the Escrow Agent receives the replacement share certificates or other evidence, the Escrow Agent will send to the Securityholder or at the Securityholder's direction, the replacement share certificate or other evidence of the escrow securities released. The Escrow Agent and Issuer will act as soon as reasonably practicable.

2.6 Release upon Death

(1) If a Securityholder dies, the Securityholders escrow securities will be released from escrow. The Escrow Agent will deliver any share certificates or other evidence of the escrow securities in the possession of the Escrow Agent to the Securityholders legal representative provided that:

(a) the legal representative of the deceased Securityholder provides written notice to the Exchange of the intent to release the escrow securities as at a specified date which is at least 10 business days and not more than 30 business days prior to the proposed release; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 am. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to delivery the Escrow Agent must receive:

(a) a certified copy of the death certificate; and

(b) any evidence of the legal representative's status that the Escrow Agent may reasonably require.

2.7 Exchange Discretion to Terminate

If the Escrow Agent receives a request from the Exchange to halt or terminate the release of escrow securities from escrow, then the Escrow Agent will comply with that request, and will not release any escrow securities from escrow until it receives the written consent of the Exchange.

2.8 Discretionary Applications

The Exchange may consent to the release from escrow of escrow securities in other circumstances and on terms and on conditions it deems appropriate. Securities may be released, from escrow provided that the Escrow Agent receives written notice from the Exchange.

PART 3 EARLY RELEASE ON CHANGE OF ISSUER STATUS

3.1 Early Release -- Graduation to Tier 1

(1) When a Tier 2 Issuer becomes a Tier 1 Issuer, the release schedule for its escrow securities changes.

(2) If the Issuer reasonably believes that it meets the Minimum Listing Requirements of a Tier 1 Issuer as described in Policy 2.1 — *Minimum Listing Requirements*, the Issuer may make application to the Exchange to be listed as a Tier 1 Issuer. The Issuer must also concurrently provide notice to the Escrow Agent that it is making such an application.

(3) If the graduation to Tier 1 is accepted by the Exchange, the Exchange will issue an Exchange Bulletin confirming final acceptance for listing of the Issuer on Tier 1. Upon issuance of this Bulletin the Issuer must immediately:

(a) issue a news release:

(i) disclosing that it has been accepted for graduation to Tier 1; and

(ii) disclosing the number of escrow securities to be released and the dates of release under the new schedule; and

(b) provide the news release, together with a copy of the Exchange Bulletin, to the Escrow Agent.

(4) Upon completion of the steps in section 3.1(3) above, the Issuer's release schedule will be replaced as follows:

Applicable Schedule Pre-Graduation	Applicable Schedule Post-Graduation
Schedule B(2)	Schedule 13(1)
Schedule B(4)	Schedule B(3)

(5) Within 10 days' of the Exchange Bulletin confirming the Issuer's listing on Tier 1, the Escrow Agent must release any escrow securities from escrow securities which under the new release schedule would have been releasable at a date prior to the Exchange Bulletin.

PART 4 DEALING WITH ESCROW SECURITIES

4.1 Restriction on Transfer, etc.

Unless it is expressly permitted in this Agreement, you will not sell, transfer, assign, mortgage, enter into a derivative transaction concerning, or otherwise deal in any way with your escrow securities or any related share certificates or other evidence of the escrow securities. If a Securityholder is a private company controlled by one or more Principals of the Issuer, the Securityholder may not participate in a transaction that results in a change of its control or a change in the economic exposure of the Principals to the risks of holding escrow securities.

4.2 Pledge, Mortgage or Charge as Collateral for a Loan

Subject to Exchange acceptance, you may pledge, mortgage or charge your escrow securities to a financial institution as collateral for a loan, provided that no escrow securities or any share certificates or other evidence of escrow securities will be transferred or delivered by the Escrow Agent to the financial institution for this purpose. The loan agreement must provide that the escrow securities will remain in escrow if the lender realizes on the escrow securities to satisfy the loan.

4.3 Voting of Escrow Securities

Although you may exercise voting rights attached to your escrow securities, you may not, while your securities are held in escrow, exercise voting rights, attached to any securities (whether in escrow or not) in support of one or more arrangements that would result in, the repayment of capital being made on the escrow securities prior to a winding up of the Issuer.

4.4 Dividends on Escrow Securities

You may receive a dividend or other distribution on your escrow securities, and elect the manner of payment from the standard options offered by the Issuer. If the Escrow Agent receives a dividend or other distribution on your escrow securities, other than additional escrow securities, the. Escrow Agent will pay the dividend or other distribution to you on receipt.

4.5 Exercise of Other Rights Attaching to Escrow Securities

You may exercise your rights to exchange or convert your escrow securities in accordance with this agreement.

PART 5 PERMITTED TRANSFERS WITHIN ESCROW

5.1 Transfer to Directors and Senior Officers

(1) You may transfer escrow securities within escrow to existing or, upon their appointment, incoming directors or senior officers of the Issuer or any of its material operating subsidiaries, if the Issuer's board of directors has approved the transfer and provided that;

(a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a certified copy of the resolution of the board of directors of the Issuer approving the transfer;

(b) a certificate signed by a director or officer of the Issuer authorized to sign, stating that the transfer is to a director or senior officer of the Issuer or a material operating subsidiary and that any required acceptance from the Exchange the Issuer is listed on has been received;

(c) an acknowledgment in the form of Form SE signed by the transferee; and

(d) a transfer power of attorney, completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent.

5.2 Transfer to Other Principals

(1) You may transfer escrow securities within escrow:

(a) to a person or company that before the proposed transfer holds more than 20% of the voting rights attached to the. Issuer's outstanding securities; or

(b) to a person or company that after the proposed transfer

(i) will hold more than 10% of the voting rights attached to the Issuer's: outstanding securities, and

(ii) has the right to elect or appoint one or more directors or senior officers the Issuer or any of its material operating subsidiaries, provided that:

(c) you make an application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed twister; and

(d) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a certificate signed by a director or officer of the Issuer authorized to sign, stating that:

(i) the transfer is to a. person or company that the officer believes, after reasonable 'investigation, holds more than 20% of the voting rights attached to the Issuer's outstanding securities before the proposed transfer; or

(ii) the transfer is to a person or company that:

(A) the officer believes, after reasonable investigation, will hold more than 10% of the voting rights attached to the Issuer's outstanding securities; and

(B) has the right to elect or appoint one or more directors or senior officers of the Issuer or any of its material operating subsidiaries after the proposed transfer; and

(iii) any required approval from the Exchange or any outer exchange on which the Issuer is listed has been received;

(b) an acknowledgment in the form of Form 5E signed by the transferee; and

(c) a transfer power of attorney, completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent.

5.3 Transfer upon Bankruptcy

(1) You may transfer escrow securities within escrow to a trustee in bankruptcy or another person or company entitled to escrow securities on bankruptcy provided that:

(a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(h) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer, the Escrow Agent must receive:

(a) a certified copy of either

(i) the assignment in bankruptcy filed with the Superintendent of Bankruptcy, or

(ii) the receiving order adjudging the Securityholder bankrupt;

(b) a certified copy of a certificate of appointment of the trustee in bankruptcy;

(c) a transfer power of attorney, duly completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and

(d) an acknowledgment in the form of Form 5E signed by

(i) the trustee in bankruptcy or

(ii) on direction from the trustee, with evidence of that direction attached to the acknowledgement form, another person or company legally entitled to the escrow securities.

5.4 Transfer Upon Realization of Pledged, Mortgaged or Charged Escrow Securities

(1) You may transfer escrow securities you have pledged, mortgaged or charged under section 4.2 to a financial institution as collateral for a loan within escrow to the lender on realization provided that:

(a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer `the Escrow Agent must receive:

(a) a statutory declaration of an officer of the financial institution that the financial institution is legally entitled to the escrow securities;

(b) evidence that the Exchange has accepted the pledge, mortgage or charge of escrow securities to the financial institution;

(c) a transfer power of attorney, executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and

(d) an acknowledgement in the form of Form SE signed by the financial institution:

5.5 Transfer to Certain Plans and Funds

(1) You may transfer escrow securities within escrow to or between a registered retirement savings plan (RRSP), registered retirement income fund (RRIF) or other similar registered plan or fund with a trustee, where the beneficiaries of the plan or fund are limited to you and your spouse, children and parents provided that:

(a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer, and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) evidence from the trustee of the transferee plan or fund, or the trustee's agent, stating that, to the best of the trustee's knowledge, the annuitant of the RRSP or RRIF or the beneficiaries of the other registered plan or fund do not include any person or company other than you and your spouse, children and parents;

(b) a transfer power of attorney, executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and

(c) an acknowledgement in the form of Form 5E signed by the trustee of the plan or fund.

5.6 Effect of Transfer Within Escrow

After the transfer of escrow securities within escrow, the escrow securities will remain in escrow and released from escrow under this Agreement as if no transfer has occurred, on the same terms that applied before the transfer. The Escrow Agent will not deliver any share certificates or other evidence of the escrow securities, to transferees under this Part 5.

5.7 Discretionary Applications

The Exchange may consent to the transfer within escrow of escrow securities in other circumstances and on such terms and conditions as it deems appropriate.

PART 6 BUSINESS COMBINATIONS

6.1 Business Combinations.

This Part applies to the following (business combinations):

(a) a formal take-over bid for all outstanding securities of the Issuer or which, if successful, would result in a change of control of the Issuer
(b) a formal issuer bid for all outstanding equity securities of the Issuer
(c) a statutory arrangement
(d) an amalgamation
(e) a merger
(f) a reorganization that has an effect similar to an amalgamation or merger

6.2 Delivery to Escrow Agent

(1) You may tender your escrow securities to a person or company in a business combination. At least five business days prior to the date the escrow securities must be tendered under the business combination, you must deliver to the Escrow Agent:

(a) a written direction signed by you that directs the Escrow Agent to deliver to the depositary under the business combination any share certificates or other evidence of the escrow securities and a completed and executed cover letter or similar document and, where required, transfer power of attorney completed and executed for transfer in accordance with the requirements of the Issuer's depository, and any other documentation specified or provided by you and required to be delivered to the depositary under the business combination;

(b) written consent of the Exchange; and

(c) any other information concerning the business combination as the Escrow Agent may reasonably require.

6.3 Delivery to Depositary

(1) As soon as reasonably practicable, and in any event no later than three business days after the Escrow Agent receives the documents and information required under section 6.2, the Escrow Agent will deliver to the depositary, in accordance with the direction, any share certificates or other evidence of the escrow securities, and a letter addressed to the depositary that

(a) identifies the escrow securities that are being tendered;

(b) states that the escrow securities are held in escrow;

(c) states that the escrow securities are delivered only for the purposes of the business combination and that they will be released from escrow only after the Escrow Agent receives the information described in section 6.4;

(d) if any share certificates or other evidence of the escrow securities have been delivered to the depositary, requires the depositary to return to the Escrow Agent, as soon as practicable, the share certificates or other evidence of escrow securities that, are not released from escrow into the business combination; and

(e) where applicable, requires the depositary to deliver or cause to be delivered to the Escrow Agent, as soon as practicable, share certificates or other evidence of additional escrow securities that you acquire under the business combination.

6.4 Release of Escrow Securities to Depositary

(1) The Escrow Agent will release from escrow the tendered escrow securities provided that

(a) you or the Issuer make application to release the tendered securities under the Policy on a date at least 10 business days and not more than 30 business days prior to the date of the proposed release date; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 am. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date;

(c) the Escrow Agent receives a declaration signed by the depositary or, if the direction identifies the depositary as acting on behalf of another person or company in respect of the business combination, by that other person or company, that

(i) the terms and conditions of the business combination have been met or waived; and

(ii) the escrow securities have either been taken up and paid for or are subject to an unconditional obligation to be taken up and paid for under the business combination.

6.5 Escrow of New Securities

(1) If you receive securities (new securities) of another issuer (successor issuer) in exchange for your escrow securities, the new securities will be subject to escrow in substitution for the tendered escrow securities, unless, immediately after completion of the business combination,

(a) the successor issuer is an exempt issuer as defined in the National Policy;

(b) the escrow holder was subject to a Value Security Escrow Agreement and is not a Principal of the successor issuer; and

(c) the escrow holder holds less than 1% of the voting rights attached to the successor issuer's outstanding securities. (In calculating this percentage, include securities that may be issued to the escrow holder under outstanding convertible securities in both the escrow holder's securities and the total securities outstanding.)

6.6 Release from Escrow of New Securities

(1) The Escrow Agent will send to a Securityholder share certificates or other evidence of the Securityholder's new securities as soon as reasonably practicable after the Escrow Agent receives:

(a) a certificate from the successor issuer signed by a director or officer of the successor issuer authorized to sign

(i) stating that it is a successor issuer to the Issuer as a` result of a business combination;

(ii) containing a list of the securityholders whose new securities are subject to escrow under section 6.5;

(iii) containing a list of the securityholders whose new securities are not subject to escrow under section 6.5;

(b) written confirmation from the Exchange that it has accepted the list of Securityholders whose new securities are not subject to escrow under section 6.5.

(2)

The escrow securities of the Securityholders, whose securities are not subject to escrow under section 6.5, will be released, and the Escrow Agent will send any share certificates or other evidence of the escrow securities in the possession of the Escrow Agent in accordance with section 2.4.

(3) If your new securities are subject to escrow, unless subsection (4) applies, the Escrow Agent will hold your new securities in escrow on the same terms and conditions, including release dates, as applied to the escrow securities that you exchanged.

(4) If the. Issuer is a Tier 2 Issuer and the successor issuer is a Tier 1 Issuer, the release provisions in section 3.1(4) relating to graduation will apply.

PART 7 RESIGNATION OF ESCROW AGENT

7.1 Resignation of Escrow Agent

(1) If the Escrow Agent wishes to resign as escrow agent, the Escrow Agent will give written notice to the Issuer and the Exchange.

(2) If the Issuer wishes to terminate the Escrow Agent as escrow agent the Issuer will give written notice to the Escrow Agent and the Exchange.

(3) If the Escrow Agent resigns or is terminated, the Issuer will be responsible for ensuring that the Escrow Agent is replaced not later than the resignation or termination date by another escrow agent that is acceptable to the Exchange and that has accepted such appointment, which appointment will be binding on the Issuer and the Securityholders.

(4) The resignation or termination of the Escrow Agent will be effective, and the Escrow Agent will cease to be bound by this Agreement, on the date that is 60 days after the date of receipt of the notices referred to above by the Escrow Agent or Issuer, as applicable, or on such other date as the Escrow Agent and the Issuer may agree upon (the "resignation or termination date"), provided that the resignation or termination date will not be less than 10 business days before a release date.

(5) If the Issuer has not appointed a successor escrow agent within 60 days of the resignation or termination date, the Escrow Agent will apply, at the Issuer's expense, to a court of competent jurisdiction for the appointment of a successor escrow agent, and the, duties and responsibilities of the Escrow Agent will cease immediately upon such appointment.

(6) On any new appointment under this section, the successor Escrow Agent will be vested with the same powers, rights, duties and obligations as if it had been originally named herein as Escrow Agent, without any further assurance, conveyance, act or deed. The predecessor Escrow Agent, upon receipt of payment for any outstanding account for its services and expenses then unpaid, will transfer, deliver and pay over to the successor Escrow Agent, who will be entitled to, receive, all securities, records or other property on deposit with the predecessor Escrow Agent in relation to this Agreement and the predecessor Escrow Agent will thereupon be discharged as. Escrow Agent.

(7) If any changes are made to Part 8 of this Agreement as a result of the appointment of the successor Escrow Agent, those changes must not be inconsistent with the Policy and the terms of this Agreement and the Issuer to this Agreement will fie a copy of the new Agreement with the Exchange.

PART 8 OTHER CONTRACTUAL ARRANGEMENTS

8.1 Escrow Agent Not a Trustee

The Escrow Agent accepts duties and responsibilities under this Agreement, and the escrow securities and any share certificates or other evidence of these securities, solely as a custodian, bailee and agent. No trust is intended to be, or is or will be, created hereby and the Escrow Agent shall owe no duties hereunder as a trustee.

8.2 Escrow Agent Not Responsible for Genuineness

The Escrow Agent will not be responsible or liable' n any manner whatever for the sufficiency, correctness, genuineness or validity of any escrow security deposited with it.

8.3 Escrow Agent Not Responsible for Furnished Information

The Escrow Agent will have no responsibility for seeking, obtaining, compiling, preparing or determining the accuracy of any information or document, including the representative capacity in which a party purports to act, that the Escrow Agent receives as a condition to a release from escrow or a transfer of escrow securities within escrow under this Agreement.

8.4 Escrow Agent Not Responsible after Release

The Escrow Agent will have no responsibility for escrow securities that it has released to a Securityholder or at a Securityholder's direction according to this Agreement.

8.5 Indemnification of Escrow Agent

The Issuer and each Securityholder hereby jointly and severally agree to indemnify and hold harmless the Escrow Agent, its affiliates, and their current and former directors, officers, employees and agents from and against any and all claims, demands, losses, penalties, costs, expenses, fees and liabilities, including, without limitation, legal fees and expenses, directly or indirectly arising out of, in connection with, or in respect of; this Agreement, except where same result directly and principally from gross negligence, willful misconduct or bad faith on the part of the Escrow Agent. This indemnity survives the release of the escrow securities, the resignation or termination of the Escrow Agreement and the termination of this Agreement.

8.6 Additional Provisions

(1) The Escrow Agent will be protected in acting and relying reasonably upon any notice, direction, instruction, order, certificate, confirmation, request, waiver, consent, receipt, statutory declaration or other paper or document (collectively referred to as "Documents") furnished to it and purportedly signed by any officer or person required to or entitled to execute and deliver to the Escrow Agent any such Document in connection with this Agreement, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth or accuracy of any information therein contained, which it in good faith believes to be genuine.

(2) The Escrow Agent will not be bound by any notice of a claim or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Agreement unless received by it in writing, and signed by the other. Parties and approved by the Exchange, and, if the duties or indemnification of the Escrow Agent in, this Agreement are affected, unless it has given its prior written consent.

(3) The Escrow Agent may consult with or retain such legal counsel and advisors as it may reasonably require for the purpose of discharging its duties or determining its rights under this Agreement and may rely and act upon the advice of such counsel or advisor. The Escrow Agent will give written notice to the Issuer as soon as practicable that it has retained legal counsel or other advisors. The Issuer will pay or reimburse the Escrow Agent for any reasonable fees, expenses and disbursements of such counsel or advisors.

(4) In the event of any disagreement arising under the terms of this Agreement, the Escrow Agent will be entitled, at its option, to refuse to comply with any and all demands whatsoever until the dispute is settled either by a written agreement among the Parties or by a court of competent jurisdiction.

(5) The Escrow Agent will have no duties or responsibilities except as expressly provided in this Agreement and will have no duty or responsibility under the Policy or arising under any other agreement, including any agreement referred to in this Agreement, to which the Escrow Agent is not a party.

(6) The Escrow Agent will have the right not to act and will not be liable for refusing to act unless it has received clear and reasonable documentation that complies with the terms of this Agreement. Such documentation must not require the exercise of any discretion or independent judgment.

(7) The Escrow Agent is authorized to cancel any share certificate delivered to it and hold such Securityholder's escrow securities in electronic, or =certificated form only, pending release of such securities from escrow.

(8) The Escrow Agent will have no responsibility with respect to any escrow securities in respect of which no share certificate or other evidence or electronic or uncertificated form of these securities has been delivered to it, or otherwise received by it.

(9) Any entity resulting from the merger, amalgamation or continuation of Computershare or succeeding to all or substantially all of its transfer agency business (by sale of such business or otherwise), shall thereupon automatically become the escrow Agent hereunder without further act or formality. This Agreement shall enure to the benefit, of and be binding upon the parties hereto and their successors and assigns.

8.7 Limitation of Liability of Escrow Agent

The Escrow Agent will not be liable to any of the Parties hereunder for any action taken or omitted to be taken by it under or in connection with this Agreement, except for losses directly, principally and immediately caused by its bad faith, wilful misconduct or gross negligence. Under no circumstances will the Escrow Agent be liable for any special, indirect, incidental, consequential, exemplary, aggravated or punitive losses or damages hereunder, including any loss of profits, whether foreseeable or unforeseeable. Notwithstanding the foregoing or any other provision of this Agreement, in no event will the collective liability of the Escrow Agent under or ins connection with this Agreement to any one or more Parties, except for losses directly caused by its bad faith or willful misconduct, exceed the amount of its annual fees under this Agreement or the amount of three thousand dollars ($3,000.00), whichever amount shall be greater.

8.8 Remuneration of Escrow Agent

The Issuer will pay the Escrow Agent reasonable remuneration for its services under this Agreement, which fees are subject to revision from time to time on 30 days' written notice. The Issuer will reimburse the Escrow Agent for its expenses and disbursements. Any amount due under this section and unpaid 30 days after request for such payment, will bear interest from the expiration of such period at a rate per annum equal to the then current rate charged by the Escrow Agent, payable on demand.

PART 9 INDEMNIFICATION OF THE EXCHANGE

9.1 Indemnification

(1) The Issuer and each Securityholder jointly and severally:

(a) release, indemnify, and save harmless the Exchange from all costs (including legal cost, expenses, and disbursements), charges, claims, demands, damages, liabilities, losses and expenses incurred by the Exchange;

(b) agree not to make or bring a claim or demand, or commence any action, against the Exchange; and

(c) agree to indemnify and save harmless the Exchange from all costs (including legal costs) and damages that the Exchange incurs or is required by law to pay as a result of any person's claim, demand or action,

arising from any and every act or omission committed or omitted by the Exchange, in connection with this Agreement, even if sand act or omission was negligent, or constituted a breach of the terms of this Agreement.

(2) This indemnity survives the release of the escrow securities and the termination of this Agreement.

PART 10 NOTICES

10.1 Notice to Escrow Agent

Documents will be considered to have been delivered to the Escrow Agent on the next business day following the date of transmission, if delivered by fax, the date of delivery, if delivered by hand during normal business hours or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the following:

Computershare Investor Services' Inc.
3rd Floor
510 Burrard Street
Vancouver, BC V6C 3B9

Attention: Manager, Client Services
Fax: (604) 661-9401

10.2 Notice to Issuer

Documents will be considered to have been delivered to the Issuer on the next business day following the date of transmission, if delivered by fax, the date of delivery, if delivered by hand or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the following:
Stellar Biotechnologies, Inc.
7936 Lakefield Drive
Burnaby, BC V5E 3W8
Tel: (604) 571-9411
Fax: (604) 524-1660

Attention: Benjamin Catalano

10.3 Deliveries to Securityholders

Documents will be considered to have been delivered to a Securityholder on the date of delivery, if delivered by hand or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the address on the Issuer's share register.

Any share certificates or other evidence of a Securityholder's escrow securities will be sent to the Securityholder's address on the Issuer's share register unless the Securityholder has advised the Escrow Agent in writing otherwise at least ten business days before the escrow securities are released from escrow. The Issuer will provide the Escrow Agent with each Securityholder's address as listed on the Issuer's share register.

10.4 Change of Address

(1) The Escrow Agent may change its address for delivery by delivering notice of the change of address to the Issuer and to each Securityholder.

(2) The Issuer may change its address for delivery by delivering notice of the change of address to the Escrow Agent and to each Securityholder.

(3) A Securityholder may change that Securityholder's address for delivery by delivering notice of the change of address to the Issuer and to the Escrow Agent.

10.5 Postal Interruption

A party to this Agreement will not mail a Document if the party is aware of an actual or impending disruption of postal service.

PART 11 GENERAL

11.1 Interpretation "holding securities"

Unless the context otherwise requires, all capitalized terms that are not otherwise defined in this Agreement, shall have the meanings as defined in Policy 1.1 - *Interpretation* or in Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions.*

When this Agreement refers to securities that a Securityholcler "holds", it means that the Securityholder has direct or indirect beneficial ownership of or control or direction over the securities.

11.2 Enforcement by Third Parties

The Issuer enters this Agreement both on its own behalf and as trustee for the Exchange and the Securityholders of the Issuer, and this Agreement may be enforced by either the Exchange, or the Securityholders of the Issuer, or both.

11.3 Termination, Amendment, and Waiver of Agreement

(1) Subject to subsection 11.3(3), this Agreement shall only terminate:

(a) with respect to all the Parties:

(i) as specifically provided in this Agreement;

(ii) subject to subsection 11.3(2), upon the agreement of all Parties; or

(iii) when the Securities of all Securityholders have been released from escrow pursuant to this Agreement; and

(b) with respect to a Party:

(i) as specifically provided in this Agreement; or

(ii) if the Party is a Securityholder, when all of the Securityholder's Securities have been released from escrow pursuant to this Agreement.

(2) An agreement to terminate this Agreement pursuant to section 11.3(1)(a)(ii) shall not be effective unless and until the agreement to terminate

(a) is evidenced by a memorandum in writing signed by all Parties;

(b) if the Issuer is listed on the Exchange, the termination of this Agreement has been consented to in writing by the Exchange; and

(c) has been approved by a majority vote of securityholders of e Issuer excluding in each case, Securityholders.

(3) Notwithstanding any other provision in this Agreement, the obligations set forth in section 9.1 shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent,

(4) No amendment or waiver of this Agreement or any part of this Agreement shall be effective unless the amendment or waiver:

(a) is evidenced by a memorandum in writing signed by all Parties;

(b) if the Issuer is listed on the Exchange, the amendment or waiver of this Agreement has been approved in writing by the Exchange; and

(c) has been approved by a majority vote of securityholders of the Issuer excluding in each case, Securityholders.

(5) No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision (whether similar or not), nor shall any waiver constitute a continuing waiver, unless expressly provided.

11.4 Severance of Illegal Provision

Any provision or part of a provision of this Agreement determined by a court of competent jurisdiction to be invalid, illegal or unenforceable shall be deemed stricken to the extent necessary to eliminate any invalidity, illegality or unenforceability, and the rest of the Agreement and all other provisions and parts thereof shall remain in full force and effect and be binding upon the parties hereto as though the said illegal and/or unenforceable provision or part thereof had never been included in this Agreement.

11.5 Further Assurances

The Parties will execute and deliver any further documents and perform any further acts reasonably requested by any of the Parties to this agreement which are necessary to carry out the intent of this Agreement

11.6 Time

Time is of the essence of this Agreement

11.7 Consent of Exchange to Amendment

The Exchange must approve any amendment to this Agreement if the Issuer is listed on the Exchange at the time of the proposed amendment.

11.8 Additional Escrow Requirements

A Canadian exchange may impose escrow terms or conditions in addition to those set out in this Agreement.

11.9 Governing Laws

The laws of the Province of British Columbia and the applicable laws of Canada will govern this Agreement.

11.10 Counterparts

The Parties may execute this Agreement by fax and in counterparts, each of which will be considered an original and all of which will be one. agreement.

11.11 Singular and Plural

Wherever a singular expression is used in this Agreement, that expression is considered as including the plural or the body corporate where required by the context.

11.12 Language

This Agreement has been drawn up in the English language at the request. of all parties.

11.13 Benefit and Binding Effect

This Agreement will benefit and bind the Parties and their heirs, executors, administrators, successors and permitted assigns and all persons claiming through them as if they had ***been*** a Party to this Agreement.

11.14 Entire Agreement

This is the entire agreement among the Parties concerning the subject matter set out in this Agreement and supersedes any and all prior understandings and agreements.

11.15 Successor to Escrow Agent

Any corporation with which the Escrow Agent may be amalgamated, merged or consolidated, or any corporation succeeding to the business of the Escrow Agent will be the successor of the Escrow Agent under this Agreement without any further act on its part or on the part or any of the Parties, provided that the successor is recognized by the Exchange.

The Parties have executed and delivered this Agreement as of the date set out above.

COMPUTERSHARE INVESTOR SERVICES INC.

Authorized signatory

Authorized signatory

STELLAR BIOTECHNOLOGIES, INC.

Authorized signatory

Authorized signatory

11.13 Benefit and Binding Effect

This Agreement will benefit and bind the Parties and their heirs, executors, administrators, successors and permitted assigns and all persons claiming through them as if they had been Party to this Agreement

11.14 Entire Agreement

This is the entire agreement among the Parties concerning the subject matter set out in this Agreement and supersedes any and all prior understandings and agreements.

11.15 Successor to Escrow Agent

Any corporation with which the Escrow Agent may be amalgamated, merged or consolidated, or any corporation succeeding to the business of the Escrow Agent will be the successor of the Escrow Agent under this Agreement without any further act on its part or on the part or any of the Parties, provided that the successor is recognized by the Exchange.

The Parties have executed and delivered this Agreement as of the date set out above.

COMPUTERSHARE INVESTOR SERVICES INC.

Authorized signatory

Authorized signatory

STELLAR BIOTECHNOLOGIES, INC.

Authorized signatory

Authorized signatory

I HEREBY CERTIFY THE WITHIN DOCUMENT TO BE A TRUE AND CORRECT COPY OF THE ORIGINAL OF WHICH IT PURPORTS TO BE A COPY

DATED at Vancouver, British Columbia this 27 day of April 2010

A Notary Public in and for the Province of British Columbia

JEFF WUST
BARRISTER & SOLICITOR
LANG MICHENER LLP
1500 - 1055 WEST GEORGIA STREET
P.O. BOX 11117
VANCOUVER, B.C. V6E 4N7
TELEPHONE: 604-689-9111
FAX: 604-685-7084

Signed, Sealed and Delivered by **FRANK R. OAKES** in the presence of:

LONNIE W-CAVENEE
Name

321 E. HUENEME RD #100
Address

PORT HUENEME CA 93041
SOLE PROPRIETOR
Occupation

FRANK R. OAKES

Signed, Sealed and Delivered by **DANIEL E. MORSE** in the presence of:

Name

Address

Occupation

DANIEL E. MORSE

Signed, Sealed and Delivered by **DARRELL BROOKSTEIN** in the presence of:

Name

Address

Occupation

DARRELL BROOKSTEIN

Signed, Sealed and Delivered by **FRANK R. OAKES** in the presence of:

_____
Name

_____
Address

_____

_____
Occupation

_____
FRANK R. OAKES

Signed, Sealed and Delivered by **DANIEL E. MORSE** in the presence of:

AILEEN N C Morse
Name

128 Via Alicia
Address

Santa Barbara, CA 93105 USA

SCIENTIST
Occupation


DANIEL E. MORSE

Signed, Sealed and Delivered by **DARRELL BROOKSTEIN** in the presence of:

_____
Name

_____
Address

_____

_____
Occupation

_____
DARRELL BROOKSTEIN

Signed, Sealed and Delivered by **FRANK R. OAKES** in the presence of:

_____
Name

_____
Address

_____

_____
Occupation

_____
FRANK R. OAKES

Signed, Sealed and Delivered by **DANIEL E. MORSE** in the presence of:

_____
Name

_____
Address

_____

_____
Occupation

_____
DANIEL E. MORSE

Signed, Sealed and Delivered by **DARRELL BROOKSTEIN** in the presence of:

Darrell Brookstein
Name

3833 Chippewa Ct
Address
San Diego, CA 92117
USA

Executive
Occupation

DARRELL BROOKSTEIN

Signed, Sealed and Delivered by **DOROTHY OAKES** in the presence of:

LONNIE W. CAVEMEE
Name

321 E. HUENEME #100
Address
PORT HUENEME CA 93041

SOLE PROPRIETOR
Occupation

DOROTHY OAKES

Schedule "A" to Escrow Agreement

Securityholder

Name: Frank R. Oakes

Signature: 

Address for Notice:

520 Village Rd
Port Heuneme, CA 93041

Securities:

Class and Type (i.e. Value Securities or Surplus Securities)	*Number*	*Certificate(s) (if applicable)*
Value Securities	2,755,979	

Schedule "A" to Escrow Agreement

Securityholder

Name: Daniel E. Morse

Signature: 

Address for Notice:

128 Via Alicia
Santa Barbara, CA 93108

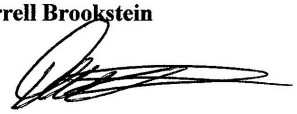
Securities:

Class and Type (i.e. Value Securities or Surplus Securities)	*Number*	*Certificate(s) (if applicable)*
Value Securities	588,427	

Schedule "A" to Escrow Agreement

Securityholder

Name: Darrell Brookstein

Signature: 

Address for Notice:

3833 Chippewa Ct.
San Diego, CA 92117

Securities:

Class and Type (i.e. Value Securities or Surplus Securities)	*Number*	*Certificate(s) (if applicable)*
Value Securities	189,809	

Schedule "A" to Escrow Agreement

Securityholder

Name: Dorothy Oakes

Signature: Dorothy Oakes

Address for Notice:

520 Village Rd
Port Heuneme, CA 93041

Securities:

Class and Type (i.e. Value Securities or Surplus Securities)	*Number*	*Certificate(s) (if applicable)*
Value Securities	585,171	

State of California)
County of VENTURA)

CALIFORNIA ALL-PURPOSE CERTIFICATE OF ACKNOWLEDGMENT

On FEB 04, 2010 before me, LONNIE WILLIAM CAVENEE NOTARY PUBLIC,
(here insert name and title of the officer)

personally appeared DOROTHY OAKES, FRANK R. OAKES AND OTHERS,

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

LONNIE WILLIAM CAVENEE
COMM. #1773572
Notary Public - California
Ventura County
My Comm. Expires Oct. 16, 2011

WITNESS my hand and official seal.

Signature _____ (Seal)

OPTIONAL INFORMATION

Although the information in this section is not required by law, it could prevent fraudulent removal and reattachment of this acknowledgment to an unauthorized document and may prove useful to persons relying on the attached document.

Description of Attached Document

The preceding Certificate of Acknowledgment is attached to a document titled/for the purpose of ESCROW AGREEMENT

containing _____ pages, and dated _____.

The signer(s) capacity or authority is/are as:

- ☐ Individual(s)
- ☐ Attorney-in-Fact
- ☐ Corporate Officer(s) _____ Title(s)
- ☐ Guardian/Conservator
- ☐ Partner - Limited/General
- ☐ Trustee(s)
- ☐ Other: _____

representing: _____ Name(s) of Person(s) or Entity(ies) Signer is Representing

Additional Information

Method of Signer Identification

Proved to me on the basis of satisfactory evidence:
☐ form(s) of identification ☐ credible witness(es)

Notarial event is detailed in notary journal on:
Page # _____ Entry # _____

Notary contact: _____

Other

☐ Additional Signer(s) ☐ Signer(s) Thumbprint(s)

☐ _____

SCHEDULE B(1) — TIER 1 VALUE SECURITY ESCROW AGREEMENT

RELEASE OF SECURITIES

Timed Release

RELEASE DATES	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
[Insert date of the Exchange Bulletin	25%	
Insert date 6 months following Exchange Bulletin	25%	
Insert date 12 months following Exchange Bulletin	25%	
Insert date 18 months following Exchange Bulletin	25%	
TOTAL	100%	

*In the simplest case where there are no changes to the escrow securities initially deposited and no additional escrow securities, then the release schedule outlined above results in the escrow securities being released in equal tranches of 25%.

SCHEDULE B(2) — TIER 2 VALUE SECURITY ESCROW AGREEMENT

RELEASE OF SECURITIES

Timed Release

RELEASE DATES	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
[Insert date of the Final Exchange Bulletin]	10%	
6 months from the date of the Final Exchange Bulletin	15%	
12 months from the date of the Final Exchange Bulletin	15%	
18 months from the date of the Final Exchange Bulletin	15%	
24 months from the date of the Final Exchange Bulletin	15%	
30 months from the date of the Final Exchange Bulletin	15%	
36 months from the date of the Final Exchange Bulletin	15%	
TOTAL	100%	

*In the simplest case where there are no changes to the escrow securities initially deposited and no additional escrow securities, the release schedule outlined above results in the escrow securities being released in equal tranches of 15% after completion of the release on the date of the Exchange Bulletin.

SCHEDULE B(5)

UNDERTAKING OF HOLDING COMPANY TO: THE TSX VENTURE EXCHANGE

• (the "Securityholder") has subscribed for and agreed to purchase, as principal, • Common Shares of • (the "Escrowed Securities"). The Escrowed Securities will be held in escrow as detailed in the escrow agreement entered into between • (the "Issuer"), • and the Securityholder.

The undersigned Securityholder undertakes that, to the extent reasonably possible, it will not permit or authorize its securities to be issued or transferred, nor will it otherwise authorize any transaction involving any of its securities that could reasonably result in a change of its control without the prior consent of the TSX Venture Exchange, as long as the Issuer remains listed on the TSX Venture Exchange.

DATED this • day of •.

(Name of Securityholder - please print)

(Authorized Signature)

(Official Capacity - please print)

(Please print here name of individual whose signature appears above)

The Securityholder is directly controlled by the undersigned who undertakes that, to the extent reasonably possible, he will not permit or authorize securities of the Securityholder to be issued or transferred, nor otherwise carry out any transaction that could reasonably result in a change of control of the Securityholder without the prior consent of the TSX Venture Exchange, as long as the Issuer remains listed on the TSX Venture Exchange.

DATED this • day of S.

(Signature)

(Name of Controlling Securityholder — please print)

(Signature)

(Name of Controlling Securityholder — please print)

STELLAR BIOTECHNOLOGIES, INC.

332 E. Scott Street
Port Hueneme, California 93041
Tel: (805) 488-2147 / Fax: (805) 488-1278

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

TAKE NOTICE that the Annual General and Special Meeting (the "Meeting") of the shareholders of Stellar Biotechnologies, Inc. (the "Company") will be held at the Country Inn & Suites, 350 East Hueneme Road, Port Hueneme, California, on Tuesday, January 17, 2012 at 9:30 a.m. (Pacific time), for the following purposes:

1. To receive the audited financial statements of the Company for its financial year ended August 31, 2011 and the report of the auditors thereon.

2. To set the number of directors of the Company to be elected at six (6).

3. To elect directors of the Company for the ensuing year.

4. To appoint auditors of the Company for the ensuing year and to authorize the directors to fix their remuneration for the ensuing year.

5. To consider and, if thought fit, pass an ordinary resolution, by a majority of Disinterested Shareholders, ratifying and approving amendments to the Company's Share Option, as more particularly described in the Information Circular and authorizing the directors to make modifications thereto in accordance with the Share Option Plan and the policies of the TSX Venture Exchange;

6. To consider and, if thought fit, pass an ordinary resolution ratifying and approving, with or without modification, the adoption of the Company's Shareholder Rights Plan, as more particularly described in the Information Circular;

7. To consider any permitted amendment to or variation of any matter identified in this Notice and to transact such other business as may properly come before the Meeting or any adjournment thereof. Management is not currently aware of any other matters that could come before the Meeting.

Accompanying this Notice of Annual General and Special Meeting are: (1) the President's letter to shareholders; (2) a Management Information Circular, which provides additional information relating to the matters to be dealt with at the Meeting; (3) a Form of Proxy or Voting Instruction Form; (4) a return envelope for use by the shareholders to send in their Proxy or Voting Instruction Form; and (5) a financial statement request form for use by shareholders who wish to receive the Company's future audited financial statements and/or interim financial statements together with related Management's Discussion and Analysis. The report of the auditor and the audited financial statements of the Company for the financial year ended August 31, 2011 together with the related Management's Discussion and Analysis can be accessed through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The record date for the determination of the shareholders entitled to receive this Notice and to vote at the Meeting has been established as December 13, 2011.

Shareholders who cannot attend the Meeting in person may vote by proxy if a registered shareholder or provide voting instructions if a non-registered shareholder. Instructions for voting by registered shareholders or providing voting instructions by non-registered shareholders by mail or fax are included in the Management Proxy Circular. To be valid, proxies must be received by Computershare Investor Services Inc., the Company's transfer agent at 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 no later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) prior to the time of the Meeting, or adjournment thereof. The Chairman of the Meeting has the discretion to accept late proxies.

DATED at Port Hueneme, California, this 17th day of December, 2011.

BY ORDER OF THE BOARD

"Frank Oakes"

Frank Oakes
President, Chief Executive Officer and Director

STELLAR BIOTECHNOLOGIES, INC.

332 E. Scott Street
Port Hueneme, California 93041
Tel: (805) 488-2147 / Fax: (805) 488-1278

INFORMATION CIRCULAR
as at December 17, 2011

This information circular ("Information Circular") is furnished in connection with the solicitation of proxies by the management of STELLAR BIOTECHNOLOGIES, INC. (the "Company" or "Stellar") for use at the Annual General and Special Meeting of shareholders of the Company (the "Meeting") to be held on Tuesday, January 17, 2012 at the time and place and for the purposes set forth in the accompanying Notice of Annual General and Special Meeting.

Notice of the Meeting was provided to the TSX Venture Exchange and to the securities commissions in each jurisdiction where the Company is a reporting issuer under applicable securities laws.

"Non-Registered Shareholders" means shareholders who do not hold common shares in their own name and "Intermediaries" refers to brokers, investment firms, clearing houses and similar entities that own securities on behalf of Non-Registered Shareholders.

The contents and the sending of this Information Circular have been approved by the directors of the Company.

GENERAL PROXY INFORMATION

Solicitation of Proxies

The solicitation of proxies will be primarily by mail, but proxies may be solicited personally or by telephone by directors, officers and regular employees of the Company. The Company will bear all costs of this solicitation. The Company has arranged for Intermediaries to forward the meeting materials to Non-Registered Shareholders of the common shares held of record by those Intermediaries and the Company may reimburse the Intermediaries for their reasonable fees and disbursements by them in so doing.

Appointment and Revocation of Proxyholders

A shareholder entitled to vote at the Meeting may, by means of a proxy, appoint a proxyholder or one or more alternate proxyholders, who need not be shareholders, to attend and act the Meeting for the shareholder on the shareholder's behalf.

The individuals named in the accompanying form of proxy are directors and officers of the Company (the "Management Designees"). **If you are a shareholder entitled to vote at the Meeting, you have the right to appoint a person, who need not be a shareholder, to attend and act for you and on your behalf at the Meeting other than either of the Management Designees.** Such right may be exercised by either striking out the names of the persons specified in the form of proxy and inserting the name of the person or company to be appointed in the blank space provided in the form of proxy, or by completing another proper form of proxy and, in either case, delivering the completed and executed proxy to Computershare Investor Services Inc., Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or before the time that the Meeting is to be reconvened following any adjournment thereof.

A Non-Registered Shareholder who has submitted a proxy may revoke it by contacting the Intermediary through which the Non-Registered Shareholder's common shares are held and following the instructions of the Intermediary respecting the revocation of proxies.

Voting by Proxyholder

The Management Designees named in the form of proxy will vote or withhold from voting the common shares represented thereby in accordance with the instructions of the shareholder on any ballot that may be called for. If you specify a choice with respect to any matter to be acted upon, your common shares will be voted accordingly. The proxy will confer discretionary authority on the nominees named therein with respect to:

(a) each matter or group of matters identified therein for which a choice is not specified, other than the appointment of an auditor and the election of directors,

(b) any amendment to or variation of any matter identified therein, and

(c) any other matter that properly comes before the Meeting.

THE SHARES REPRESENTED BY THE ACCOMPANYING FORM OF PROXY WILL BE VOTED AS DIRECTED BY THE SHAREHOLDER, HOWEVER, IF SUCH A DIRECTION IS NOT MADE IN RESPECT OF ANY MATTER, THIS PROXY WILL BE VOTED AS RECOMMENDED BY MANAGEMENT.

Registered Shareholders

If you are a Registered Shareholder, you may elect to submit a proxy whether or not you are able to attend the Meeting in person. Registered Shareholders electing to submit a proxy may do so by:

(a) completing, dating and signing the enclosed form of proxy and returning it to the Company's transfer agent, Computershare Investor Services Inc., by fax within North America at 1-866-249-7775, outside North America at (416) 263-9524, or by mail or by hand to the 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1;

(b) using a touch-tone phone to transmit voting choices to a toll free number. Registered Shareholders must follow the instructions of the voice response system and refer to the enclosed proxy for the toll free number, the holder's account number and the proxy access number; or

(c) using the internet through the website of the Company's transfer agent at www.computershare.com/ca/proxy.

Registered Shareholders must follow the instructions that appear on the screen and refer to the enclosed form of proxy for the holder's account number and the proxy access number; in all cases ensuring that the proxy is received at least 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or the adjournment thereof at which the proxy is to be used.

Non-Registered Shareholders

Only Registered Shareholders of the Company, or the persons they appoint as their proxies, are entitled to attend and vote at the Meeting. However, in many cases, common shares beneficially owned by a person (a "Non-Registered Shareholder") are registered either:

(a) in the name of an intermediary (an "Intermediary") with whom the Non-Registered Shareholder deals in respect of the common shares (Intermediaries include, among others: banks, trust companies, securities dealers or brokers, trustees or administrators of a self-administered registered retirement

savings plan, registered retirement income fund, registered education savings plan and similar plans); or

(b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited, in Canada, and the Depository Trust Company, in the United States) of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Company has distributed copies of the Notice of Meeting, Information Circular and its form of proxy (collectively the "Meeting Materials") to the Intermediaries and clearing agencies for onward distribution to Non-Registered Shareholders. Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless the Non-Registered Shareholders have waived the right to receive them. Intermediaries often use service companies to forward the Meeting Materials to Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive Meeting Materials will either:

(a) be given a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Shareholder and returned to the Intermediary or its service company, will constitute voting instructions (often called a "voting instruction form"), which the Intermediary must follow. Typically, the voting instruction form will consist of a one page pre-printed form. Sometimes, instead of the one page pre-printed form, the voting instruction form will consist of a regular printed proxy form accompanied by a page of instructions which contains a removable label with a bar-code and other information. In order for the form of proxy to validly constitute a voting instruction form, the Non-Registered Shareholder must remove the label from the instructions and affix it to the form of proxy, properly complete and sign the form of proxy and submit it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company; or

(b) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of common shares beneficially owned by the Non-Registered Shareholder but which is otherwise not completed by the Intermediary. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Non-Registered Shareholder when submitting the proxy. In this case, the Non-Registered Shareholder who wishes to submit a proxy should properly complete the form of proxy and deposit it with Computershare Investor Services Inc., Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the common shares they beneficially own. Should a Non-Registered Shareholder who receives either a voting instruction form or a form of proxy wish to attend the Meeting and vote in person (or have another person attend and vote on behalf of the Non-Registered Shareholder), the Non-Registered Shareholder should strike out the names of the persons named in the form of proxy and insert the Non-Registered Shareholder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the directions indicated on the form. In either case, Non-Registered Shareholders should carefully follow the instructions of their Intermediaries and their service companies, including those regarding when and where the voting instruction form or the proxy is to be delivered.

Signing of Proxy

The form of proxy must be signed by the shareholder of the Company or the duly appointed attorney of the shareholder of the Company authorized in writing or, if the shareholder of the Company is a corporation, by a duly authorized officer of such corporation. A form of proxy signed by the person acting as attorney of the shareholder of the Company or in some other representative capacity, including an officer of a corporation which is a shareholder of the Company, should indicate the capacity in which such person is signing and should be accompanied by the appropriate instrument evidencing the qualification and authority to act of such person, unless such instrument has previously been filed with the Company.

A shareholder of the Company or his or her attorney may sign the form of proxy or a power of attorney authorizing the creation of a proxy by electronic signature provided that the means of electronic signature permits a reliable determination that the document was created or communicated by or on behalf of such shareholder or by or on behalf of his or her attorney, as the case may be.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

Record Date

The Board of Directors of the Company have fixed Tuesday, December 13, 2011 as the record date (the “Record Date”) for the determination of shareholders entitled to receive notice of the Meeting. Only shareholders of record at the close of business on the Record Date will be entitled to vote at the Meeting.

Description of Share Capital

The Company is authorized to issue an unlimited number of common shares without par value. As at December 13, 2011, the Company had outstanding 43,930,431 fully paid and non-assessable common shares without par value, each common share carrying the right to one vote.

Ownership of Securities of the Company

To the knowledge of the directors and executive officers of the Company, the only persons or corporations that beneficially owned, directly or indirectly, or exercised control or direction over, common shares carrying more than 10% of the voting rights attached to all outstanding common shares of the Company as at December 13, 2011 are:

Shareholder Name	Number of Sharers Held	Percentage of Issued Shares
Ernesto Echavarria Sinaloa, Mexico	5,420,833(1)	12.34%

(1) In addition Mr. Echavarria holds an aggregate of 2,083,333 warrants, each warrant entitling him to purchase one additional common share in the capital of the Company.

The directors and officers of the Company collectively own or control, directly or indirectly, in the aggregate, 7,395,387 common shares of the Company, representing approximately 16.83% of the outstanding common shares as at December 13, 2011.

VOTES NECESSARY TO PASS RESOLUTIONS

The Articles of the Company provide that at least one person present in person or by proxy, being a shareholder entitled to vote thereat or a duly appointed proxy holder or representative for a shareholder so entitled and holding or represented by proxy not less than 5 percent of the outstanding common shares of the Company entitled to vote at the Meeting, constitutes a quorum for the Meeting in respect of holders of the common shares. If such a quorum is not present in person or by proxy, the Company will reschedule the Meeting.

On a show of hands, every individual who is present and is entitled to vote as a shareholder or as a representative of one or more corporate shareholders, or who is holding a proxy on behalf of a shareholder who is not present at the Meeting, will have one vote, and on a poll every shareholder present in person or represented by a proxy and every person who is a representative of one or more corporate shareholders, will have one vote for each share registered in his name on the list of shareholders, which is available for inspection during normal business hours at Computershare Investor Services Inc. and will be available at the Meeting.

In order to approve a motion proposed at the Meeting a majority of greater than 50% of the votes cast will be required (an "ordinary resolution") unless the motion requires a special resolution in which case a majority of 66 2/3% of the votes cast will be required (a “special resolution”). If there are more nominees

for election as directors than there are vacancies to fill, those nominees receiving the greatest number of votes will be elected or appointed, as the case may be, until all such vacancies have been filled. If the number of nominees for election is equal to the number of vacancies to be filled, all such nominees will be declared elected or appointed by acclamation.

Recommendation of the Board

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE IN FAVOUR OF ALL RESOLUTIONS AND VOTE IN FAVOUR OF THE MANAGEMENT'S NOMINEES FOR DIRECTORS.

STATEMENT OF EXECUTIVE COMPENSATION

A. Named Executive Officers

For the purposes of this Information Circular, a named executive officer ("Named Executive Officer") of the Company means each of the following individuals:

(a) a chief executive officer ("CEO") of the Company;

(b) a chief financial officer ("CFO") of the Company;

(c) each of the Company's four most highly compensated executed officers, or the four most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was individually, more than CDN$150,000, as determined in accordance with subsection 1.3(6) of Form 51-102F6 of National Instrument 45-102 which deals with Continuous Disclosure Obligations, for that financial year; and

(d) each individual who would be a Named Executive Officer under paragraph (c) above but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at the end of the financial year.

B. Compensation Discussion and Analysis

The purpose of this Compensation Discussion and Analysis is to provide information about the Company's executive compensation objectives and processes and to discuss compensation decisions relating to its named executive officers ("Named Executive Officers") listed in the Summary Compensation Table that follows. During its financial year ended August 31, 2011, the following individuals were Named Executive Officers (as defined in applicable securities legislation) of the Company, namely:

(i) Frank R. Oakes, President and Chief Executive Officer, April 9, 2010 to present;

(ii) Scott Davis, Chief Financial Officer, March 28, 2011 to present;

(iii) Kerry Beamish, former Chief Financial Officer, April 9, 2010 to March 1, 2011;

(iv) Darrell H. Brookstein, Executive VP – Corporate Development & Finance, October 13, 2009 to present; and

(v) Daniel E. Morse, Ph.D., Chief Technology Officer, April 9, 2010 to present. Mr. Morse has also held the position of Corporate Secretary since April 9, 2010.

The Company is a world leader in sustainable manufacturing of pharmaceutical grade immune carrier proteins (ICP), particularly with regard to the present most important pharmaceutical protein in this class, KLH (Keyhole Limpet Hemocyanin). Stellar's key product, KLH (Keyhole Limpet Hemocyanin), is a potent immuno-stimulatory protein with an exceptional record of safety that is being used in conjugate therapeutic vaccines and other biomedical products. A world leader in the production of KLH, Stellar plans to further monetize its KLH platform for medical-grade KLH. KLH is exclusively sourced from the rare giant keyhole limpet. Stellar has technology for the maintenance of that sea mollusc, as well as a non-lethal extraction method and advanced engineering processes for the critical molecule it currently sells in growing academic, research and pharmaceutical markets.

The Company has, as of yet, no significant revenues from operations and often operates with limited financial resources to ensure that funds are available to complete scheduled programs. As a result, the Board of Directors has to consider not only the financial situation of the Company at the time of the determination of executive compensation, but also the estimated financial situation of the Company in the mid- and long-term. An important element of executive compensation is that of stock options, which do not require cash disbursement by the Company. Additional information about the Company and its operations is available at its website www.stellarbiotechnologies.com, and in its audited financial statements and Management's Discussion & Analysis for the year ended August 31, 2011, which were filed with regulators on December 7, 2011 and are available for viewing through the internet on SEDAR, which can be accessed at www.sedar.com.

Compensation Objectives and Principles

The primary goal of the Company's executive compensation program is to attract and retain the key executives necessary for the Company's long term success, to encourage executives to further the development of the Company and its operations, and to motivate top quality and experienced executives. The key elements of the executive compensation program are: (i) base salary; (ii) potential annual incentive award; and (iii) incentive stock options. The directors are of the view that all elements of the total program should be considered, rather than any single element.

Compensation Process

The Board of Directors is responsible for determining the compensation for Frank R. Oakes, the Chief Executive Officer, and for his spouse, Dorothy Oakes, who is employed as the Company's Office Manager. The Board has authorized the Chief Executive Officer with the responsibility of setting compensation for officers and employees of the Company, in lieu of a formal compensation committee, up to a maximum salary of $185,000 annually, without further approval by the Board or any committee thereof. The Board of Directors retains authority to approve compensation for any officer or employee of the Company in excess of an annual salary of $185,000 and for any compensation payable to any director.

The Board of Directors is responsible for determining long-term incentive in the form of stock options, to be granted to the Named Executive Officers of the Company and to the directors, and for reviewing the recommendations respecting compensation for any other officers of the Company from time to time, to ensure such arrangements reflect the responsibilities and risks associated with each position. When determining the compensation of its officers, the Board considers: i) recruiting and retaining executives critical to the success of the Company and the enhancement of shareholder value; ii) providing fair and competitive compensation; iii) balancing the interests of management and the Company's shareholders; and iv) rewarding performance, both on an individual basis and with respect to operations in general.

Option Based Awards

Long-term incentive in the form of options to purchase common shares of the Company are intended to align the interests of the Company directors and its executive officers with those of its shareholders, to provide a long term incentive that rewards these individuals for their contribution to the creation of

shareholder value, and to reduce the cash compensation the Company would otherwise have to pay. The Company's Fixed Share Option Plan is administered by the Board of Directors. In establishing the number of the incentive stock options to be granted to the Named Executive Officers, reference is made to the number of stock options granted to officers of other publicly traded companies that, similar to the Company, are involved in the similar industries, as well as those of other publicly traded Canadian companies of a comparable size to that of the Company in respect of assets. The Board of Directors also considers previous grants of options and the overall number of options that are outstanding relative to the number of outstanding common shares in determining whether to make any new grants of options and the size and terms of any such grants, as well as the level of effort, time, responsibility, ability, experience and level of commitment of the executive officer in determining the level of incentive stock option compensation.

C. Currency

Unless otherwise stated, all amounts disclosed in this Information Circular are expressed in U.S. dollars.

D. Summary Compensation Table

The following table contains information about the compensation paid to, or earned by, those who were during the financial year ended August 31, 2011 the Company's Named Executive Officers.

Name and principal position	Year	Salary US ($)	Share based awards US ($) (8))	Option based awards US ($) (1)	Non-equity incentive plan compensation ($)		Pension value US ($)	All other compen-sation US ($)	Total compen-sation US ($)
					Annual incentive plans	Long-term incentive plans			
Frank R. Oakes(2)	2011	268,750(2)	1,275,000	357,504	Nil	Nil	Nil	1,000(7)	1,902,254
President and CEO	2010	106,250 (2)	Nil	241,510	Nil	Nil	Nil	Nil	347,760
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Scott Davis(3)	2011	Nil	Nil	Nil	Nil	Nil	Nil	26,398(3)	26,398
CFO	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Kerry Beamish(4)	2011	Nil	Nil	Nil	Nil	Nil	Nil	10,620(4)	10,620
Former CFO	2010	Nil	Nil	Nil	Nil	Nil	Nil	6,841(4)	6,841
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Darrell H.	2011	208,250(5)	680,000	169,200	Nil	Nil	Nil	1,000(7)	1,058,450
Brookstein(5)	2010	39,375(5)	Nil	139,289	Nil	Nil	Nil	40,500(5)	219,164
Executive VP – Corporate	2009	Nil	Nil	9,003	Nil	Nil	Nil	Nil	9,003
Development & Finance									
Daniel E. Morse(6)	2011	50,000(6)	680,000	54,225	Nil	Nil	Nil	54,750(6)(7)	838,975
Chief Technology	2010	18,750 (6)	Nil	65,151	Nil	Nil	Nil	26,028(6)	109,929
Officer	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

(1) The "grant date fair value" has been determined by using the Black-Scholes model, a mathematical valuation model that ascribes a value to a stock option based on a number of factors in valuing the option-based awards, including the exercise price of the option, the price of the underlying security on the date the option was granted, and assumptions with respect to the volatility of the price of the underlying security and the risk-free rate of return. Calculating the value of stock options using this methodology is very different from a simple "in- the-money" value calculation. In fact, stock options that are well out-of-the-money can still have a significant "grant date fair value" based in a Black-Scholes valuation, especially where, as in the case of the Company, the price of the share underlying the option is highly volatile. Accordingly, caution must be exercised in comparing grant date fair value amounts with cash compensation or an in-the- money option value calculation. The same caution applies to the total compensation amounts shown in the last column above, which are based in part the grant date fair value amounts set out in the column for Option-based awards.

(2) Mr. Oakes was appointed President and Chief Executive Officer of the Company on April 9, 2010. Mr. Oakes was paid an annual salary pursuant to an employment agreement dated October 21, 2009 between the Company's US subsidiary, Stellar Biotechnologies, Inc. ("Stellar US") of $140,000. Effective January 1, 2011 his salary was increased to $250,000 per year. Mr. Oakes also received a bonus of $60,000 during the financial year ended August 31, 2011.

(3) Mr. Davis was appointed Chief Financial Officer of the Company on March 28, 2011. Mr. Davis received compensation pursuant to an agreement dated March 16, 2011 between the Company and Cross Davis & Company, an accounting firm of which Mr. Davis is a partner, in the amount of CDN $4,500 per month.

(4) Mr. Beamish was appointed Chief Financial Officer of the Company on April 9, 2010 and subsequently resigned on March 1, 2011. Mr. Beamish received compensation in the form of consulting fees pursuant to a consulting agreement between the Company and K. Beamish & Associates Inc. dated April 13, 2010 wherein he was paid a monthly fee of CDN $1,750.

(5) Mr. Brookstein was appointed Executive VP, Corporate Development & Finance, on April 9, 2010. Mr. Brookstein receives compensation pursuant to an employment agreement dated January 1, 2010 between Stellar US and Mr. Brookstein wherein he is paid an annual salary of $135,000. Effective January 12, 2011 his salary was increased to $185,000 per year. Pursuant to a consulting agreement dated July 10, 2009 between Stellar US and Mr. Brookstein, Mr. Brookstein was also paid a fee of $7,000 for each one month of service until September 10, 2009 and $10,000 thereafter, for a period of six months. Mr. Brookstein was paid a bonus of $42,000 during the financial year ended August 31, 2011.

(6) Mr. Morse was appointed Chief Technology Officer on April 9, 2010. Mr. Morse receives compensation pursuant to an employment agreement dated October 21, 2009 with Stellar US, wherein he is paid an annual salary of $50,000. Pursuant to a consulting agreement with Stellar US dated August 15, 2004 Mr. Morse is also paid a fee of $3,945.42 per month.

(7) A fee of $1,000 is paid for each directors' meeting attended in person and $350.00 for each meeting attended via telephone conference call.

(8) On April 12, 2010 the Company completed a Reverse Take-Over of Stellar Biotechnologies, Inc. ("Stellar USA"), a California company, through the issuance of an aggregate of 10,000,000 common shares, which transaction constituted the Qualifying Transaction of the Company (as that term is defined under the policies of the TSX Venture Exchange). Following completion of the Qualifying Transaction Stellar USA became a wholly-owned subsidiary of the Company. As part of the Qualifying Transaction the Company allotted a further 10,000,000 common shares in the capital of the Company ("Performance Shares") to certain key personnel of the Company, subject to certain milestones being achieved, namely one third of the total Performance Shares are to be issued on the achievement of each of the milestones. Refer to section entitled "Interest of Informed Persons in Material Transactions – Performance Shares" for details. On January 31, 2011 the Company achieved its first milestone and an aggregate of 3,333,335 common shares were issued to directors, officers and employees of the Company at a deemed value of $1.02 per share.

E. Incentive Plan Awards

Option-Based Awards and Share-Based Awards

The following table sets out for each Named Executive Officer, the incentive stock options (option-based awards) and share-based awards, outstanding as at the financial year ended August 31, 2011.

	Option-based Awards				Share-based Awards	
	Number of securities			Value of unexercised in-	Number of shares or units of	Market or payout value of

Name	underlying unexercised options (#)[3]	Option exercise price CDN ($)	Option expiration date	the-money options[1][2] US ($)	shares that have not vested (#)[6]	share-based awards that have not vested US ($)[2][7]
Frank R. Oakes President and CEO	1,075,000 15,000[4] 425,600	$0.28 $1.00 $0.65	April 9, 2017 February 10, 2018 August 8, 2018	296,055 Nil Nil	2,333,333	1,309,000
Scott Davis CFO	Nil	N/A	N/A	N/A	Nil	N/A
Kerry Beamish[5] Former CFO	Nil	N/A	N/A	N/A	Nil	N/A
Darrell H. Brookstein Executive VP – Corporate Development & Finance	620,000 376,000	$0.28 $0.65	April 9, 2017 August 8, 2018	170,748 Nil	1,500,000	841,500
Daniel E. Morse Chief Technology Officer	290,000 120,500	$0.28 $0.65	April 9, 2017 August 8, 2018	79,866 Nil	1,333,333	748,000

Notes:

(1) The value of unexercised "in-the-money options" at the financial year-end is the difference between the option exercise price and the market value of the underlying stock on the TSX Venture Exchange (the "TSXV") on August 31, 2011 (CDN$0.55), the last day the common shares traded on the TSXV for the financial year.

(2) Based on exchange rate of CDN$1.00 = US$1.02 on August 31, 2011.

(3) Typically, the vesting terms of stock options awards granted to Named Executive Officers are as follows: One-third of the options vest immediately upon the grant date, one-third vest twelve months after the grant date and the remaining one-third vest eighteen months after the grant date.

(4) These stock options were granted to Dorothy Oakes, the spouse of Mr. Oakes, over which Mr. Oakes exercises control. Mrs. Oakes is an employee of the Company.

(5) Mr. Beamish resigned as an officer of the Company effective March 1, 2011. No stock options were granted to Mr. Beamish during the time he was retained by the Company.

(6) Refer to section entitled "Interest of Informed Persons in Material Transactions – Performance Shares" for details on the allocation of 10,000,000 Performance Shares to director, officers and employees of the Company, subject to certain milestones being achieved. There is no guarantee that the remainder of these shares will ever be issued.

(7) The value of the common shares not yet vested was calculated as at the market price of the common shares on August 31, 2011 (CDN$0.55), the end of the Company's current fiscal year and an exchange rate of CDN$1.00 = US$1.02.

Value Vested or Earned During the Year

The following table sets forth, for each Named Executive Officer, the value of all incentive plan awards vested or earned during the year ended August 31, 2011:

Name	Option-based awards – Value vested during the year US ($)[1][2]	Share-based awards – Value vested during the year US ($)[2][3]	Non-equity incentive plan compensation – Value earned during the year US ($)
Frank R. Oakes President and CEO	249,375	701,250	N/A
Scott Davis CFO	Nil	Nil	N/A
Kerry Beamish Former CFO	Nil	Nil	N/A
Darrell H. Brookstein Executive VP - Corporate Development & Finance	143,220	374,000	N/A
Daniel E. Morse Chief Technology Officer	66,990	374,000	N/A

Note:

(1) Typically, the vesting terms of stock options awards granted to Named Executive Officers are as follows: One-third of the options vest immediately upon the grant date, one-third vest twelve months after the grant date and the remaining one-third vest eighteen months after the grant date.

(2) Aggregate dollar value of the common shares that would have been realized if the options had been exercised on the vesting date and calculated based on the difference between the market price of the common shares underlying option on the vesting date and the exercise price of the options. The common shares to be issued under the Share- based awards relate to the Performance Shares to be issued subject to certain milestone being achieved, the value has been calculated based on the market value of the Company's common shares as of August 31, 2011.

(3) Refer to section entitled "Interest of Informed Persons in Material Transactions – Performance Shares" for details on the allocation of 10,000,000 Performance Shares to director, officers and employees of the Company, subject to certain milestones being achieved. There is no guarantee that the remainder of these shares will ever be issued.

F. Pension Plan Benefits and Deferred Compensation Plans

There are no pension plan benefits or deferred compensation plans in place for the Named Executive Officers.

G. Termination of Employment, Change in Responsibilities and Employment Contracts

The Company is not party to any compensatory plan, contract or arrangement where a Named Executive Officer is entitled to receive any compensation from the Company in the event of resignation, retirement or any other termination of employment of such persons, change of control of the Company of the Company, or a change in the Named Executive Officer's responsibilities following a change of control. Reference should also be made to "Management Contracts" below.

H. Compensation of Directors

Compensation of Directors

The following table sets forth information in respect of all compensation paid to, or earned by, the directors of the Company during the financial year ended August 31, 2011, but excludes compensation paid to those individuals who are Named Executive Officers in their capacity as directors of the Company as their compensation is disclosed above.

Name	Fees earned US ($)	Share-based awards US ($)[5]	Option-based awards US ($)	Non-equity incentive plan compensation US ($)	Pension value US ($)	All other compensation US ($)	Total US ($)
Malcolm L. Gefter	Nil	68,000	31,500	Nil	Nil		116,500

						17,000[1][2]	
Harvey S. Wright	Nil	Nil	Nil	Nil	Nil	350[2]	350
David L. Hill	Nil	Nil	11,250	Nil	Nil	6,000[2][4]	17,250
W. Benjamin Catalano[3]	Nil	Nil	Nil	Nil	Nil	2,000[2]	2,000

Notes:

(1) Mr. Gefter received compensation pursuant to a Service Agreement dated June 15, 2010 wherein he is paid an annual fee of $4,000 per year of service, together with a Consulting Agreement consisting of an annual retainer of $12,000 per year of service. Refer to section entitled "Management Contracts" for details.

(2) A fee of $1,000 is paid for each directors' meeting attended in person and $350.00 for each meeting attended via telephone conference call.

(3) Mr. Catalano resigned as a director of the Company effective May 10, 2010.

(4) Mr. Hill receives $4,000 for acting as Chair of the Audit Committee.

(5) Refer to section entitled "Interest of Informed Persons in Material Transactions – Performance Shares" for details on the allocation of 10,000,000 Performance Shares to director, officers and employees of the Company, subject to certain milestones being achieved. On January 31, 2011 the Company achieved its first milestone and an aggregate of 3,333,335 common shares were issued to directors, officers and employees of the Company at a deemed value of $1.02 per share.

Option-Based and Share-based Awards to Directors

The following table sets out for each director, other than the directors who are also Named Executive Officers, the incentive stock options (option-based awards) and share-based awards, outstanding as at the financial year ended August 31, 2011.

	Option-based Awards				Share-based Awards	
Name	Number of securities underlying unexercised options (#)[3]	Option exercise price CDN($)	Option expiration date	Value of unexercised in-the-money options (1)(2) US ($)	Number of shares or units of shares that have not vested (#)[5]	Market or payout value of share-based awards that have not vested US ($)[6][2]
Malcolm L. Gefter	70,000 70,000	$0.28 $0.65	July 13, 2017 August 8, 2018	19,278	133,333	74,800
Harvey S. Wright	50,000	$0.28	April 9, 2017	13,770	Nil	Nil
David L. Hill	25,000	$0.65	August 8, 2018	Nil	Nil	Nil
W. Benjamin Catalano[4]	100,000	$0.28	April 9, 2017	27,540	Nil	Nil

Notes:

(1) The value of unexercised "in-the-money options" at the financial year-end is the difference between the option exercise price and the market value of the underlying stock on the TSX Venture Exchange (the "TSXV") on August 31, 2011 (CDN$0.55), the last day the common shares traded on the TSXV for the financial year.

(2) Based on exchange rate of CDN$1.00 = US$1.02 on August 31, 2011.

(3) Typically, the vesting terms of stock options awards granted to Directors are as follows: One-third of the options vest immediately upon the grant date, one-third vest twelve months after the grant date and the remaining one-third vest eighteen months after the grant date.

(4) Mr. Catalano resigned from the Board of Directors effective May 10, 2011. Pursuant to the terms of the Company's Share Option Plan, his stock options will expire 365 days from the date of his resignation.

(5) Refer to section "Interest of Informed Persons in Material Transactions – Performance Shares" for details on the allocation of 10,000,000 common shares in the capital of the Company, subject to certain milestones being achieved. There is no guarantee that the remainder of these shares will ever be issued.

(6) The value of the shares not yet vested was calculated as at the market price of the common shares on August 31, 2011 (CDN$0.55), the end of the Company's current fiscal year and an exchange rate of CDN$1.00 = $1.02.

Value Vested or Earned During the Year

The following table sets forth, for each director, the value of all incentive plan award vested or earned during the year ended August 31, 2011, other than Named Executive Officers:

Name	Option-based awards – Value vested during the year US ($)(1)(2)	Share-based awards – Value vested during the year US ($)(2)(3)	Non-equity incentive plan compensation – Value earned during the year US ($)
Malcolm L. Gefter	7,037	68,000	Nil
Harvey S. Wright	11,550	Nil	Nil
David L. Hill	Nil	Nil	Nil
W. Benjamin Catalano(4)	23,100	Nil	Nil

Notes:

(1) Typically, the vesting terms of stock options awards granted to Named Executive Officers are as follows: One-third of the options vest immediately upon the grant date, one-third vest twelve months after the grant date and the remaining one-third vest eighteen months after the grant date.

(2) Aggregate dollar value of the common shares that would have been realized if the options had been exercised on the vesting date and calculated based on the difference between the market price of the common shares underlying option on the vesting date and the exercise price of the options. The common shares to be issued under the Share-based awards relate to the Performance Shares to be issued subject to certain milestone being achieved, the value has been calculated based on the market value of the Company's common shares as of August 31, 2011.

(3) Refer to section entitled "Interest of Informed Persons in Material Transactions – Performance Shares" for details on the allocation of 10,000,000 Performance Shares to director, officers and employees of the Company, subject to certain milestones being achieved. There is no guarantee that the remainder of these shares will ever be issued.

(4) Mr. Catalano resigned from the Board of Directors effective May 10, 2011. Pursuant to the terms of the Company's Share Option Plan, his stock options will expire 365 days from the date of his resignation.

I. Management Contracts

The management functions of the Company are substantially performed by the directors and officers of the Company, and not to any substantial degree by any other person with whom the Company has contracted.

Kerry Beamish

Pursuant to a consulting agreement dated April 13, 2010 between the Company and K. Beamish & Associates Inc., the Company retained the services of Kerry Beamish to act as Chief Financial Officer. The term of the agreement was for an initial period of one year and provided for a monthly fee of CDN $1,750, subject to renewal at the mutual agreement of both parties with a right to termination upon not less than 60 days' notice in writing. The agreement was terminated when Mr. Beamish resigned March 1, 2011.

Darrell H. Brookstein

Pursuant to an employment agreement dated January 8, 2010 between Stellar US and Darrell H. Brookstein, Mr. Brookstein was retained to act as Executive VP - Corporate Development & Finance at an annual salary of $135,000. Benefits also include a two week vacation and optional coverage under the Company's group health plan. Effective January 12, 2011 his salary was increased to $185,000 per year. During the year ended August 31, 2011 Mr. Brookstein also received a bonus of $42,000.

Pursuant to a consulting agreement dated July 10, 2009 between Stellar US and Darrell H. Brookstein, Mr. Brookstein was to be paid a fee of $7,000 for each one month period of service until September 10, 2009, increasing to $10,000 per month thereafter. The consulting agreement was for an initial term of six months, and has subsequently been cancelled.

Scott Davis

Pursuant to an agreement dated March 16, 2011 between the Company and Cross Davis & Company, an accounting firm of which Mr. Davis is a partner, the Company retained the services of Scott Davis as Chief Financial Officer. The terms of the agreement provide for a monthly fee of CDN$4,500 per month on an indefinite basis, with no notice of termination required.

Malcolm L. Gefter

On June 15, 2010 Stellar US entered into a service agreement (the "Service Agreement") with Malcolm L. Gefter wherein Mr. Gefter, a director of the Company, was appointed as a member of the Advisory Board to assist the Company in evaluation of its research and development and business activities. In consideration for his services Mr. Gefter is to be paid an annual fee of $4,000 per year of service, payable quarterly. The Service Agreement is for a term of one year, renewable automatically for one year periods for up to three years, with a right to termination by either party without cause upon thirty day's written notice. In addition Stellar US entered into a consulting agreement (the "Consulting Agreement") with Malcolm L. Gefter wherein Mr. Gefter is to receive an annual retainer of $12,000 per year of service, payable in twelve monthly instalments, plus an hourly fee of $300 for services in excess of his role as Advisory Board Member. The Consulting Agreement is for a term of one year, renewable automatically for additional one year periods for up to three years, with a right to termination by either party without cause upon thirty days' written notice.

Daniel E. Morse

Pursuant to an employment agreement dated October 21, 2009 between Stellar US and Daniel E. Morse, Mr. Morse was retained to act as Chief Technology Officer of Stellar US, effective January 1, 2010 at an annual salary of $50,000. Pursuant to a consulting agreement with Stellar US dated August 15, 2004 Mr. Morse is also paid a fee of $3,945.42 per month. The term of the consulting agreement is for an indefinite period, and may be terminated by either party by providing written notice. Effective April 9, 2010 Mr. Morse became Chief Technology Officer of the parent company.

Frank R. Oakes

Pursuant to an employment agreement dated October 21, 2009 between Stellar US and Frank R. Oakes, Mr. Oakes was retained to act as President and Chief Executive Officer of Stellar US, effective January 1, 2010, at an annual salary of $140,000. Effective April 9, 2010, upon completion of the Company's Qualifying Transaction, Mr. Oakes became President and Chief Executive Officer of the parent company. Effective January 12, 2011 the agreement was amended to increase his annual salary to $250,000. During the year ended August 31, 2011 Mr. Oakes also received a bonus of $60,000.

On August 14, 2002, Stellar US entered into an agreement to pay royalties to Frank R. Oakes in exchange for assignment of patent rights to the Company. The royalty is 5% of gross receipts in excess of $500,000 annually from products using this invention. The Company's current operations utilize this invention. The royalties for the year ending August 31, 2011 were $Nil (August 31, 2010 - $Nil).

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity Compensation Plan Information

On September 4, 2009 the Board of Directors approved the adoption of a Fixed Share Option Plan (the "Share Option Plan"), subject to completion of its Qualifying Transaction, in which a maximum number of 5,900,000 common shares, or such lesser number as represented 20% of the issued and outstanding common shares of the Company upon closing of the Company's Qualifying Transaction, would be reserved for issuance. Shareholders of the Company approved the Share Option Plan on October 13, 2009, and the Company's Qualifying Transaction completed on April 9, 2010.

The following table provides information regarding compensation plans under which securities of the Company are authorized for issuance in effect as at the financial year ended August 31, 2011.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	4,254,600 (options)	CDN $0.43	1,645,400[(1)] (options)
Equity compensation plans not approved by securityholders	Nil	N/A	N/A
Total	4,254,600 (options)		1,645,000[(1)] (options)

(1) Based on the issued and outstanding of 43,930,431 as of August 31, 2011.
(2) The stock options are governed by the Company's Share Option Plan, as more particularly described below.

CORPORATE GOVERNANCE DISCLOSURE

General

Corporate governance relates to the activities of the board of directors of the Company (the "**Board**"), the members of which are elected by and are accountable to the shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day to day management of the Company. The Board and senior management consider good corporate governance to be central to the effective and efficient operation of the Company.

National Policy 58-201 *Corporate Governance Guidelines* ("**NP 58-201**") establishes corporate governance guidelines, which apply to all public companies. The Company has reviewed its own corporate governance practices in light of these guidelines. In certain cases, the Company's practices comply with the guidelines, however, the Board considers that some of the guidelines are not suitable for the Company at its current stage of development and therefore these guidelines have not been adopted.

National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("**NI 58-101**") also requires the Company to disclose annually in its Information Circular certain information concerning its corporate governance practices. As a "venture issuer" the Company is required to make such disclosure with reference to the requirements of Form 58-101 F2, which disclosure is set forth below.

Board of Directors

The Board is currently composed of six directors, namely: Frank R. Oakes, Darrell H. Brookstein, Daniel E. Morse, Harvey S. Wright, David L. Hill and Malcolm L. Gefter. NP 58-201 suggests that the board of directors of every listed company should be constituted with a majority of individuals who qualify as "independent" directors under National Instrument 52-110, which provides that a director is independent if he or she has no direct or indirect "material relationship" with the company. "Material relationship" is defined as a relationship which could, in the view of the Company's Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment. Of the current directors, Frank R. Oakes, Darrell H. Brookstein and Daniel E. Morse are "inside" or management directors and accordingly are considered not "independent". Malcolm L. Gefter is deemed to be not "independent" due to his consulting agreement with the Company. David L. Hill and Harvey S. Wright are considered "independent" directors of the Company for the purposes of NP 58-201.

The Board is specifically responsible for approving long-term strategic plans and annual operating plans and budgets recommended by management. Board consideration and approval is also required for all material contracts, business transactions and all debt and equity financing proposals. The Board also takes responsibility for identifying the principal risks of the Company's business and for ensuring these risks are effectively monitored and mitigated to the extent reasonably practicable. In keeping with its overall responsibility for the stewardship of the Company, the Board is also responsible for the integrity of the Company's internal control and management information systems and for the Company's policies respecting corporate disclosure and communications.

The Board delegates to management, through the Chief Executive Officer and President, responsibility for meeting defined corporate objectives, implementing approved strategic and operating plans, carrying on the Company's business in the ordinary course, managing the Company's cash flow, evaluating new business opportunities, recruiting staff and complying with applicable regulatory requirements. The Board also looks to management to furnish recommendations respecting corporate objectives, long-term strategic plans and annual operating plans.

The Board does not currently have an independent Chair and, at this stage of the Company's development, the Board does not feel it is necessary to have one to ensure that the Board can function independently of management, as sufficient guidance is found in the applicable corporate and securities legislation and regulatory policies. The non-management directors exercise their responsibilities for independent oversight of management, and are provided with leadership through their position on the Board and ability to meet independently of management whenever deemed necessary. In addition, each member of the Board understands that he is entitled to seek the advice of an independent expert if he reasonably considers it warranted under the circumstances.

Directorships

Orientation and Continuing Education

When new directors are appointed, they receive orientation, commensurate with their previous experience, on the Company's business and on director responsibilities. Board members are encouraged to communicate with management, auditors and technical consultants; to keep themselves current with industry trends and developments and changes in legislation with management's assistance, and to attend related industry seminars and visit the Company's operations.

Ethical Business Conduct

The Board has not adopted a formal written code of ethics. The Board expects that fiduciary duties placed on individual directors by the British Columbia *Business Corporations Act* and the common law, as well as provisions under corporate legislation for required disclosures by directors and senior officers to the Company of transactions with the Company in which they may have an interest and of any other conflicts of duties and interests, are sufficient to ensure that these persons conduct themselves in the best interests of the Company.

Nomination of Directors

The Board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience.

Compensation

The Board of Directors is responsible for determining the compensation for Frank R. Oakes, the Chief Executive Officer, and for his spouse, Dorothy Oakes, who is employed as the Company's Office Manager. The Board has authorized the Chief Executive Officer with the responsibility of setting compensation for officers and employees of the Company, in lieu of a formal compensation committee, up to a maximum salary of $185,000 annually, without further approval by the Board or any committee thereof. The Board of Directors retains authority to approve compensation for any officer or employee of the Company in excess of an annual salary of $185,000 and for compensation payable to any director.

To determine compensation payable, the directors review compensation paid to directors, CEO's and CFO's of companies of similar size and stage of development in similar industries and determine an appropriate compensation reflecting the need to provide incentive and compensation for the time and effort expended by the directors, CEO and CFO while taking into account the financial and other resources of the Company. In setting the compensation, the directors annually review the performance of the CEO and CFO in light of the Company's objectives and consider other factors that may have impacted the success of the Company in achieving its objectives.

Other Board Committees

The Company has two committees:

1. the Audit Committee, consisting of David L. Hill (Chair), Harvey S. Wright and Frank R. Oakes; and
2. a Scientific Advisory Board to assist in evaluation of its research and development and business activities, consisting of Andrew Saxon (Chair), Malcolm L. Gefter, Daniel C. Adelman and Daniel E. Morse.

Scientific Advisory Board

Andrew Saxon, M.D. - Chairman, Scientific Advisory Board

Dr. Saxon received his medical degree from Harvard Medical School. He is board certified in Internal Medicine, Allergy and Clinical Immunology and Diagnostic/Laboratory Immunology. He has published over 180 peer reviewed research publications primarily dealing the control and assessment of the human immune response. Dr. Saxon and colleagues at UCLA were the first to recognize AIDS in 1980, brought this new disease to the attention of the CDC in 1981, and published the first research publication describing this disease in the New England Journal of Medicine that same year. Dr. Saxon and his collaborators have made seminal discoveries on the mechanisms that control human antibody responses and particularly allergic antibodies (IgE) as well as pioneered research into the role of environmental factors in the modulation of the human immune response. As part of his work, Dr. Saxon has had extensive experience with the KLH in its various molecular forms. Dr. Saxon is also the Editor-in-Chief of Clinical Immunology, the official journal of the Clinical Immunology Society.

Malcolm Gefter, Ph. D., Director

Dr. Gefter is Professor of Biochemistry Emeritus at MIT. With 275 peer reviewed articles and professorships at both Columbia and MIT, his academic credentials are well established. More recently, he focused his expertise in business and pharmaceutical development, leading Praecis Pharmaceuticals as its CEO from 1989 - 2007. Dr. Gefter received his B.S. in Chemistry from University of Maryland and Ph. D. from Albert Einstein College of Medicine in

Molecular Biology. He did postdoctoral work at MRC Laboratory of Molecular Biology in Genetics and Molecular Biology with Brenner and Crick and at the Pasteur Institute under Jacob.

Daniel C. Adelman, M.D. - Member, Scientific Advisory Board

Dr. Adelman serves as Adjunct Professor of Medicine at UC-San Francisco. He has also been working in the biotechnology industry. He is currently Senior VP, Development and Chief Medical Officer at Alvine Pharmaceuticals. Prior to that, Dr. Adelman was Senior VP, Development and Chief Medical Officer at Sunesis Pharmaceuticals. He served in various roles at Pharmacyclics, including VP, Clinical Operations and Biometrics and was a Clinical Scientist at Genentech. Dr. Adelman has been involved in all stages of pharmaceutical drug development and shared responsibility for the early development of Xolair and Avastin. Dr. Adelman holds a BA in Biology from the University of California and an M.D. degree from the UC-Davis. After completing his residency in Internal Medicine at Cedars-Sinai Medical Center in Los Angeles, he did post-doctoral fellowship training in Clinical Immunology and Allergy at UCLA.

Daniel E. Morse, Ph.D., Chief Technology Officer, Corporate Secretary and Director

Dr. Morse is Professor of Molecular Genetics and Biochemistry at UCSB; he received his B.A. degree in Biochemistry from Harvard, and Ph. D. in Molecular Biology from Albert Einstein College of Medicine. He was awarded a Career Development Award from the National Institutes of Health and a Faculty Research Award from the American Cancer Society; honored as a Distinguished Faculty Scholar by the Woods Hole Oceanographic Institution, and as a Visiting Lecturer in Japan and the University of Paris; elected a Regents Fellow of the Smithsonian Institution; and elected a Fellow of the American Association for the Advancement of Science. Scientific American named him one of 50 leading technology pioneers of 2006 for his research on biologically inspired routes to nanostructured semiconductor thin films. He was honored as the 7th Kelly Lecturer in Materials and Chemistry by Cambridge and as the 3M Lecturer in Chemistry and Materials by the University of Vancouver. Dr. Morse is Director of the U.S. Army-sponsored UCSB-MIT-Caltech Institute for Collaborative Biotechnologies.

Assessments

The Board monitors the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board and committees.

AUDIT COMMITTEE AND RELATIONSHIP WITH AUDITOR

National Instrument 52-110 (NI 52-110) requires the Company, as a venture issuer, to disclose annually in its Information Circular certain information concerning the constitution of its audit committee (the “Audit Committee”) and its relationship with its independent auditors, as set forth in the following:

Composition of the Audit Committee

The Committee shall be comprised of three directors as determined by the Board of Directors, the majority of whom shall be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Committee. At least one member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of the Company’s Charter, the definition of “financially literate” is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Company’s financial statements.

The members of the Committee shall be elected by the Board of Directors at its first meeting following the annual shareholders’ meeting. Unless a Chair is elected by the full Board of Directors, the members of the Committee may designate a Chair by a majority vote of the full Committee membership.

During the financial year ended August 31, 2011 the Audit Committee consisted of W. Ben Catalano, Harvey S. Wright and Frank R. Oakes, of which W. Benjamin Catalano was the Chair. Mr. Catalano resigned from the Board of Directors on May 10, 2011 and was replaced on the Audit Committee by David L. Hill. All of the members are directors. W. Benjamin Catalano was not deemed to be independent in that he was an officer of the Company from June 12, 2007 to April 9, 2010. David L. Hill and Harvey S. Wright are deemed to be “independent” as that term is defined under NI52-1 10. Frank R. Oakes is not deemed to be independent in that he is an officer of the Company. All members of the Audit Committee are “financially literate” as that term is defined in NI 52-110.

The Audit Committee's Charter

The Company adopted a charter (the "Charter") of the Audit Committee on October 13, 2009, a copy of which is attached as Schedule “A” to this Information Circular.

Audit Committee Oversight

At no time since the commencement of the Company’s most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

Pre-Approval Policies and Procedures

All services to be performed by the Company’s independent auditor must be approved in advance by the Audit Committee. The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors’ independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee of all audit and non-audit services provided by the external auditor, other than any de minimus non-audit services allowed by applicable law or regulation.

Exemption

As a “venture issuer” as defined in NI 52-110, the audit committee of the Company relies on the exemption set forth in section 6.1 of NI 52-110 with respect to Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) of NI 52-110.

External Auditor Service Fees

The Audit Committee has reviewed the nature and amount of the non-audited services provided by D&H Group LLP, Chartered Accountants, to the Company to ensure auditor independence. Fees incurred for audit and non-audit services in the last two financial years for audit fees are outlined in the following table:

	Fees Paid to Auditor in Year Ended	
Nature of Services	August 31, 2011 CDN $	August 31, 2010 CDN $
Audit Fees[(1)]	$50,980	$25,000
Audit-Related Fees[(2)]	Nil	Nil
Tax Fees[(3)]	Nil	Nil

All Other Fees(4)	Nil	Nil
Total	$50,980	$25,000

Notes:

(1) "Audit Fees" include fees necessary to perform the annual audit of the Company's consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fes also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.

(2) "Audit-Related Fees" include services that a traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.

(3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

(4) "All Other Fees" include all other non-audit services.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

An "informed person" means: (a) a director or executive officer of the Company; (b) a director or executive officer of a person or company that is itself an informed person or subsidiary of the Company; (c) any person or company who beneficially owns, directly or indirectly, voting securities of the Company or who exercises control or direction over voting securities of the Company or a combination of both carrying more than 10% of the voting rights other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Company itself, if and for so long as it has purchased, redeemed or otherwise acquired any of its shares.

To the knowledge of management of the Company, no informed person or nominee for election as a director of the Company or any associate or affiliate of any informed person or proposed director had any interest in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries during the year ended August 31, 2011, or has any interest in any material transaction in the current year other than as set out herein.

Private Placement No. 1

On October 3, 2010, the Company closed a non-brokered private placement announced on September 20, 2010, by the issuance of 3,000,000 units at a price of $0.35 per unit to raise gross proceeds of $1,050,000. Each unit consisted of one common share in the capital of the Company and one-half of a transferable share purchase warrant, each whole warrant entitling the holder to purchase one additional common share in the capital of the Company on or before March 28, 2012, at an exercise price of $0.50 per share. Ernesto Echavarria of Sinaloa, Mexico was the sole subscriber. Mr. Echavarria holds in excess of 10% of the issued and outstanding shares of the Company.

Private Placement No. 2

On November 15, 2010 the Company closed a non-brokered private placement announced on October 25, 2010, as amended November 3, 2010, by the issuance of 6,213,000 units at a price of $0.60 per unit to raise gross proceeds of $3,727,800. Each unit consisted of one common share in the capital of the Company and one transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share in the capital of the Company on or before November 14, 2012, at an exercise price of $0.90 per share if exercised on or before November 14, 2011 and $1.15 per share if exercised from November 15, 2011 to November 14, 2012. Of the subscriptions, Ernesto Echavarria of Sinaloa, Mexico, an insider by virtue of holding in excess of 10% of the issued and outstanding shares of the Company, subscribed for 580,000 units. Darrell H. Brookstein, a director and officer of the Company, subscribed for 60,000 units.

Performance Shares

On July 27, 2009, as amended August 17, 2009 the Board of Directors of CAG Capital Inc. (now called Stellar Biotechnologies, Inc.) announced it had entered into a letter of intent to acquire all of the issued and outstanding common shares of Stellar Biotechnologies, Inc. ("Stellar USA"), a California company, through the issuance of an aggregate of 10,000,000 common shares, which transaction constituted the Qualifying Transaction of the Company (as that term is defined under the policies of the TSX Venture Exchange). The Qualifying Transaction completed on April 12, 2010. Following completion of the Qualifying Transaction Stellar USA became a wholly-owned subsidiary of the Company.

As part of the Qualifying Transaction the Company allotted a further 10,000,000 common shares in the capital of the Company (the "Performance Shares") to certain key personnel of Stellar, subject to certain milestones being achieved, namely one third of the total Performance Shares are to be issued on the achievement of each of the milestones, as follows:

1. completion of method development for commercial-scale manufacture of IMG KLH with applicable good GMP as a pharmaceutical intermediate, evidenced by completion of three GMP lots meeting all quality and product release specifications required for stability studies and process validation;

2, compilation and regulatory submittal of all required CMC data compiled in CTD format and evidenced by filing as a DMF with the USFDA; and

3. completion of preclinical toxicity and immunogenicity testing of IMG KLH and Subunit KLH in rodent and non-rodent species as evidenced by acceptance by study protocols and completion reports available to support customer USFDA and EMEA filings.

Of these Performance Shares, the following directors and officers of the Company have been allotted the following:

Participant	Position in Corporation	Performance Shares
Frank R. Oakes	President, CEO and Director	3,583,333
Darrell H. Brookstein	Director and Executive VP – Business Development and Finance	2,166,667
Daniel E. Morse, Ph.D.	Director, Secretary, Chief Technology Officer and Member of Advisory Board	2,000,000
Malcolm L. Gefter, Ph.D.	Director and Member of Advisory Board	200,000

On January 31, 2011 the Company achieved its first milestone and an aggregate of 3,333,335 Shares were issued to directors, officers and employees of the Company at a deemed value of $1.02 per share. Of these, 1,250,000 were issued to Frank R. Oakes, 666,667 shares to Darrell H. Brookstein, 666,667 shares to Daniel E. Morse and 66,667 shares to Malcolm L. Gefter.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

No director or executive officer of the Company, or any person who has held such a position since the beginning of the last completed financial year end of the Company, nor any nominee for election as a director of the Company, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting except as disclosed in this Information Circular.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director, executive officer, employee or former director, executive officer or employee of the Company was indebted to the Company as at the date hereof or at any time during the most recently completed financial year of the Company. None of the proposed nominees for election as a director of the Company, or any associate or affiliate of any director, executive officer or proposed nominee, was indebted to the Company as at the date hereof or at any time during the most recently completed financial year.

The Company has not provided any guarantees, support agreements, letters of credit or other similar arrangement or understanding for any indebtedness of any of the Company's directors, executive officers, proposed nominees for election as a director, or associates or affiliates of any of the foregoing individuals as at the date hereof or at any time during the most recently completed financial year of the Company.

PARTICULARS OF MATTERS TO BE ACTED UPON

1. PRESENTATION OF FINANCIAL STATEMENTS

At the Meeting, the Chairman of the Meeting will present to shareholders the financial statements of the Company for the year ended August 31, 2011 and the auditors' report thereon.

2. ELECTION OF DIRECTORS

(a) Setting Number of Directors

At the Meeting, shareholders will be asked to pass an ordinary resolution to set the number of directors of the Company for the ensuing year at six. The number of directors will be approved if the affirmative vote of the majority of Shares present or represented by proxy at the Meeting and entitled to vote are voted in favour of setting the number of directors at six.

MANAGEMENT RECOMMENDS THE APPROVAL OF THE RESOLUTION TO SET THE NUMBER OF DIRECTORS OF THE COMPANY AT SIX. IN ORDER TO BE PASSED, A MAJORITY OF THE VOTES CAST AT THE MEETING IN PERSON OR BY PROXY MUST BE VOTED IN FAVOUR OF THE RESOLUTION. IN THE ABSENCE OF CONTRARY INSTRUCTIONS, THE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY INTEND TO VOTE ANY SHARES REPRESENTED BY PROXIES HELD BY THEM IN FAVOUR OF THE RESOLUTION SETTING THE NUMBER OF DIRECTORS AT SIX.

(b) Election of Directors

The term of office of each of the current directors will end at the conclusion of the Meeting. Unless the director's office is earlier vacated in accordance with the provisions of the British Columbia *Business Corporations Act* or the Articles of the Company, each director elected will hold office until the conclusion of the next annual general meeting of the Company, or, if no director is then elected, until a successor is elected.

Management does not contemplate that any of the nominees will be unable to serve as a director. In the event that prior to the Meeting any vacancies occur in the slate of nominees herein listed, it is intended that discretionary authority shall be exercised by the person named in the proxy as nominee to vote the common shares represented by proxy for the election of any other person or persons as directors.

The following table sets out the names of management's nominees for election as directors, all major offices and positions with the Company and any of its significant affiliates each now holds, each nominee's principal occupation, business or employment for the five preceding years, the period of time during which each has been a Director of the Company and the number of common shares of the Company beneficially owned by each, directly or indirectly, or over which each exercised control or direction, as at the date hereof.

Name, Province or State and Country of Residence, and Current Position with the Company	Occupation, Business or Employment[1]	Director of Company Since	Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Direction is Exercised[1][2]
Darrell H. Brookstein San Diego, California USA Director and Executive V.P., Business Development and Finance	Managing Director, The Nanotech Company, LLC since 2002, Director and Executive VP – Corporate Development & Finance of Stellar from October 13, 2009 to present.	April 10, 2008	2,275,809[3]
Malcolm L. Gefter, Ph.D. Lincoln, MA USA Director	Founder, Praecis Pharmaceuticals Incorporated – Treasurer (1993 to 1998), Director (July 1993 to 2007), Chairman of the Board (1994 to 2007), CEO (1996 to 2005); President (1998 to 2002) CEO (1989 to 2007); Founder, ImmuLogic Pharmaceutical Corporation and Chairman of the Board (1987 to 1997).	July 12, 2010	66,667[4]
David L. Hill[9] Hermosa Beach, California USA Director	Scientific Director, ART Reproductive Centre, January 2000 to present;	May 17, 2011	Nil[5]
Daniel E. Morse Santa Barbara, California USA Director, Secretary and Chief Technology Officer	Professor of Molecular Genetics and Biochemistry at the University of California, Santa Barbara since 1973.	April 9, 2010	955,094[6]
Frank R. Oakes[9] Port Hueneme, California USA President, CEO and Director	President, CEO and a director of Stellar Biotechnologies, Inc., the Company's US subsidiary since 1999; President and CEO of Stellar Biotechnologies, Inc. (parent) since April 9 2010.	April 9, 2010	3,992,817[7]
Harvey S. Wright[9] Caldwell, Idaho USA Director	Retired since 1994.	April 9, 2010	105,000[8]

Notes:

(1) The information as to principal occupation, business or employment and common shares beneficially owned or controlled is not within the knowledge of the management of the Company and has been furnished by the respective nominees. Each nominee has held the same or a similar principal occupation with the organization indicated or a predecessor thereof for the last five years unless otherwise indicated.

(2) The number of common shares beneficially owned by the above nominees for directors, directly or indirectly, is based on information furnished by insider reports filed on SEDI and by the nominees themselves.

(3) Of these shares, 1,352,000 are held indirectly through the Brookstein Family Trust, of which Darrell H. Brookstein is co-trustee. An aggregate of 366,664 of the total shares are held in escrow pursuant to two escrow agreements and subject to

the release provisions contained therein. The Brookstein Family Trust also holds 60,000 share purchase warrants exercisable at $1.15 per share on or before November 14, 2012. In addition, Mr. Brookstein holds 996,000 stock options consisting of: (i) 620,000 options exercisable at $0.28 per share for a seven year term expiring April 9, 2017; and (ii) 376,000 options exercisable at $0.65 per share for a seven year term expiring August 8, 2018. Mr. Brookstein has also been allotted 1,500,000 Performance Shares pursuant to the Company's Qualifying Transaction, which shares have not yet been issued. Refer to "Interest of Informed Persons in Material Transactions – Performance Shares" below.

(4) Mr. Gefter also holds 140,000 stock options consisting of (i) 70,000 options exercisable at $0.28 per share for a seven year term expiring July 13, 2017; and (ii) 70,000 options exercisable at $0.65 per share for a seven year term expiring August 8, 2018. Mr. Gefter has also been allotted 133,333 Performance Shares pursuant to the Company's Qualifying Transaction, which shares have not yet been issued. Refer to "Interest of Informed Persons in Material Transactions – Performance Shares" below.

(5) Mr. Hill also holds 25,000 stock options exercisable at $0.65 per share for a seven year term expiring August 8, 2018.

(6) Of these shares, 264,792 are held in escrow pursuant to an escrow agreement and subject to the release provisions contained therein. Mr. Morse also holds 410,500 stock options consisting of: (i) 290,000 options exercisable at $0.28 per share for a seven year term expiring April 9, 2017; and (ii) 120,500 options exercisable at $0.65 per share for a seven year term expiring August 8, 2018. Mr. Morse has also been allotted 1,333,333 Performance Shares pursuant to the Company's Qualifying Transaction, which shares have not yet been issued. Refer to "Interest of Informed Persons in Material Transactions – Performance Shares" below.

(7) Of these shares, 585,171 are held indirectly by Mr. Oakes' spouse, over which he exercises control. 1,240,191 shares are held in escrow pursuant to an escrow agreement and subject to the release provisions contained therein. In addition Mr. Oakes also holds an aggregate of 1,515,600 stock options, of which 1,500,600 are held directly and 15,000 are held by his spouse, Dorothy Oakes. Of these options, (i) 1,075,000 options are exercisable at $0.28 per share for a seven year term expiring April 9, 2017; 15,000 options are exercisable at $1.00 per share for a seven year term expiring February 10, 2018; and (iii) 425,600 options are exercisable for a seven year term expiring August 8, 2018. Mr. Oakes has also been allotted 2,333,333 Performance Shares pursuant to the Company's Qualifying Transaction, which shares have not yet been issued. Refer to "Interest of Informed Persons in Material Transactions – Performance Shares" below.

(8) Mr. Wright also holds 50,000 stock options exercisable at $0.28 per share for a seven year term expiring April 9, 2017.

Director Biographies

Darrell H. Brookstein

Mr. Brookstein was Managing Director of The Nanotech Company, LLC and a director of CAG Capital, predecessor to Stellar Biotechnologies, Inc. He has founded, built to profitability and been CEO of investment firms involved in securities, commodities, mining and natural resource venture capital, as well as advanced technologies. Mr. Brookstein has published several books and newsletters related to business development and investing in these fields, including The Prospector and Nanotech Fortunes. He received his BA from Duke University.

Malcolm L. Gefter, Ph. D.

Dr. Gefter is Professor of Biochemistry Emeritus at MIT. With 275 peer reviewed articles and professorships at both Columbia and MIT, his academic credentials are well established. More recently, he focused his expertise in business and pharmaceutical development, leading Praecis Pharmaceuticals as its CEO from 1989 - 2007. Dr. Gefter received his B.S. in Chemistry from University of Maryland and Ph. D. from Albert Einstein College of Medicine in Molecular Biology. He did postdoctoral work at MRC Laboratory of Molecular Biology in Genetics and Molecular Biology with Brenner and Crick and at the Pasteur Institute under Jacob.

David L. Hill, Ph.D.

Dr. Hill, is a Board Certified High Complexity Laboratory Director, Board Certified Embryology Laboratory Director and member of the American Association of Bioanalysts. He is Scientific Director of the ART Reproductive Center and is currently Assistant Clinical Professor at the David Geffen School of Medicine at UCLA. After receiving his BS in Marine Biology at Cal Poly - San Luis Obispo, CA, Dr. Hill received his MS in Biological Sciences there, then went on to a Ph.D. in Biological Sciences/Pathobiology at the University of Connecticut and post-doc Fellowship at The Dana Farber Cancer Institute (Appointment through the Department of Physiology and Biophysics, Harvard Medical School). He is listed on more than 100 peer-reviewed published papers.

Daniel E. Morse, Ph.D.

Dr. Morse is Professor of Molecular Genetics and Biochemistry at UCSB; he received his B.A. degree in Biochemistry from Harvard, and Ph. D. in Molecular Biology from Albert Einstein College of Medicine. He was awarded a Career Development Award from the National Institutes of Health and a Faculty Research Award from the American Cancer Society; honored as a Distinguished Faculty Scholar by the Woods Hole Oceanographic Institution, and as a Visiting Lecturer in Japan and the University of Paris; elected a Regents Fellow of the Smithsonian Institution; and elected a Fellow of the American Association for the Advancement of Science. Scientific American named him one of 50 leading technology pioneers of 2006 for his research on biologically inspired routes to nanostructured semiconductor thin films. He was honored as the 7th Kelly Lecturer in Materials and Chemistry by Cambridge and as the 3M Lecturer in Chemistry and Materials by the University of Vancouver. Dr. Morse is Director of the U.S. Army-sponsored UCSB-MIT-Caltech Institute for Collaborative Biotechnologies.

Frank Oakes

Mr. Oakes has more than 30 years of management experience in aquaculture including a decade as CEO of The Abalone Farm, Inc., during which he led that company through the R&D, capitalization and commercialization phases of development to become the first profitable and largest abalone producer in the U.S.. He is the inventor of the company's patented method for non-lethal extraction of hemolymph from the keyhole limpet. He was the Principal Investigator on the company's Phase I and II SBIR grants from the NIH's Center for Research Resources, a California Technology Investment Partnership (CalTIP) grant from the Department of Commerce. He has consulted and lectured for the aquaculture industry around the world. Frank received his Bachelor of Science degree from California State Polytechnic University, San Luis Obispo and is a graduate of the Los Angeles Regional Technology Alliance (LARTA) University's management-training program.

Harvey Wright

Mr. Wright was Chief of Anesthesiology at St. John's Hospital in Jackson Hole, Wyoming. Mr. Wright was President of the Association of Nurse Anesthesiologists. He was elected to the Board of Directors of St. Johns Hospital. Mr. Wright obtained his A.D. from Ricks College.

None of the proposed nominees for election as a director of the Company are proposed for election pursuant to any arrangement or understanding between the nominee and any other person, except the directors and senior officers of the Company acting solely in such capacity.

Corporate Cease Trade Orders and Bankruptcies

No proposed director (including any personal holding company of a proposed director):

(a) is, as at the date of this Information Circular, or has been, within the preceding 10 years, a director, chief executive officer or chief financial officer of any company (including the Company) that

(i)

was the subject of a cease trade or similar order (including a management cease trade order whether or not such person was named in the order) or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, (an "Order") while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or

(ii) was subject to an Order that was issued after the proposed director ceased to be a director, executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director chief executive officer or chief financial officer;

(b) is, as at the date of this Information Circular, or has been, within the preceding 10 years, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(c) has, within the 10 years before the date of this Information Circular, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director; or

(d) has been subject to:

(i) since December 31, 2000, any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or before December 31, 2000, the disclosure of which would likely be important to a reasonable securityholder in deciding whether to vote for a proposed director;

(ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

MANAGEMENT RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOUR OF THE ABOVE LISTED NOMINEES.

IN ORDER TO BE PASSED, A MAJORITY OF THE VOTES CAST AT THE MEETING IN PERSON OR BY PROXY MUST BE VOTED IN FAVOUR OF THE RESOLUTION. MANAGEMENT HAS NO REASON TO BELIEVE THAT ANY OF THE NOMINEES WILL BE UNABLE TO SERVE AS A DIRECTOR BUT, IF A NOMINEE IS FOR ANY REASON UNAVAILABLE TO SERVE AS A DIRECTOR, PROXIES IN FAVOUR OF MANAGEMENT MAY BE VOTED FOR A SUBSTITUTE NOMINEE UNLESS THE SHAREHOLDER HAS SPECIFIED IN THE PROXY THAT THE COMMON SHARES ARE TO BE WITHHELD FROM VOTING IN RESPECT OF THE ELECTION OF DIRECTORS.

3. APPOINTMENT OF AUDITORS

D&H Group LLP, Chartered Accountants, of 10th Floor, 1333 West Broadway, Vancouver, British Columbia, V6H 4C1, have been auditors of the Company since August 29, 2007. Prior to this date the Company was a private company and did not have an auditor. Management proposes that D&H Group LLP, Chartered Accountants, be reappointed auditors of the Company for the ensuing year, until the close of the next annual general meeting of the shareholders, at a remuneration to be fixed by the directors.

MANAGEMENT RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAV0UR OF THE REAPPOINTMENT OF THE ABOVE NAMED AUDITOR. IN ORDER TO BE PASSED, A MAJORITY OF THE VOTES CAST AT THE MEETING IN PERSON OR BY PROXY MUST BE VOTED IN FAVOUR OF THE RESOLUTION. IN THE ABSENCE OF CONTRARY INSTRUCTIONS, THE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY INTEND TO VOTE ANY SHARES REPRESENTED BY PROXIES HELD BY THEM IN FAVOUR OF THE RESOLUTION APPOINTING D&H GROUP LLP AUDITORS OF THE COMPANY FOR THE ENSUING YEAR AT A REMUNERATION TO BE FIXED BY THE DIRECTORS.

4. AMENDMENT OF FIXED SHARE OPTION PLAN

Background

On September 4, 2009 the Board of Directors approved the adoption of a Fixed Share Option Plan (the "Share Option Plan"), subject to completion of its Qualifying Transaction, in which a maximum number of 5,900,000 common shares, or such lesser number as represented 20% of the issued and outstanding common shares of the Company upon closing of the Company's Qualifying Transaction, would be reserved for issuance. Shareholders of the Company approved the Share Option Plan on October 13, 2009, and the Company's Qualifying Transaction completed on April 9, 2010.

As at the date of this Information Circular, there are presently 4,259,600 options outstanding and 1,640,400 are reserved and available under the Share Option Plan.

The purpose of the Share Option Plan is to provide certain directors, officers and key employees of, and certain other persons who provide services to the Company and any subsidiaries with an opportunity to purchase shares of the Company and benefit from any appreciation in the value of the Company's shares. This will provide an increased incentive for these individuals to contribute to the future success and prosperity of the Company, thus enhancing the value of the shares for the benefit of all the shareholders and increasing the ability of the Company and its subsidiaries to attract and retain skilled and motivated individuals in the service of the Company.

Summary of the Share Option Plan

The material terms of the Share Option Plan are as follows:

1. the Share Option Plan shall be administered by the Board of Directors or a committee of the Board of Directors duly appointed for this purpose;

2. the Board of Directors may determine the time during which any options may vest and the method of vesting or that no vesting restriction shall exist;

3. the options shall be for such periods as the Board of Directors may determine up to a maximum of ten years, subject to any limits imposed by any stock exchange on which the common shares are listed;

4. no more that 2% of the issued common shares may be granted to any one consultant in any 12 month period;

5. no more than an aggregate of 2% of the issued common shares of the Company will be granted to persons conducting investor relations activities in a 12 month period;

6. the exercise price of any options granted under the Share Option Plan will be determined by the board of directors, in its sole discretion, but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the directors grant such options, less any discount permitted by the TSXV to a minimum of $0.10 per share;

7. where the exercise price of the stock option is based on a discounted market price, a four month hold period will apply to all shares issued under each option, commencing from the date of grant;

8. unless otherwise determined by the Board of Directors, an option will terminate 365 days after an optionee ceases to be a director, officer, employee, or consultant of the Company or ceases to be employed to provide Investor Relations Activities to the Company;

9. in the event of the death of an optionee, the option will only be exercisable within 12 months of such death but in any event no longer than the term of such option;

10. the options shall be non-transferable and non-assignable;

11. options will be reclassified in the event of any consolidation, subdivision, conversion or exchange of the Company's common shares;

12. for stock options granted to employees, consultants or service providers (inclusive of management company employees), the Company must ensure that the proposed optionee is a bona fide employee, consultant or service provider (inclusive of management company employees), as the case may be, of the Company or any subsidiary.

The Board of Directors has the authority to make such changes to the Share Option Plan as may be required or approved by regulatory authorities.

Amendments to the Share Option Plan

Effective January 1, 2011 amendments to the *Income Tax Act* (Canada) require companies to withhold income taxes payable in Canada with respect to the exercise of stock options by directors, officers and employees. The Company's Share Option Plan did not provide the requirement for the Company to withhold any taxes nor did it provide authorization or the mechanism for the Company to withhold these taxes.

The first proposed amendment to the Share Option Plan requires the Company to withhold at source all income, social security and other payroll taxes and withholding required by law with respect to the exercise of stock options and provides the Company with the authority to make satisfactory arrangements in order to satisfy the remittance obligations. These arrangements include, inter alia, cash payment of the taxes by the holder of the options at the time of exercise, or the retention of shares by the Company, the sale of which would realize sufficient cash proceeds to satisfy the remittance obligations.

The Board of Directors amended the Share Option Plan, effective January 1, 2011, to reflect the foregoing:

"Withholding Tax

5.3 If the Company is required under the *Income Tax Act* (Canada) or any other applicable law to make source deductions in respect of employee stock option benefits and to remit to the applicable governmental authority an amount on account of tax on the value of the taxable benefit associated with the issuance of Common Shares on exercise of Options, then the Optionee shall:

(a) pay to the Company, in addition to the exercise price for the Options, sufficient cash as is reasonably determined by the Company to be the amount necessary to permit the required tax remittance;

(b) authorize the Company, on behalf of the Optionee, to sell in the market on such terms and at such time or times as the Company determines a portion of the Common Shares being issued upon exercise of the Options to realize cash proceeds to be used to satisfy the required tax remittance; or

(c) make other arrangements acceptable to the Company to fund the required tax remittance."

The second proposed amendment to the Share Option Plan is to approve an increase in the number of common shares of the Company which can be reserved for issuance on exercise of the options under the Share Option Plan from 5,900,000 (of which 4,259,600 are currently issued and outstanding) to 8,785,000 (which represents 20% of the Company's current issued and outstanding common shares). The Board of Directors approved the amendment on December 13, 2011, subject to approval by the shareholders and the TSXV.

Thirdly, pursuant to the policies of the TSXV, approval of Disinterested Shareholders (as herein defined) is required if a stock option plan, together with all of the Company's previously established and outstanding stock option plans or grants, could result at any time in:

(i) the reduction in the exercise price of an outstanding option, if the option holder is an Insider at the time of the amendment;

(ii) the aggregate number of shares reserved for issuance under stock options granted to Insiders exceeding 10% of the Company's issued shares; or

(iii) the grant to Insiders, within a 12-month period, of a number of options exceeding 10% of the issued shares; or

(iv) the number of shares reserved for issuance under stock options granted to any one individual in any 12-month period exceeding 5% of the Company's issued shares.

Although this is not presently the case for the Company, management believes it prudent to obtain Disinterested Shareholder approval of the Share Option Plan in the event the foregoing situation occurs in the future and, as such, Disinterested Shareholders will be asked at the Meeting to approve the amendments to the Share Option Plan as disclosed herein, which also includes approval to clauses (i) through (iv) above.

"Disinterested Shareholder approval" means the approval by a majority of the votes cast by all shareholders of the Company at the shareholders' meeting excluding votes attached to listed shares beneficially owned by Insiders of the Company and associates of those insiders. Insider, as defined in the *Securities Act* (British Columbia), includes directors, officers and shareholders of 10% or more of the issued and outstanding common shares as Insiders. As at the date of this Information Circular and based on the information available to the Company, holders of 12,816,220 common shares will not be entitled to vote on the resolution to approve the amended Share Option Plan.

Disinterested Shareholder Approval

Disinterested Shareholders will be asked at the Meeting to approve, with or without variation, the following resolution:

"WHEREAS it is deemed to be in the best interests of the Company and its shareholders to amend the Share Option Plan of the Company;

BE IT RESOLVED that:

1. the Company's Share Option Plan be amended as described in the Information Circular dated December 17, 2011, and all changes to the Share Option Plan indicated therein are hereby authorized, approved and ratified;

2. any one director or officer of the Company is hereby authorized and directed for and in the name of and on behalf of the Company to execute or cause to be executed and to deliver or cause to be delivered all such documents, and to do or cause to be done all such acts and things, as in the opinion of such director or officer may be necessary or desirable in connection with the foregoing.

3. hat the Board of Directors be and are hereby authorized, without further shareholder approval, to make such changes to the Share Option Plan as may be required or approved by regulatory authorities."

A full copy of the Share Option Plan will be available for inspection at the Meeting. The Share Option Plan is available on www.sedar.com and may also be obtained by a Shareholder, without charge, upon request by contacting the Chief Executive Officer by telephone at (805) 488-2147 or by fax at (805) 488-1278.

MANAGEMENT RECOMMENDS THAT THE DISINTERESTED SHAREHOLDERS APPROVE THE ABOVE RESOLUTION. IN ORDER TO BE PASSED, A MAJORITY OF THE VOTES CAST AT THE MEETING IN PERSON OR BY PROXY MUST BE VOTED IN FAVOUR OF THE RESOLUTION. IN THE ABSENCE OF CONTRARY INSTRUCTIONS, THE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY INTEND TO VOTE ANY SHARES REPRESENTED BY PROXIES HELD BY THEM IN FAVOUR OF THE RESOLUTION APPROVING THE AMENDMENTS TO THE SHARE OPTION PLAN.

5. APPROVAL OF SHAREHOLDERS RIGHTS PLAN

At the Meeting, Shareholders will be asked to consider and, if deemed advisable, to pass, with or without modification, a resolution approving ratifying and adopting the Company's shareholder rights plan (the "**Rights Plan**") which was approved by the Board on December 13, 2011, the full text of which is set out below. The Rights Plan became effective on December 13, 2011. A summary of the principal terms of the Rights Plan is set out below and is qualified in its entirety by reference to the text of the Shareholder Rights Plan Agreement dated December 13, 2011 (the "Rights Plan") between the Company and Computershare Investor Services Inc., a copy of which is available on SEDAR at www.sedar.com.

If the Rights Plan Resolution is approved at the Meeting, the Rights Plan will be put into effect as of the date of the approval of the Rights Plan (the "**Effective Date**"). If the Rights Plan Resolution is not approved, the Rights Plan will not be put into effect.

The Rights Plan is intended to provide for the fair treatment of Shareholders in connection with any take-over bid for the Company and is designed to provide the Board and the Shareholders with more time to fully consider any unsolicited take-over bid for the Company without undue pressure. Furthermore, the Rights Plan will allow the Board to pursue, if appropriate, other alternatives to maximize shareholder value and to allow additional time for competing bids to emerge. The following is a brief summary of the Rights Plan which is qualified in its entirety by reference to the text of the Rights Plan, a copy of which is filed on www.sedar.com. A copy of the Rights Plan will be available at the Meeting for review, and a copy may be obtained by contacting the President of the Company at the above noted address and contact numbers. The approval of the Rights Plan is not being recommended in response to or in contemplation of any known take-over bid or other similar transaction.

Purpose of the Plan

The objectives of the Rights Plan are to ensure, to the extent possible, that all Shareholders are treated equally and fairly in connection with any take-over bid for the Company. Take-over bids may be structured to be coercive or may be initiated at a time when the Board will have a difficult time preparing an adequate response to the offer. Accordingly, such offers do not always result in Shareholders receiving equal or fair treatment or full or maximum value for their investment. Under current Canadian securities legislation, a take-over bid is required to remain open for 35 days, a period of time which may be insufficient for the directors to: (i) evaluate a take-over bid (particularly if it includes share or trust unit consideration); (ii) explore, develop and pursue alternatives which are superior to the take-over bid and which could maximize Shareholder value; and (iii) make reasoned recommendations to the Shareholders.

The Rights Plan discourages discriminatory, coercive or unfair take-overs of the Company and gives the Board time if, under the circumstances, the Board determines it is appropriate to take such time, to pursue alternatives to maximize Shareholder value in the event an unsolicited take-over bid is made for all or a portion of the outstanding Common Shares. As set forth in detail below, the Rights Plan discourages coercive hostile take-over bids by creating the potential that any Common Shares which may be acquired or held by such a bidder will be significantly diluted. The potential for significant dilution to the holdings of such a bidder can occur as the Rights Plan provides that all holders of Common Shares who are not related to the bidder will be entitled to exercise rights issued to them under the Rights Plan and to acquire Common Shares at a substantial discount to prevailing market prices. The bidder or the persons related to the bidder will not be entitled to exercise any Rights (defined below) under the Rights Plan. Accordingly, the Rights Plan will encourage potential bidders to make take-over bids by means of a Permitted Bid (as defined below) or to approach the Board to negotiate a mutually acceptable transaction. The Permitted Bid provisions of the Rights Plan are designed to ensure that in any take-over bid for outstanding Common Shares of the Shareholders, all Shareholders are treated equally and are given adequate time to properly assess such take-over bid on a fully informed basis.

The Rights Plan is not being proposed to prevent a take-over of the Company, to secure the continuance of management or the directors of the Company in their respective offices or to deter fair offers for the Common Shares.

Term

Provided the Rights Plan is approved at the Meeting, the Rights Plan (unless terminated earlier) will remain in effect until the close of business on the day immediately following the date of the Company's annual meeting of Shareholders in 2014 unless the term of the Rights Plan is extended beyond such date by resolution of Shareholders at such meeting.

Issuance of Rights

The Rights Plan provides that one right (a "Right") will be issued by the Company pursuant to the Rights Plan in respect of each Voting Share outstanding as of the close of business (Vancouver time) (the "Record Time") on the Effective Date. "Voting Shares" include the Common Shares and any other shares of the Company entitled to vote generally in the election of all directors. One Right will also be issued for each additional Voting Share issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time, subject to the earlier termination or expiration of the Rights as set out in the Rights Plan. As of the Effective Date, the only Voting Shares outstanding will be the Common Shares. The issuance of the Rights is not dilutive and will not affect reported earnings or cash flow per Common Share until the Rights separate from the underlying Common Shares and become exercisable or until the exercise of the Rights. The issuance of the Rights will not change the manner in which Shareholders trade their Common Shares.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for Common Shares issued after the Record Time. Rights are also attached to Common Shares outstanding on the Effective Date, although share certificates issued prior to the Effective Date will not bear such a legend. Shareholders are not required to return their certificates in order to have the benefit of the Rights. Prior to the Separation Time, Rights will trade together with the Common Shares and will not be exercisable or transferable separately from the Common Shares. From and after the Separation Time, the Rights will become exercisable, will be evidenced by Rights Certificates and will be transferable separately from the Common Shares.

Separation of Rights

The Rights will become exercisable and begin to trade separately from the associated Common Shares at the "Separation Time" which is generally (subject to the ability of the Board to defer the Separation Time) the close of business on the tenth trading day after the earliest to occur of:

1. the first date of public announcement that a person or group of affiliated or associated persons or persons acting jointly or in concert has become an "Acquiring Person", meaning that such person or group has acquired Beneficial Ownership (as defined in the Rights Plan) of 20% or more of the

outstanding Voting Shares other than as a result of: (i) a reduction in the number of Voting Shares outstanding; (ii) a "Permitted Bid" or "Competing Permitted Bid" (as defined below); (iii) acquisitions of Voting Shares in respect of which the Board has waived the application of the Rights Plan; or (iv) other specified exempt acquisitions and pro rata acquisitions in which shareholders participate on a *pro rata* basis;

2. the date of commencement of, or the first public announcement of an intention of any person (other than the Company or any of its subsidiaries) to commence a take-over bid (other than a Permitted Bid or a Competing Permitted Bid) where the Voting Shares subject to the bid owned by that person (including affiliates, associates and others acting jointly or in concert therewith) would constitute 20% or more of the outstanding Voting Shares; and

3. the date upon which a Permitted Bid or Competing Permitted Bid ceases to qualify as such.

Promptly following the Separation Time, separate certificates evidencing rights ("Rights Certificates") will be mailed to the holders of record of the Voting Shares as of the Separation Time and the Rights Certificates alone will evidence the Rights.

Rights Exercise Privilege

After the Separation Time, each Right entitles the holder thereof to purchase one Common Share at an initial "Exercise Price" equal to three times the "Market Price" at the Separation Time. The Market Price is defined as the average of the daily closing prices per share of such securities on each of the 20 consecutive trading days through and including the trading day immediately preceding the Separation Time. Following a transaction which results in a person become an Acquiring Person (a "Flip-In Event"), the Rights entitle the holder thereof to receive, upon exercise, such number of Common Shares which have an aggregate Market Price (as of the date of the Flip-In Event) equal to twice the then Exercise Price of the Rights for an amount in cash equal to the Exercise Price. In such event, however, any Rights beneficially owned by an Acquiring Person (including affiliates, associates and other acting jointly or in concert therewith), or a transferee of any such person, will be null and void. A Flip-In Event does not include acquisitions approved by the Board or acquisitions pursuant to a Permitted Bid or Competing Permitted Bid.

Permitted Bid Requirements

A bidder can make a take-over bid and acquire Voting Shares without triggering a Flip-In Event under the Rights Plan if the take-over bid qualifies as a Permitted Bid.

The requirements of a "Permitted Bid" include the following:

- the take-over bid must be made by means of a take-over bid circular;
- the take-over bid is made to all holders of Voting Shares on the books of the Company, other than the offeror;
- no Voting Shares are taken up or paid for pursuant to the take-over bid unless more than 50% of the Voting Shares held by Independent Shareholders: (i) shall have been deposited or tendered pursuant to the takeover bid and not withdrawn; and (ii) have previously been or are taken up at the same time;
- no Voting Shares are taken up or paid for pursuant to the take-over bid prior to the close of business on the date that is no earlier than the later of: (i) 35 days after the date of the take-over bid (the minimum period required under securities law); and (ii) 60 days following the date of the take-over bid;
- Voting Shares may be deposited pursuant to such take-over bid at any time during the period of time between the date of the take-over bid and the date on which Voting Shares may be taken up and paid for and any Voting Shares deposited pursuant to the take-over bid may be withdrawn until taken up and paid for; and
- if on the date on which Voting Shares may be taken up and paid for under the take-over bid, more than 50% of the Voting Shares held by Independent Shareholders have been deposited or tendered pursuant to the take-over bid and not withdrawn, the offeror makes a public announcement of that fact and the takeover bid is extended to remain open for deposits and tenders of Voting Shares for not less than 10 business days from the date of such public announcement.

The Rights Plan also allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all of the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days (the minimum period required under Canadian securities laws).

Permitted Lock-Up Agreements

A person will not become an Acquiring Person by virtue of having entered into an agreement (a "Permitted Lock-Up Agreement") with a Shareholder whereby the Shareholder agrees to deposit or tender Voting Shares to a take-over bid (the "Lock-Up Bid") made by such person, provided that the agreement meets certain requirements including:

1. the terms of the agreement are publicly disclosed and a copy of the agreement is publicly available not later than the date of the Lock-Up Bid or, if the Lock-Up Bid has not been made prior to the date on which such agreement is entered into, not later than the date of such agreement;

2. the Shareholder who has agreed to tender Voting Shares to the Lock-Up Bid made by the other party to the agreement is permitted to terminate its obligation under the agreement, and to terminate any obligation with respect to the voting of such Voting Shares, in order to tender Voting Shares to another take-over bid or transaction where: (i) the offer price or value of the consideration payable under the other take-over bid or transaction is greater than the price or value of the consideration per unit at which the Shareholder has agreed to deposit or tender Voting Shares to the Lock-Up Bid, or is greater than a specified minimum which is not more than 7% higher than the price or value of the consideration per unit at which the Shareholder has agreed to deposit or tender Voting Shares under the Lock-Up Bid; and (ii) if the number of Voting Shares offered to be purchased under the Lock-Up Bid is less than all of the Voting Shares held by Shareholders (excluding Voting Shares held by the offeror), the other take-over bid or transaction would, if successful, result in all of the Shareholder's Voting Shares being purchased under the other take-over bid or transaction;

3. no break-up fees, top-up fees, or other penalties that exceed in the aggregate the greater of 2.5% of the price or value of the consideration payable under the Lock-Up Bid and 50% of the increase in consideration resulting from another take-over bid or transaction shall be payable by the Shareholder if the Shareholder fails to deposit or tender Voting Shares to the Lock-Up Bid; and

4. any right to match a period of delay to give the person who made the Lock-up Bid an opportunity to match a higher price contained in another take-over bid or transaction, or other similar limitation on a Shareholder's right to withdraw Voting Shares from the agreement, must not preclude the Shareholder from withdrawing Voting Shares from the Lock-up Bid in order to tender Voting Shares to another take-over bid or to support another transaction that in either case will provide greater value to the Shareholder than the Lock-up Bid or which would result in all of the Shareholder's Voting Shares being purchased.

Waiver and Redemption

If a potential offeror does not desire to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the Board to make a take-over bid by way of a take-over bid circular sent to all holders of Voting Shares on terms which the Board considers fair to all Shareholders. In such circumstances, the Board may waive the application of the Rights Plan thereby allowing such bid to proceed without dilution to the offeror. Any waiver of the application of the Rights Plan in respect of a particular take-over bid shall also constitute a waiver of any other take-over bid which is made by means of a take-over bid circular to all holders of Voting Shares while the initial take-over bid is outstanding. The Board may also waive the application of the Rights Plan in respect of a particular Flip-in Event that has occurred through inadvertence. With the prior consent of the holders of Voting Shares, the Board may, prior to the occurrence of a Flip-in Event that would occur by reason of an acquisition of Voting Shares otherwise than pursuant to the foregoing, waive the application of the Rights Plan to such Flip-in Event.

The Board may, with the prior consent of the holders of Voting Shares, at any time prior to the occurrence of a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of $0.0001 per Right. Rights are deemed to be redeemed following completion of a Permitted Bid, a Competing Permitted Bid or a take-over bid in respect of which the Board has waived the application of the Rights Plan.

Protection against Dilution

The Exercise Price, the number and nature of securities which may be purchased upon the exercise of Rights and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution in the event of dividends, subdivisions, consolidations, reclassifications or other changes in the outstanding Shares, pro rata distributions to holders of Shares and other circumstances where adjustments are required to appropriately protect the interests of the holders of Rights.

Exemptions for Investment Managers

Investment managers (for client accounts), trust companies (acting in their capacity as trustees or administrators), statutory bodies whose business includes the management of funds (for employee benefit plans, pension plans, or insurance plans of various public bodies) and administrators or trustees of registered pension plans or funds acquiring greater than 20% of the Voting Shares are exempted from triggering a Flip-in Event, provided they are not making, either alone or jointly or in concert with any other person, a take-over bid.

Duties of the Board

The adoption of the Rights Plan will not in any way lessen or affect the duty of the Board to act honestly and in good faith with a view to the best interests of the Company. The Board, when a take-over bid or similar offer is made, will continue to have the duty and power to take such actions and make such recommendations to Shareholders as are considered appropriate.

Amendment

The Company may make amendments to the Rights Plan at any time to correct any clerical or typographical error and may make amendments which are required to maintain the validity of the Rights Plan due to changes in any applicable legislation, regulations or rules. The Company may, with the prior approval of Shareholders (or the holders of Rights if the Separation Time has occurred), supplement, amend, vary, rescind or delete any of the provisions of the Rights Plan.

Voting Requirements

The approval of the Rights Plan must be confirmed by a majority of the votes cast by Shareholders in person or by proxy at the Meeting. The Company is not aware of any Shareholder who will be ineligible to vote on the approval of the Rights Plan at the Meeting.

At the Meeting, Shareholders will be asked to consider and, if deemed appropriate, to pass a resolution substantially in the following form:

> "BE IT RESOLVED that:
> 1. The adoption of the Rights Plan substantially as described in the Information Circular dated December 17, 2011 is hereby approved, and the Company is hereby authorized to enter into an agreement with Computershare Investor Services Inc. (or such other person as may be appropriate in the circumstances), as rights agent, to implement the Rights Plan and to issue rights thereunder.
>
> 2. The Board may revoke this resolution before it is acted upon, without further approval of the Shareholders.
>
> 3. Any one or more directors or officers of the Company, as the case may be, are hereby authorized to execute and deliver, whether under corporate seal or otherwise, the agreement referred to above and any other agreements, instruments, notices, consents, acknowledgements, certificates and other documents (including any documents required under applicable laws or regulatory policies), and to perform and do all such other acts and things, as any such director or officer in his discretion may consider to be necessary or advisable from time to time in order to give effect to this resolution."

MANAGEMENT RECOMMENDS THAT SHAREHOLDERS VOTE IN FAVOUR OF THE RIGHTS PLAN RESOLUTION. IN ORDER TO BE PASSED, A MAJORITY OF THE VOTES CAST AT THE MEETING IN PERSON OR BY PROXY MUST BE VOTED IN FAVOUR OF THE RESOLUTION. IN THE ABSENCE OF CONTRARY INSTRUCTIONS, THE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY INTEND TO VOTE ANY SHARES REPRESENTED BY PROXIES HELD BY THEM IN FAVOUR OF THE RESOLUTION APPROVING AND ADOPTING THE SHAREHOLDER RIGHTS PLAN AND ANY RIGHTS ISSUED PURSUANT THERETO.

A copy of the Rights Plan will be available for inspection at the Meeting. A Shareholder may also obtain a copy of the Rights Plan without charge upon request by contacting the Chief Executive Officer by telephone at (805) 488- 2147 or by fax at (805) 488-1278.

OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

As of the date of this Information Circular, management knows of no matters to come before the Meeting other than as set forth in the Notice of Meeting. However, if other matters not known to the management should properly come before the Meeting, the accompanying proxy will be votes on such matters in accordance with the best judgment of the persons voting the proxy.

ADDITIONAL INFORMATION

The following documents filed with the securities commissions or similar regulatory authorities in British Columbia and Alberta are specifically incorporated by reference into, and form an integral part of this Information Circular:

(a) the audited financial statements of the Company for the financial year ended August 31, 2011, together with the accompanying report of the auditors thereon and related Management's Discussion and Analysis;

(b) the Company's Performance Share Plan;

(c) the Company's Share Option Plan; and

(d) the Company's Shareholder Rights Plan.

Copies of documents incorporated herein by reference may be obtained by a shareholder upon request without charge upon request by contacting the Chief Executive Officer by telephone at (805) 488-2147 or by fax at (805) 488-1278. These documents are also available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

APPROVAL OF DIRECTORS

The contents of this Information Circular have been approved and this mailing has been authorized by the Board of Directors of the Company.

Where information contained in this Information Circular rests specifically within the knowledge of a person other than the Company, the Company has relied upon information furnished by such person.

The foregoing contains no untrue statement of material fact and does not omit to sate a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Dated at Port Hueneme, California, this 17th day of December, 2011.

"Frank R. Oakes"

Frank R. Oakes
President, CEO, and Director

SCHEDULE "A"

STELLAR BIOTECHNOLOGIES, INC. (the "Company")

AUDIT COMMITTEE CHARTER

1. Mandate

The audit committee will assist the board of directors (the "Board") in fulfilling its financial oversight responsibilities. The audit committee will review and consider in consultation with the auditors the financial reporting process, the system of internal control and the audit process. In performing its duties, the audit committee will maintain effective working relationships with the Board, management, and the external auditors. To effectively perform his or her role, each audit committee member must obtain an understanding of the principal responsibilities of audit committee membership as well and the Company's business, operations and risks.

2. Composition

The Board will appoint from among their membership an audit committee after each annual general meeting of the shareholders of the Company. The audit committee will consist of a minimum of three directors.

2.1 Independence

A majority of the members of the audit committee must not be officers, employees or control persons of the Company.

2.2 Expertise of Committee Members

Each member of the audit committee must be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the committee. At least one member of the audit committee must have accounting or related financial management expertise. The Board shall interpret the qualifications of financial literacy and financial management expertise in its business judgment and shall conclude whether a director meets these qualifications.

3. Meetings

The audit committee shall meet in accordance with a schedule established each year by the Board, and at other times that the audit committee may determine. The audit committee shall meet at least annually with the Company's Chief Financial Officer and external auditors in separate executive sessions.

4. Roles and Responsibilities

The audit committee shall fulfill the following roles and discharge the following responsibilities:

4.1 External Audit

The audit committee shall be directly responsible for overseeing the work of the external auditors in preparing or issuing the auditor's report, including the resolution of disagreements between management and the external auditors regarding financial reporting and audit scope or procedures. In carrying out this duty, the audit committee shall:

(a) recommend to the Board the external auditor to be nominated by the shareholders for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company;

(b) review (by discussion and enquiry) the external auditors' proposed audit scope and approach;

(c) review the performance of the external auditors and recommend to the Board the appointment or discharge of the external auditors;

(d) review and recommend to the Board the compensation to be paid to the external auditors; and

(e) review and confirm the independence of the external auditors by reviewing the non-audit services provided and the external auditors' assertion of their independence in accordance with professional standards.

4.2 Internal Control

The audit committee shall consider whether adequate controls are in place over annual and interim financial reporting as well as controls over assets, transactions and the creation of obligations, commitments and liabilities of the Company. In carrying out this duty, the audit committee shall:

(a) evaluate the adequacy and effectiveness of management's system of internal controls over the accounting and financial reporting system within the Company; and

(b)

ensure that the external auditors discuss with the audit committee any event or matter which suggests the possibility of fraud, illegal acts or deficiencies in internal controls.

4.3 Financial Reporting

The audit committee shall review the financial statements and financial information prior to its release to the public. In carrying out this duty, the audit committee shall:

General

(a) review significant accounting and financial reporting issues, especially complex, unusual and related party transactions; and

(b) review and ensure that the accounting principles selected by management in preparing financial statements are appropriate.

Annual Financial Statements

(a) review the draft annual financial statements and provide a recommendation to the Board with respect to the approval of the financial statements;

(b) meet with management and the external auditors to review the financial statements and the results of the audit, including any difficulties encountered; and

(c) review management's discussion & analysis respecting the annual reporting period prior to its release to the public.

Interim Financial Statements

(a) review and approve the interim financial statements prior to their release to the public; and

(b) review management's discussion & analysis respecting the interim reporting period prior to its release to the public.

Release of Financial Information

(a) where reasonably possible, review and approve all public disclosure, including news releases, containing financial information, prior to its release to the public.

4.4 Non -Audit Services

All non-audit services (being services other than services rendered for the audit and review of the financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements) which are proposed to be provided by the external auditors to the Company or any subsidiary of the Company shall be subject to the prior approval of the audit committee.

Delegation of Authority

(a) The audit committee may delegate to one or more independent members of the audit committee the authority to approve non-audit services, provided any non-audit services approved in this manner must be presented to the audit committee at its next scheduled meeting.

De -Minimis Non -Audit Services

(a) The audit committee may satisfy the requirement for the pre-approval of non-audit services if-

(i) the aggregate amount of all non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Company and its subsidiaries to the external auditor during the fiscal year in which the services are provided; or

(ii) the services are brought to the attention of the audit committee and approved, prior to the completion of the audit, by the audit committee or by one or more of its members to whom authority to grant such approvals has been delegated.

Pre -Approval Policies and Procedures

(a) The audit committee may also satisfy the requirement for the pre-approval of non-audit services by adopting specific policies and procedures for the engagement of non-audit services, if:

(i) the pre-approval policies and procedures are detailed as to the particular service;

(ii) the audit committee is informed of each non-audit service; and

(iii) the procedures do not include delegation of the audit committee's responsibilities to management.

4.5 Other Responsibilities

The audit committee shall:

(a) establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters;

(b) establish procedures for the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters;

(c) ensure that significant findings and recommendations made by management and external auditor are received and discussed on a timely basis;

(d) review the policies and procedures in effect for considering officers' expenses and perquisites;

(e) perform other oversight functions as requested by the Board; and

(f) review and update this Charter and receive approval of changes to this Charter from the Board.

4.6 Reporting Responsibilities

The audit committee shall regularly update the Board about audit committee activities and make appropriate recommendations.

5. Resources and Authority of the Audit Committee

The audit committee shall have the resources and the authority appropriate to discharge its responsibilities, including the authority to

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties;

(b) set and pay the compensation for any advisors employed by the audit committee; and

(c) communicate directly with the internal and external auditors.

6. Guidance - Roles & Responsibilities

The following guidance is intended to provide the audit committee members with additional guidance on fulfilment of their roles and responsibilities on the committee:

Internal Control

(a) evaluate whether management is setting the goal of high standards by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities;

(b) focus on the extent to which external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of an IT systems breakdown; and

(c) gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

Financial Reporting

General

(a) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements; and

(b) ask management and the external auditors about significant risks and exposures and the plans to minimize such risks; and

(c) understand industry best practices and the Company's adoption of them.

Annual Financial Statements

(a) review the annual financial statements and determine whether they are complete and consistent with the information known to committee members, and assess whether the financial statements reflect appropriate accounting principles in light of the jurisdictions in which the Company reports or trades its shares;

(b) pay attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;

(c) focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses; warranty, professional liability; litigation reserves; and other commitments and contingencies;

(d) consider management's handling of proposed audit adjustments identified by the external auditors; and

(e) ensure that the external auditors communicate all required matters to the committee.

Interim Financial Statements

(a) be briefed on how management develops and summarizes interim financial information, the extent to which the external auditors review interim financial information;

(b) meet with management and the auditors, either telephonically or in person, to review the interim financial statements; and

(c) to gain insight into the fairness of the interim statements and disclosures, obtain explanations from management on whether:

(d) actual financial results for the quarter or interim period varied significantly from budgeted or projected results;

(i) changes in financial ratios and relationships of various balance sheet and operating statement figures in the interim financials statements are consistent with changes in the company's operations and financing practices;

(ii) generally accepted accounting principles have been consistently applied;

(iii) there are any actual or proposed changes in accounting or financial reporting practices;

(iv) there are any significant or unusual events or transactions;

(v) the Company's financial and operating controls are functioning effectively;

(vi) the Company has complied with the terms of loan agreements, security indentures or other financial position or results dependent agreement; and

(vii) the interim financial statements contain adequate and appropriate disclosures.

3. Compliance with Laws and Regulations

(a) periodically obtain updates from management regarding compliance with this policy and industry "best practices";

(b) be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and

(c) review the findings of any examinations by securities regulatory authorities and stock exchanges.

4. Other Responsibilities

(a) review, with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statements.

STELLAR BIOTECHNOLOGIES, INC.

Computershare
9th Floor, 100 University Avenue
Toronto, Ontario M5J 2Y1
www.computershare.com

Security Class

Holder Account Number

Fold

Form of Proxy - Annual General and Special Meeting to be held on January 17, 2012

This Form of Proxy is solicited by and on behalf of Management.

Notes to proxy

1. **Every holder has the right to appoint some other person or company of their choice, who need not be a holder, to attend and act on their behalf at the meeting or any adjournment or postponement thereof. If you wish to appoint a person or company other than the persons whose names are printed herein, please insert the name of your chosen proxyholder in the space provided (see reverse).**
2. If the securities are registered in the name of more than one owner (for example, joint ownership, trustees, executors, etc.), then all those registered should sign this proxy. If you are voting on behalf of a corporation or another individual you must sign this proxy with signing capacity stated, and you may be required to provide documentation evidencing your power to sign this proxy.
3. This proxy should be signed in the exact manner as the name(s) appear(s) on the proxy.
4. If this proxy is not dated, it will be deemed to bear the date on which it is mailed by Management to the holder.
5. **The securities represented by this proxy will be voted as directed by the holder, however, if such a direction is not made in respect of any matter, this proxy will be voted as recommended by Management.**
6. The securities represented by this proxy will be voted in favour or withheld from voting or voted against each of the matters described herein, as applicable, in accordance with the instructions of the holder, on any ballot that may be called for and, if the holder has specified a choice with respect to any matter to be acted on, the securities will be voted accordingly.
7. This proxy confers discretionary authority in respect of amendments or variations to matters identified in the Notice of Meeting or other matters that may properly come before the meeting or any adjournment or postponement thereof.
8. This proxy should be read in conjunction with the accompanying documentation provided by Management.

Fold

Proxies submitted must be received by 9:30 AM, Pacific Time, on Friday, January 13, 2012.

VOTE USING THE TELEPHONE OR INTERNET 24 HOURS A DAY 7 DAYS A WEEK!

To Vote Using the Telephone

- Call the number listed BELOW from a touch tone telephone.

1-866-732-VOTE (8683) Toll Free

To Vote Using the Internet

- Go to the following web site: www.investorvote.com

If you vote by telephone or the Internet, DO NOT mail back this proxy.

Voting by mail may be the only method for securities held in the name of a corporation or securities being voted on behalf of another individual.

Voting by mail or by Internet are the only methods by which a holder may appoint a person as proxyholder other than the Management nominees named on the reverse of this proxy. Instead of mailing this proxy, you may choose one of the two voting methods outlined above to vote this proxy.

To vote by telephone or the Internet, you will need to provide your CONTROL NUMBER listed below.

CONTROL NUMBER

Appointment of Proxyholder

I/We, being holder(s) of Stellar Biotechnologies, Inc. hereby appoint(s):
Frank R. Oakes, President and Chief Executive Officer and a Director of the Company, or failing him, Darrell H. Brookstein, Executive VP – Corporate Development & Finance and a Director of the Company,

OR

Print the name of the person you are appointing if this person is someone other than the Chairman of the Meeting.

as my/our proxyholder with full power of substitution and to attend, act and to vote for and on behalf of the shareholder in accordance with the following direction (or if no directions have been given, as the proxyholder sees fit) and all other matters that may properly come before the Annual General and Special Meeting of shareholders of Stellar Biotechnologies, Inc. to be held at the Country Inn & Suites, 350 East Hueneme Road, Port Hueneme, California, on Tuesday, January 17, 2012 at 9:30 AM (Pacific Time) and at any adjournment or postponement thereof.

VOTING RECOMMENDATIONS ARE INDICATED BY HIGHLIGHTED TEXT OVER THE BOXES.

	For	Against
1. Number of Directors To set the number of Directors at six (6).	☐	☐

2. Election of Directors

	For	Withhold		For	Withhold		For	Withhold
01. Darrell H. Brookstein	☐	☐	02. Malcolm L. Gefter	☐	☐	03. David L. Hill	☐	☐
04. Daniel E. Morse	☐	☐	05. Frank R. Oakes	☐	☐	06. Harvey S. Wright	☐	☐

Fold

	For	Withhold
3. Appointment of Auditors Appointment of D & H Group LLP, Chartered Accountants, as Auditors of the Company for the ensuing year and authorizing the Directors to fix their remuneration.	☐	☐

	For	Against
4. Amendment to Share Option Plan To ratify and approve, with or without modification, by a majority of disinterested shareholders, amendments to the Company's Share Option Plan, as more particularly described in the Information Circular and authorize the Directors to make modifications thereto in accordance with the Share Option Plan and the policies of the TSX Venture Exchange.	☐	☐

Fold

	For	Against
5. Shareholder Rights Plan To ratify and approve, with or without modification, the adoption of the Company's Shareholder Rights Plan, as more particularly described in the Information Circular.	☐	☐

Authorized Signature(s) - This section must be completed for your instructions to be executed.

I/We authorize you to act in accordance with my/our instructions set out above. I/We hereby revoke any proxy previously given with respect to the Meeting. **If no voting instructions are indicated above, this Proxy will be voted as recommended by Management.**

Signature(s)

Date

DD / MM / YY

Interim Financial Statements - Mark this box if you would like to receive Interim Financial Statements and accompanying Management's Discussion and Analysis by mail. ☐

Annual Financial Statements - Mark this box if you would like to receive the Annual Financial Statements and accompanying Management's Discussion and Analysis by mail. ☐

If you are not mailing back your proxy, you may register online to receive the above financial report(s) by mail at www.computershare.com/mailinglist.

A.B. KORELIN & ASSOCIATES INC.

17404 163rd Place SE **Phone: 206-219-3820**
Renton, Washington 98058 **Fax: 206-232-1196**

On behalf of Stellar Biotechnologies, Inc., we hereby submit Stellar's initial Form 20-F Registration Statement via EDGAR.

To respond to this filing, please contact me at the numbers listed above or Frank Oakes, President and CEO of Stellar, by phone at (805) 488-2147 or by fax at (805) 488-1278

Sincerely,

/s/ "*Steve Taylor*"
Steve Taylor
A.B. Korelin & Associates