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

FORM 10-K

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

For the fiscal year ended August 31, 2014

OR

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

For the transition period from to

Commission file number: 000-54598

STELLAR BIOTECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

British Columbia, Canada **(State or other jurisdiction of incorporation or organization)**	**N/A** **(I.R.S. Employer Identification No.)**
332 E. Scott Street **Port Hueneme, California** **(Address of principal executive offices)**	**93041** **(Zip Code)**

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large Accelerated Filer ☐	Accelerated Filer ☒
Non-Accelerated Filer ☐	Smaller Reporting Company ☐

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

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, computed by reference to the closing price of the registrant's common shares on the OTCQB marketplace as of February 28, 2014, the last business day of the registrant's most recently

completed second fiscal quarter, was approximately $85,585,181, based on 57,827,825 shares at $1.48 per share.

As of November 1, 2014, the registrant had 79,121,650 common shares issued and outstanding.

Note: As of the last day of the registrant's most recently completed second fiscal quarter, the registrant determined that it no longer qualified as a "foreign private issuer" under Rule 3b-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of September 1, 2014, the beginning of the registrant's fiscal year, the registrant is now complying with Exchange Act reporting requirements applicable to a U.S. domestic issuer.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

STELLAR BIOTECHNOLOGIES, INC.
ANNUAL REPORT ON FORM 10-K
Fiscal Year Ended August 31, 2014

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and, as such, may involve known and unknown risks, uncertainties and assumptions. Forward-looking statements are based upon our current expectations, speak only as of the date hereof, and are subject to change. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as those statements containing the words "anticipate," "believe," "plan," "estimate," "expect," "intend," "may," "will," "would," "could," "should," "might," "potential," "continue" or other similar expressions. You should not rely on our forward-looking statements as they are not a guarantee of future performance. There can be no assurance that forward-looking statements will prove to be accurate because the matters they describe are subject to assumptions, known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the "Risk Factors" section of this Annual Report. Risks and uncertainties include, among others, the availability of funds and resources to pursue our research and development projects, the successful and timely completion of preclinical or clinical studies by third parties in which our products are utilized, the degree of market acceptance for our products or for other companies' products in which our products are components, our ability to take advantage of business opportunities in the pharmaceutical industry, changes in our strategy or development plans, our ability to protect our intellectual property, uncertainties related to governmental regulations and regulatory processes, the volatility of our common share price, the effect of competition, the effect of technological changes, reliance on key personnel, and general changes in economic or business conditions. Except as required by law, we undertake no obligation to update forward-looking statements.

As used in this Annual Report on Form 10-K, "Stellar," "the Company," "we," "us," and "our" and refer to Stellar Biotechnologies, Inc. and our consolidated subsidiaries, except where the context otherwise requires.

EMERGING GROWTH COMPANY STATUS

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), and as a result, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." We will remain an "emerging growth company" for up to five years, or until the earliest of the earliest to occur of: (i) the last day of the fiscal year in which we have more than $1.0 billion in annual revenues; (ii) the date we are deemed a "large accelerated filer" as defined in the Exchange Act, with at least $700 million of equity securities held by non-affiliates; or (iii) the issuance, in any three-year period, by us of more than $1.0 billion in non-convertible debt securities. We may choose to take advantage of some but not all of these reduced reporting burdens. For so long as we remain an emerging growth company, we will not be required to:

- have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of Sarbanes-Oxley Act of 2002;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board ("PCAOB"), regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis);
- submit certain executive compensation matters to shareholders advisory votes pursuant to the "say on frequency" and "say on pay" provisions (requiring a non-binding shareholder vote to approve compensation of certain executive officers) and the "say on golden parachute" provisions (requiring a non-binding shareholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and
- include detailed compensation discussion and analysis in our filings under the Exchange Act, and instead may provide a reduced level of disclosure concerning executive compensation.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected not to take advantage of the extended transition period for complying with new or revised accounting standards.

PART I

Item 1. BUSINESS.

Business Overview

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

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

Immunotherapies (also known as therapeutic vaccines) involve using the body's own immune system to target and treat disease. Immunodiagnostics involve assessing the body's immune status in relation to the effects of a new drug, a disease, or the environment. Our KLH products can be used to stimulate the immune system in both applications.

KLH is refined from the hemolymph of a relatively scarce ocean mollusk, the Giant Keyhole Limpet (*Megathura crenulata*), which is native only to the rocky Pacific Ocean waters off Southern California and Baja California, Mexico. Based upon our specialized knowledge of aquaculture science and KLH, we have built unique aquaculture, laboratory, and production facilities in Port Hueneme, California, and developed sustainable and commercially viable manufacturing processes to produce KLH using Current Good Manufacturing Practices ("cGMP" or "GMP"). We contract with contract manufacturing organizations ("CMOs") and contract testing organizations ("CTOs") for certain steps of the cGMP processing and quality control testing.

Using our proprietary intellectual property and methods related to KLH manufacture, including a patented non-lethal protein extraction process, we are able to raise and sustain commercial-scale colonies of Giant Keyhole Limpets, and extract and purify high quality KLH protein, without relying solely on ocean-harvest techniques. We believe we are positioning our Company to meet the anticipated long-term demand within the pharmaceutical industry for GMP grade KLH by providing a sustainable source for its scalable, controlled, and traceable production.

Our core business is the manufacture and supply of KLH protein under the brand "Stellar KLH™." We raise Giant Keyhole Limpets in our own land-based aquaculture facilities, extract KLH protein using non-lethal methods, and manufacture and sell GMP and research grade Stellar KLH™ products to third parties. Our products include Stellar KLH™ protein in various grades, formulations and configurations for both preclinical and clinical applications, and certain KLH-based in vitro diagnostic kits for preclinical use. Stellar KLH™ protein can be used for therapeutic vaccine conjugation, as a carrier molecule (API) in immunotherapies under development, and as an immune stimulant in immunotoxicology applications. Our customers and partners include multinational biotechnology and pharmaceutical companies, academic institutions, clinical research organizations, and research centers.

We believe we are the leader in the sustainable manufacture of GMP grade KLH because of our expanding intellectual property portfolio, our achievements in aquaculture science, our KLH production capacity, and our proprietary KLH sustainable manufacturing know-how. The complexity and versatility of the KLH molecule and the growing need for commercial-scale GMP grade KLH provide numerous commercial opportunities for us.

Our strategic objectives are to:

- Expand our Stellar KLH™ technology portfolio through ongoing research and development and selective acquisitions, while maintaining a strong balance sheet with careful resource management;
- Pursue opportunities for commercial growth that build on our strengths and core competencies in KLH development and manufacture; and
- Identify strategic pathways that leverage our Stellar KLH™ products and expertise into immunotherapy and immunodiagnostics solutions.

We operate through our wholly-owned subsidiary, Stellar Biotechnologies, Inc., a California corporation which was organized September 9, 1999. We acquired the subsidiary on April 12, 2010 through a reverse merger and began trading on the TSX Venture Exchange under the symbol "KLH" on April 19, 2010. We were originally incorporated in Canada on June 12, 2007 under the name China Growth Capital, Inc. and subsequently changed our name to CAG Capital, Inc. on April 15, 2008. We began trading on the TSX Venture Exchange as a Canadian "capital pool company" on August 29, 2008, and became a British Columbia corporation on November 25, 2009. Our reverse merger in April 2010 constituted our "qualifying transaction" under Canadian law, at which time we changed our name to Stellar Biotechnologies, Inc. As of January 15, 2013, we are quoted on the U.S. OTCQB Marketplace Exchange under the symbol, "SBOTF." Our executive offices are located at 332 East Scott Street, Port Hueneme, California 93041. Our phone number is (805) 488-2800. Our website address is http://www.stellarbiotechnologies.com. The contents of our website are not incorporated by reference into this report and you should not consider information provided on our website to be part of this report.

Keyhole Limpet Hemocyanin (KLH)

KLH is a safe, potent, immune-stimulating protein. As an API, KLH is an effective and safe carrier molecule for conjugation to vaccine antigens that are used to promote the generation of antibody and cell-mediated immune responses against targeted disease indications such as cancer, immune disorders, Alzheimer's, and inflammatory diseases. However, the small haptens (partial antigens) and vaccine antigens used to target these diseases are not usually immunogenic enough to awaken the immune system and therefore, require a carrier molecule or adjuvant in order to be effective. The combination of an antigen against specific pathogenic targets, such as tumors, and over-expressed proteins, conjugated to the immunogenic KLH molecule, is the basis for a promising new class of drugs in development known as active immunotherapies or therapeutic vaccines. Unlike preventative vaccines, active immunotherapies are designed to stimulate the body's own immune system to generate an immune response to target and attack an existing disease or condition. We believe immunotherapies are, and will continue to be, one of the fastest-growing sectors of pharmaceutical research and development.

Biotechnology and pharmaceutical companies currently have KLH-based active immunotherapies and therapeutic vaccines in clinical development for rheumatoid arthritis, Crohn's disease, systemic lupus erythematous, Alzheimer's disease, lymphoma, metastatic breast cancer, and various other cancers and diseases.

As a finished injectable product, KLH has been used extensively by pharmaceutical companies and researchers as a safe, immune-stimulating antigen in drug-screening, drug immunotoxicology, and assessment of immune status. KLH is a standard immunogen in T-Cell Dependent Antibody Response (TDAR), a functional assay which is widely recognized as a standard test for monitoring the effects of drugs on the immune system.

KLH is a very large, high molecular weight, oxygen-carrying glycoprotein made of millions of atoms. There are two KLH subunit forms, KLH1 and KLH2, each composed of seven or eight functional units, with each functional unit having an oxygen binding site of two copper atoms. KLH has a distinctive opalescent blue color which is the result of its copper-containing properties. The KLH molecular structure offers numerous sites for conjugation, and can generate multiple product configurations. KLH is a highly effective T-cell dependent carrier protein that induces immune responses via antigen presenting cells. Both the high molecular weight native molecule and subunit forms of KLH are excellent immune stimulants. While KLH is potently immunogenic, it does not cause an adverse immune response in humans. Because of its large size, immune-stimulating properties, numerous sites for conjugation, and safety profile, KLH is sought after by researchers and product developers as a vaccine carrier protein. However, due to its exceptional size and complexity, KLH has not been reproduced synthetically and is more efficiently prepared by purification from the natural hemolymph of the Giant Keyhole Limpet.

KLH protein is derived only from the hemolymph of the Giant Keyhole Limpet (*Megathura crenulata*), which is native only to a limited stretch of the Pacific Ocean coastline along Southern California and Baja California, Mexico. Its natural habitat is the rocky, shallow waters below the low tide line. Historically, suppliers other than us have obtained KLH protein directly from wild and sensitive populations of Giant Keyhole Limpet, or have utilized lethal production processes. We believe that, based on publicly available information and reports, commercial supplies of KLH differ widely in their source, traceability, purity, form, and preparation, as well as in immunogenicity.

However, we believe highly-specialized aquaculture manufacturing methods, like the methods we practice, protect the KLH molecule's source species and preserve sustainable, scalable supplies of quality KLH protein. The concept of sustainability involves sound, responsible management of environmental resources and, especially where biological systems are concerned, includes protecting native species so that the species thrive and remain diverse and productive over time. Further, we believe that environmentally sound methods associated with professional and specialized aquaculture can minimize variability in KLH products and assure full traceability to their biological source.

Our Stellar KLH™ Technology

We have committed the past 15 years to the advancement of aquaculture science and KLH production methods, specifically focused on protection of the Giant Keyhole Limpet and the non-harmful extraction of KLH protein. We believe our methods will preserve a sustainable supply of GMP grade KLH and meet pharmaceutical industry standards for immune response, consistency, purity, and traceability while protecting the natural source species.

We have developed considerable intellectual property related to KLH manufacture and the environmental protection of the Giant Keyhole Limpet including, but not limited to, patents, patent applications and trade secrets related to specialized aquaculture systems and technologies; spawning, selection and maintenance of the species; non-lethal KLH protein extraction methods; and the processing, purification and production of KLH formulations. This core technology is the basis for our belief that we lead the industry in sustainable manufacture of KLH.

Our Aquaculture Technology & Manufacturing

Our aquaculture technology involves methods we developed and optimized to control the reproduction and growth of the Giant Keyhole Limpet including, but not limited to, culture systems, nutritional requirements, and the recirculation of seawater. We achieved a significant milestone in aquaculture science by developing the capability to sustain the complete life cycle of the Giant Keyhole Limpet. Using our proprietary methods, we can support the marine mollusk from embryo to protein-producing adult. Other KLH suppliers are reliant on scarce, wild populations of limpets. We believe we have the only demonstrated aquaculture system where multiple generations of the Giant Keyhole Limpet are spawned, grown and sustained within a land-based facility, for the purpose of commercial KLH production.

The aquaculture cycle to raise Giant Keyhole Limpets from fertilized eggs to maturity for KLH production is five years, with multiple complex larval and juvenile stages. KLH can be extracted from mature limpets several times per year and, if properly maintained, the average extracted quantity of KLH per year per limpet is predictable and useful in estimating targets for production planning and optimizing the use of the hemolymph. The hemolymph is extracted in a non-harmful manner utilizing our patented methods. Once extracted, the hemolymph is processed through our proprietary methods, which are protected as trade secrets.

We contract with CMOs and CTOs for certain steps of cGMP processing and quality control testing. The services currently performed by these contract vendors include, but may not be limited to, sterile fill/finish and release testing.

The hold-time assigned to KLH pharmaceutical intermediate produced by us is 90 days. Stability studies on our purified subunit KLH (KLH 20MV) support a shelf life of 36 months and stability studies are currently ongoing for our HMW KLH (KLH 01NV). KLH pharmaceutical intermediate is normally produced "just in time" to fill customer orders or to meet our requirements for production of fully purified KLH formulations.

We currently maintain a production inventory of limpets sufficient for an annual capacity of a minimum of 1,500 grams/year of KLH pharmaceutical intermediate, with a projected maximum of 2,000 grams/year. Given sufficient funding to continue scale-up, our projected KLH production capacity is 4-5 kilograms per year within the next four years, and up to 20 kilograms in five to seven years. We have developed a five-year plan to incrementally increase hatchery production of limpets, which will thereby increase our KLH production, in order to meet our customers' forecasts for their anticipated multi-kilogram KLH requirements during product commercialization and future forecasted KLH requirements.

As a result of these operational capabilities, we believe we will be able to supply GMP grade KLH in commercial quantities to meet the anticipated long-term demand within the pharmaceutical industry, while protecting the natural source species. We base these beliefs on our intellectual property, achievements in aquaculture science, KLH production capacity, KLH sustainable manufacturing know-how, and survey data used to estimate population of Giant Keyhole Limpets in the wild.

Our Facilities

We maintain research and manufacturing facilities directly along the Pacific Ocean with dedicated, land-based aquaculture operations in Port Hueneme, California. We have approximately 37,000 square feet of leased aquaculture, manufacturing, and laboratory space. In 2011, we completed a major expansion of our facilities, incorporating significant advances in technology developed by us with support from monetary grants from the National Science Foundation. These advancements included systems for the intensive propagation of the complex larval stages. We believe our waterfront location is a proprietary asset that allows our marine scientists to work in close proximity to naturally resident Giant Keyhole Limpet colonies, and to be at the forefront in developing protective measures and environmentally sound practices for KLH production.

We have developed the capability to support the complete life cycle of the Giant Keyhole Limpet and support multiple generations of limpets grown entirely within our land-based facility. Our aquaculture facility includes, among other specialized infrastructure, systems for spawning, larval development, and maturation of limpets, a fully permitted seawater supply system, recirculating seawater supply systems, environmental controls and regulated seawater return to the ocean. Our facility currently includes 18 production tanks plus 400 individual limpet production modules in two independent closed recirculating aquaculture production systems. Each closed recirculating system is equipped with temperature controlled seawater distribution, filtration and treatment equipment. The facility also contains a fabrication shop for production of equipment and culture apparatus.

Our aquaculture operations were specially developed in the late 1990s for production and research on gastropod mollusks, have been in near continuous operation since that time, and have since been expanded significantly by us for the specialized purpose of conducting the intensive steps required to support the complete life cycle of the Giant Keyhole Limpet and for the commercial production of KLH protein.

Our Stellar KLH™ Products

Our products include Stellar KLH™ protein in various grades, formulations and configurations for both preclinical and clinical applications, and certain KLH-based in vitro diagnostic kits for preclinical use. Stellar KLH™ protein can be used as an API (for therapeutic vaccine conjugation or as a carrier molecule) in immunotherapies under development such as for cancer, immune disorders, Alzheimer's disease, and inflammatory diseases. Stellar KLH™ protein can also be used as a finished, injectable immune stimulant in immunotoxicology applications. Our customers and partners include multinational biotechnology and pharmaceutical companies, academic institutions, clinical research organizations, and research centers.

We believe our Stellar KLH™ products have advantages over other sources of KLH because:

- We are able to produce a product that is fully traceable and controlled from native source to finished product, which are important considerations for our pharmaceutical partners.

- Due to the known origin of material and continuity of data, we believe we are able to create a more consistent, high quality, immunogenic product than other proteins in the market.

- Our product is supplied in a stabilized, liquid formulation, rather than freeze-dried, and has low endotoxin and bioburden levels.

- Our viral removal technology in the KLH manufacturing process provides additional assurance of viral clearance.

- Our KLH protein is produced using environmentally sound, sustainable practices.

- Using our proprietary methods, we are able to offer a long-term scalable supply of GMP grade KLH for commercial use.

Our Stellar KLH™ products include high molecular weight (HMW) and subunit KLH protein in various grades, formulations and configurations, as well as certain in vitro diagnostic kits for preclinical use. Our product offerings and target applications include:

- Stellar KLH™ Protein for Vaccine Conjugation and as Carrier Molecule in Immunotherapies: The small haptens (partial antigens) and vaccine antigens used to develop immunotherapies are not usually immunogenic enough and require the aid of a carrier protein to stimulate an immune response. Our offerings include GMP grade subunit and GMP grade HMW KLH for use as a carrier protein in research and therapeutic vaccine applications.

- Stellar KLH™ Protein and Test Kits for Immune Function Testing: KLH plays a vital role in research and clinical studies as an antigen for assessing immune function and in immunotoxicology studies for monitoring the immunosuppressive effects of drug candidates. Our Stellar KLH™ Protein can be used as an immune stimulant for T-Cell Dependent Antibody Response (TDAR) testing. We also offer Stellar KLH™ ELISA assay test kits for the detection of KLH antibodies in preclinical research settings. We launched a line of six Stellar KLH™ ELISA test kits in April 2012.

- Custom KLH formulations, multivalent adjuvants, conjugations and fill finishes for preclinical research and drug development applications.

We currently have limited revenue from sales of our Stellar KLH™ products. Selling prices for Stellar KLH™ protein vary depending on the purity, grade, preparation, and packaging configuration. Product sales are highly dependent upon the rate of development and clinical trials of the active immunotherapies and other technologies being developed by third party customers, which utilize our products. The advancement and commercial success of these third party products is dependent upon many factors, including available capital, trial recruitment, and regulatory review. Revenue from these customers is highly variable, but historically is not subject to seasonal fluctuations.

Revenues from the sale of Stellar KLH™ products were $143,553 in fiscal 2014, $76,055 in fiscal 2013, and $131,825 in fiscal 2012. Contract services revenues related to Stellar KLH™ products were $192,000 in fiscal 2014, $60,000 in fiscal 2013, and $60,000 in fiscal 2012. The geographic breakdown of revenues in fiscal 2014 was 41% Europe, 40% Asia, 14% U.S., and 6% Canada; fiscal 2013 was 84% Europe, 12% U.S., 3% South America and 1% Canada; and fiscal 2012 was 42% Europe and 58% U.S.

Customers

We believe we are one of only three companies known to manufacture starting material (raw hemolymph) for GMP grade KLH products. Of these three companies, we believe we are the only company that offers GMP grade KLH supported by fully traceable manufacturing methods. We primarily market and distribute our products directly to biotechnology and pharmaceutical companies, academic institutions, clinical research organizations, and research centers. Products are shipped to our customers from our facilities in Port Hueneme, California using a common carrier chosen by the customer. The geographic markets of our potential customers are principally Europe, the United States and Asia.

The customers that represent 10% or more of our total consolidated revenue in fiscal 2014, 2013 and 2012 are as follows:

Customer	2014	2013	2012
Amaran Biotechnology, Inc.	35%	-	-
Neovacs SA	30%	12%	25%
SAFC, a division of Sigma Aldrich	-	-	35%

Contracts, Supply Agreements, Collaboration Agreements, and Licensing

We have, and intend to continue to enter into, agreements with third parties that will allow us to supply Stellar KLH™ in exchange for fees, revenues, or royalties. Supply agreements generally involve a customer's commitment to purchase our Stellar KLH™ for use as an API in the customer's own immunotherapy products or as a finished product in their development programs. To date, our Stellar KLH™ protein has been used in research and development, preclinical, and clinical phases but has not yet been used in any commercialized and marketed products.

Supply Agreements with Neovacs SA

We entered into two supply agreements with Neovacs SA of Paris, France in 2008 for the use of Stellar KLH™ in development and manufacture of its active immunotherapies. Neovacs has three Kinoid therapeutic vaccine drugs in clinical trials which use Stellar KLH™ as the carrier molecule to stimulate an immune response for the treatment of Lupus, Crohn's disease, and rheumatoid arthritis. The supply agreements also provide for Neovacs to pay for expenses related to a dedicated colony of limpets.

Collaboration Agreement and Exclusive Licensing Rights with Bayer Innovation GmbH

We entered into a research collaboration agreement with Bayer Innovation GmbH ("Bayer") in December 2010, where we agreed to allow Bayer access to our information on Stellar KLH™, including manufacturing methods and analytical data, in order to demonstrate the feasibility of improving our process yields. When the research collaboration agreement terminated according to its terms in August 2011, we acquired an exclusive, worldwide sub-licensable and royalty-free license to the technology we developed under collaboration with Bayer for the improved production method. The license included a carve-out by Bayer to use the technology in certain non-Hodgkin Lymphoma active immunotherapies, but we may exclusively commercialize the technology in other fields. We paid Bayer $200,000 in 2011 for the licensing rights, which are jointly owned by Bayer and us. We assessed the licensing rights for impairment and wrote off the unamortized balance in fiscal 2014.

Manufacturing and Supply Agreement with Life Diagnostics

In October 2011, we entered into an exclusive manufacturing and supply agreement with Life Diagnostics, Inc., where it agreed to utilize Stellar KLH™ to develop and manufacture Stellar KLH™ brand ELISA test kits for the detection of anti-KLH antibodies in uses by the preclinical immunotoxicity and immunology markets. The agreement also required Life Diagnostics to supply us with Stellar KLH™ brand ELISA test kits at agreed upon prices.

License Agreement with University of Guelph

In July 2013, we acquired the exclusive, worldwide license to certain patented technology for the development of human immunotherapies against *Clostridium difficile* infection ("C. diff"), a highly contagious bacteria spread by human contact, from the University of Guelph, Ontario, Canada (the "Guelph License"). Under the terms of the Guelph License, we have the exclusive rights to develop, manufacture, and sell active immunotherapies to treat C. diff infection that derive from the technology covered by certain of the University's international patents and patent applications.

The Guelph License agreement required an initial, non-refundable license fee of $25,000, which was paid in fiscal 2013, payment of an aggregate of $200,000 in delayed license fees, which were paid in fiscal 2014, and a license fee of $20,000 to be paid annually thereafter, creditable against royalties due, if any. Royalties are payable for a percentage of related net sales, if any. License fees are also payable for a percentage of related non-royalty sublicensing revenue, if any. No royalties have been paid to date.

As additional consideration, we also issued 371,200 common shares and warrants to purchase up to 278,400 of our common shares to the University. The warrants expire on January 23, 2015 and have an exercise price of C$1.25 per share. We reimbursed patent filing costs of approximately $34,000 and $50,000 in fiscal 2014 and 2013, respectively, and will reimburse certain future patent filing, prosecution, and maintenance costs.

We are also required to pay up to an aggregate of $6,020,000 in milestone payments to the University upon achievement of various financing and development targets up to the first regulatory approval. Remaining milestone payments totaling $57,025,000 are related to achievement of sales targets. We are required to provide regular reports to the University regarding product development efforts, and progress toward meeting certain milestones. A financing milestone was met during fiscal 2014 and, accordingly, we made a milestone payment of $100,000 to the University. No milestones were met during fiscal 2013, and there can be no assurance that any of the remaining milestones will be met in the future.

The Guelph License agreement expires when the last valid patent claim licensed under the agreement expires. Prior to that time, the agreement can be terminated by the University upon certain conditions including: (i) our failure to make any payments or submit any reports when due; (ii) our failure to diligently pursue development or commercialization of the product based upon our reports; (iii) our material breach of any provision of the agreement; or (iv) providing a false report. We will have 30 days after written notice from the University to cure the problem prior to termination of the agreement. We can terminate the agreement with three months' prior written notice to the University.

Collaboration Agreement with Amaran Biotechnology

In December 2013, we entered into a collaboration agreement with Amaran Biotechnology, Inc., a privately-held Taiwanese biopharmaceuticals manufacturer and a beneficial owner of over 5% of our common shares. Amaran designs, develops, and manufactures active immunotherapies, potentially such as OBI-822, the lead immunotherapy product of OBI Pharma, Inc. An active immunotherapy uses a patient's own immune system to recognize and mount an attack against the targeted tumor cells. The primary purpose of our collaboration is to develop and evaluate methods for Amaran's potential manufacture of the OBI-822 active immunotherapy using our GMP grade Stellar KLH™.

Under the terms of the agreement, which were negotiated at arms' length, we are responsible for the production and delivery of GMP grade KLH for evaluation as a potential carrier molecule in the OBI-822 active immunotherapy. We are also responsible for method development, product formulation, and process qualification for certain KLH reference standards. Amaran is responsible for development objectives and product specifications.

The agreement also provides for Amaran to pay us fees for certain expenses and costs associated with the collaboration. Subject to certain conditions and timing, the terms of the collaboration also provide for the possible negotiation of a commercial supply agreement for Stellar KLH™ in the future. However, there can be no assurance that any such negotiations will lead to successful execution of any further agreements related to this collaboration.

Research and Development

We are committed to applying our Stellar KLH™ technology to improve immunotherapy and immunodiagnostics, and to protecting the natural resource for KLH. To that end, we are actively engaged in research and development focused primarily on the aquaculture of the Giant Keyhole Limpet, improvements in KLH protein analysis and manufacturing, and new uses for KLH in immunotherapy and immunodiagnostic applications. These activities involve both internal programs and external collaborations with other biopharmaceutical companies or research organizations.

Our internal research includes, among other activities, continual improvement of methods for the culture and growth of Giant Keyhole Limpet, innovations in aquaculture systems and infrastructure, biophysical and biochemical characterization of the KLH molecule, analytical processes to enhance performance of our products, KLH manufacturing process improvements, new KLH formulations, and early development of potential new KLH-based immunotherapy.

Our external collaborations involve both development and evaluation projects, with a number of biopharmaceutical companies and research institutions, for the use of Stellar KLH™ in their programs. We believe that these collaborations provide for strategic, revenue and clinical opportunities for our future business by extending the commercial use of Stellar KLH™ and furthering our understanding of the KLH molecule.

For the years ended August 31, 2014, 2013 and 2012, research and development expense amounted to $2,458,934, $2,018,554 and $2,634,119, respectively. Of these amounts, approximately 64%, 20% and 6% in fiscal 2014, 2013 and 2012, respectively, related to our preclinical internal research on new uses for KLH; specifically, the preclinical testing of a potential KLH-based immunotherapy approach against C. diff infection. The remaining amounts related primarily to research and development in aquaculture, improvements in analytical, manufacturing, and purification processes, stability testing, and formulation development. None of these expenses were borne by our customers.

Grants

We have historically financed a portion of our operations through the receipt of monetary grants made available through programs funded and administered by various U.S. government entities. These grants offer non-dilutive funding and are intended to foster and promote research and innovation in important scientific and technological projects.

In the most recent three fiscal years, we recognized, through our California subsidiary, an aggregate of $540,222 in grant funding from the National Science Foundation (“NSF”) Small Business Innovation Research (“SBIR”) through the Technology Enhancement for Commercial Partnerships program under Phase II and Phase IIB grants. Our project was entitled “*Megathura Crenulata* Post Larval Culture - Bottleneck for a Valuable Medical Resource,” and the purpose of the project was to allow for the full implementation of the commercial scale aquaculture systems for KLH production and development of a validated KLH-based immunogenicity assay. Grant revenues were recorded as we fulfilled the grant requirements.

In addition to NSF grants, we also receive grants from time to time for the development of new technology from the National Institutes of Health, National Cancer Institute (“NIH”), the California Technology Investments Program (CalTIP), and Internal Revenue Service (“IRS”) qualifying therapeutic discovery project grants.

Competition

We believe we are one of the world leaders in the manufacture of GMP and research grade KLH. We believe we are one of only three companies known to manufacture starting material (raw hemolymph) for GMP grade KLH products and of these three companies, we believe we are the only company that offers GMP grade KLH supported by fully traceable manufacturing methods. We compete directly with Biosyn Corporation, a pharmaceutical and biotechnology company which manufactures KLH starting material and offers clinical and research grade KLH products. We also compete directly with SAFC, a division of Sigma-Aldrich, which offers clinical and research grade KLH products manufactured from its own starting material from ocean harvested limpets and from aquaculture starting material purchased from us. We compete on the basis of: the advantages and disadvantages of Stellar KLH^{TM} as compared to other KLH proteins manufactured by our competitors; our ability to educate the industry about the high quality, sustainable and traceable qualities of Stellar KLH^{TM}; product efficacy; customer service; and the price and demonstrated cost-effectiveness of Stellar KLH^{TM} as compared to our competitors. However, we believe that our proprietary methods and our unique achievement of an aquaculture production system that now supports multiple generations of the Giant Keyhole Limpet will enable us to compete successfully and meet anticipated future demand for KLH in the pharmaceutical industry.

Intellectual Property and License Agreements

We hold important intellectual property related to KLH development and manufacture and to the environmental protection of the Giant Keyhole Limpet including, but not limited to, patents, and trade secrets related to specialized aquaculture systems and technologies; spawning, selection and maintenance of the Giant Keyhole Limpet; non-lethal KLH protein extraction methods; and the processing, purification and production of KLH formulations. Our proprietary methods also include methods for the control of larval development, metamorphosis and maturation of the Giant Keyhole Limpets, which we protect as trade secrets.

Our success depends in part on our ability to obtain and maintain proprietary protection for our product technology and know-how, to operate without infringing proprietary rights of others, and to prevent others from infringing our proprietary rights. We seek to protect our proprietary position by, among other methods, filing, when possible, U.S. and foreign patent applications relating to our technology, inventions and improvements that are important to our business. We also rely on trade secrets, know-how, continuing technological innovation, and in-licensing opportunities to develop and maintain our proprietary position.

As of November 2014, we have obtained patent protection for our non-lethal extraction methods of hemocyanin in the United States and other countries. We hold one issued patent in the United States, U.S. Patent No. 6,852,338, which currently expires in 2023, and covers a two-step method for obtaining hemolymph from a live gastropod mollusk. This U.S. patent was originally granted to our Chief Executive Officer, Frank Oakes, who assigned the patent to the Company in August 2002. Foreign patent counterparts were granted in Canada, France and Germany.

We have a worldwide exclusive license with the University of Guelph to one issued patent in the United States, U.S. Patent No. 8,597,663, which currently expires in 2030, for certain novel cell surface polysaccharides and their chemical structures and vaccine compositions for the treatment, prevention and diagnosis of C. difficile infection. We also have foreign patent counterparts and foreign patent applications and patents claiming priority therefrom in certain jurisdictions outside the United States, including Europe, Australia, Canada, China, Japan and New Zealand.

The scope of any patent protection may not exclude competitors or provide competitive advantages to us, and any of our patents may not be held valid if subsequently challenged, and others may claim rights in or ownership of our patents and proprietary rights. Furthermore, others may develop products similar to our products and may duplicate any of our products or design around our patents.

Our trademarks include, but may not be limited to, “Powering and Improving Immunotherapy™”, “Stellar KLH™” and “KLH Site™”. In addition to patents and trademarks, we rely on trade secrets and other intellectual property laws, nondisclosure agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop and maintain the proprietary aspects of our technologies. We require our employees, consultants and advisors to execute confidentiality agreements in connection with their employment, consulting or advisory relationship with us. We also require our employees, and to the extent practicable, our consultants and advisors with whom we expect to work on our products to agree to disclose and assign to us all inventions made in the course of our working relationship with them, while using our intellectual property or which relate to our business. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to wrongfully obtain or use information that we regard as proprietary.

Government Regulation

Our operations, including our aquaculture and harvesting activities, as well as production operations, site development, and drug research, development and sales, are subject to regulation at the local, state and federal levels by a number of regulatory agencies including, but not limited to, the U.S. Food and Drug Administration, the U.S. Environmental Protection Agency, the U.S. Fish and Wildlife Service, the U.S. Secretary of the Navy, the Regional Water Quality Control Board Los Angeles Region, the California Department of Fish and Wildlife, the California Coastal Commission, the California Air Pollution Control Board, the County of Ventura, and the City of Port Hueneme.

We are subject to laws and regulations covering clean water and waste discharge, and are required to hold licenses for the aquaculture production and wild harvesting of the Giant Keyhole Limpet. Our aquaculture facility is subject to regulation by the California Department of Fish and Wildlife and the Regional Water Quality Control Board, Los Angeles Region (“Regional Board”). These agencies impose regulations that restrict any activity that could pose a potential risk to the California marine environment including, but not limited to, seawater waste discharge limitations specified in our National Pollution Discharge Elimination Systems (NPDES) permit. In April 2014, we received notification from the Regional Board of its acceptance of our settlement of a claim related to violations of waste discharge requirements for a de minimis amount, as discussed in further detail under Item 3, “Legal Proceedings.” Apart from this incident, we have operated in compliance with all environmental regulations imposed by these agencies since the formation of our California subsidiary in 1999.

New Drug Development

Currently, none of our products are subject to approval as a drug by any regulatory authority. However, many of our strategic partners are utilizing Stellar KLH™ in the development of pharmaceuticals that are subject to the regulatory approval process in various jurisdictions.

We have submitted Type II Drug Substance Master Files, for both our subunit KLH and HMW KLH, to the U.S. Food and Drug Administration (“FDA”) Center for Biologics Evaluation and Research (CBER) and the U.S. FDA Center for Drug Evaluation and Research (CDER). A Master File is a confidential, detailed dossier kept on file at the FDA that contains the proprietary information on the manufacture and safety of a drug component. These files can be used to support the regulatory approval process for customers’ immunotherapy products that use our Stellar KLH™, while allowing us to control access to our manufacturing data.

The regulatory approval process for new drugs under development by our customers is typically long and expensive. Clinical trials that they conduct may not be successful and such products may not receive regulatory approval. Delays by our customers in obtaining or the inability to obtain regulatory approvals for their products which use Stellar Stellar KLH™ will have a direct effect on the demand for our products.

Good Manufacturing Practices

The FDA and other regulatory agencies regulate and inspect equipment, facilities and processes used in the manufacture of pharmaceutical and biologic products prior to approving a product. If, after receiving approval from regulatory agencies, a company makes a material change in manufacturing equipment, location or process, additional regulatory review and approval may be required. All facilities and manufacturing techniques used for the manufacture of our products must comply with applicable regulations governing the production of pharmaceutical products known as Current Good Manufacturing Practices.

The FDA and other regulatory agencies also conduct regular, periodic visits to re-inspect equipment, facilities and processes following initial approval of a product. If, as a result of these inspections, it is determined that our equipment, facilities or processes do not comply with applicable regulations and conditions of product approval, regulatory agencies may issue warning or similar letters or may seek civil, criminal, or administrative sanctions against us. To date, we have not been subject to inspection by the FDA or other drug regulatory agency because none of our customers or partners has filed an application in any country for marketing approval of a product encompassing our Stellar KLH™ protein.

Backlog and Renegotiation of Profits

Orders for our products are generally filled on a current basis, and order backlog is not material to our business. In addition, our business is not subject to renegotiation of profits or termination of contracts at the election of a government.

Employees

We currently have 23 employees. All employees, including our executive officers, are based out of our facilities in Port Hueneme, California.

Available Information

Our website is located at www.stellarbiotechnologies.com. We make available on our website, free of charge, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange of 1934, as amended, as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission. Our website and the information contained thereon or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Item 1A. RISK FACTORS.

Investing in our common shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all of the other information contained in this Annual Report, including our financial statements and the related notes, before deciding to invest in our common shares. If any of the following risks actually occur, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common shares could decline and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

The following discussion of risk factors contains "forward-looking statements," which may be important to understanding any statement in this Annual Report on Form 10-K or in our other filings and public disclosures. In particular, the following information should be read in conjunction with Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Risks Related to Our Business

We have a history of net losses and limited cash flow to sustain our operations.

We currently have limited revenue from product sales of Stellar KLH™, and anticipate our planned research and development expenditures, as well as our general and administrative expenses, will be greater than our revenues for the foreseeable future. We have incurred net losses of ($8,439,523) in fiscal 2014, ($14,495,779) in fiscal 2013 and ($5,529,278) in fiscal 2012, and as of August 31, 2014, we have an accumulated deficit of ($33,620,190) since inception. To date, we have not paid dividends on our common shares and do not anticipate doing so in the foreseeable future. We have historically relied upon the sale of common shares to help fund our operations and meet our obligations. Any future additional equity financing would cause dilution to current shareholders. If we do not have sufficient capital for our operations, management would be forced to reduce or discontinue our activities, which would have a negative effect on our operations and financial condition.

We depend heavily on the success and market acceptance of Stellar KLH™ and we may never recoup our investment into its research and development.

We have invested a significant portion of our time and financial resources into the development of Stellar KLH™. We anticipate that in the near term our ability to generate revenues will depend solely on the commercial success of Stellar KLH™, which depends upon its market acceptance by purchasers in the pharmaceutical market and the future market demand and medical need for products and research utilizing KLH. The degree of market acceptance of Stellar KLH™ depends on a number of a factors including: the advantages and disadvantages of Stellar KLH™ as compared to other KLH proteins; our ability to educate the industry about the high quality, sustainable and traceable qualities of Stellar KLH™; product efficacy; customer service; and the price and demonstrated cost-effectiveness of Stellar KLH™ as compared to our competitors.

We may not be able to meet demand for KLH from either ocean harvest or internally raised sources.

We are dependent upon a supply of Giant Keyhole Limpets (*Megathura crenulata*) for KLH production. The range of the Giant Keyhole Limpet in the wild is limited, and due to the lack of a regulated harvest, the wild stocks of Giant Keyhole Limpets are believed to be declining. If the wild stocks are depleted, and our hatchery and aquaculture operations are unable to produce sufficient supplies of captive Giant Keyhole Limpets to meet demand, it would have a negative effect on our operations and financial condition.

We compete with other companies in KLH production and manufacturing that may have greater resources than we do.

We believe we are one of only three companies of who are manufacturing KLH starting material for GMP grade KLH products; however, there are other companies offering clinical and research grade KLH products. Of these three companies, we believe we are the only company that offers GMP grade KLH supported by fully traceable manufacturing methods. We compete directly with Biosyn Corporation, a pharmaceutical and biotechnology company which manufactures KLH starting material and offers clinical and research grade KLH products. We also compete directly with SAFC, a division of Sigma-Aldrich, which offers clinical and research grade KLH products manufactured from its own starting material from ocean harvested limpets and from aquaculture starting material purchased from us. Our Stellar KLH™ products use KLH as a main component, which is not unique as a component for immunotherapy application, and is similar to KLH-based products produced by other companies. Some of these other companies, both public and private, have greater financial and personnel resources than us, and have greater sales and marketing experience in the industry than us. If they are able to produce and sell KLH products for less than us, it will have a negative effect on our operations and financial position.

We may not be able to manufacture our products in commercial quantities and currently depend on third parties for certain steps in our manufacturing operations, which could prevent us from marketing our products.

We contract with third party vendors (CMOs and CTOs) for certain steps in the manufacture and testing of our products, and may be unable to establish and maintain relationships with qualified manufacturers in order to produce sufficient supplies of our finished products.

We are currently dependent upon a small number of contractors and locations for certain portions of our manufacturing capacity, namely fill/finish of vialed products and release testing. We do not currently have backup manufacturing capacity for some of our key products. If we are unable to retain our current contractors, or are unable to obtain new contractors to provide manufacturing services in a timely manner and on similar terms, it will have a negative effect on our operations. Further, these contract manufacturers and testing organizations provide services to many biotechnology and research companies, and such third party contractors may not provide acceptable quality, quantity or costs required by us. In addition, they may not be able to provide the services required on a schedule acceptable to us. These issues may result in us being unable to manufacture our products in the required quantities or at an acceptable cost, which would have a negative effect on our operations and financial condition.

We have been, and expect to continue to be in the future, significantly dependent on collaboration and supply agreements for the development and sales of Stellar KLH™.

In conducting our research and development and commercialization activities, we currently rely, and expect to continue to rely, on collaboration and supply agreements with third parties, such as contract research organizations, commercial partners, universities, governmental agencies and not-for-profit organizations, for both strategic and financial resources. The inability to secure agreements on acceptable terms, the termination of these relationships, or failure to perform by us or either of these partners, who are subject to regulatory, competitive and other risks, under their respective agreements or arrangements with us, would substantially disrupt or delay our research and development and commercialization activities, including anticipated commercial sales. Any such loss would likely increase our expenses and materially harm our business, financial condition and results of operation.

Our sales in international markets subject us to foreign currency exchange and other risks and costs which could harm our business.

A substantial portion of our revenues are derived from outside the United States; primarily from Europe and Asia. We anticipate that revenues from international customers will continue to represent a substantial portion of our revenues for the foreseeable future. All our revenues are generated in U.S. dollars. However, if the effective price of our products were to increase as a result of fluctuations in foreign currency exchange rates, demand for our products could decline and adversely affect our results of operations and financial condition.

Our customers face uncertainties related to regulatory approval, which could reduce the market for our products.

A primary market for our Stellar KLH™ products is the commercial manufacture and sale of active immunotherapies. The therapeutic drug industry is subject to significant government regulation, and many of the products developed by our customers that utilize our Stellar KLH™ are not yet approved for commercial sale. Before regulatory approvals for the commercial sale of any products is granted, a drug must be demonstrated through preclinical testing and clinical trials to be 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 clinical trials, and to submit applications for the regulatory approvals is difficult to predict and is subject to numerous factors, and such clinical trials may not be successful. 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. None of our customers or partners has filed an application in any country for marketing approval of a product encompassing our Stellar KLH™ protein. However, even if regulatory approval is granted for any drug or product that utilizes Stellar KLH™, it 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 us and by our contractors, would be subject to continual review and inspection, and failure to meet these regulatory requirements can interrupt delay, or shut down these facilities. Previously unknown problems may result in regulatory restrictions on such products, including withdrawal from the marketplace. Delays in obtaining regulatory approvals for products developed by our customers which use Stellar KLH™, or failure to obtain or maintain regulatory approvals altogether, would have a negative effect on market demand for our Stellar KLH™ products, and have a negative effect on our operations and financial condition.

The inability to protect our intellectual property rights could result in competitive harm to our Company.

Our success and ability to maintain our competitive position depends on our ability to protect our intellectual property, including by obtaining patent protection in the United States and other countries, or through protection of our trade secrets, including unpatented know-how, technology and other proprietary information. When appropriate, we seek to protect our proprietary position by filing patent applications in the United States and abroad. If we are unable to protect our intellectual property, whether by obtaining patents or through trade secret protection, our competitors could develop and commercialize products similar or identical to ours.

We may not have adequate remedies for any infringement or funds to take action against those infringing any of our intellectual property rights, or if our trade secrets otherwise become known or independently developed by competitors. There can be no assurance that any current or future patents held, licensed by or applied for by us will be upheld, if challenged, or that the protections afforded will not be circumvented by others. The patent positions of biotechnology and pharmaceutical companies, which often involve licensing agreements, are frequently uncertain and involve complex legal and factual questions. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued. Consequently, our patents, patent applications and licensed rights may not provide protection against competitive technologies or may be held invalid if challenged or could be circumvented. If we enter litigation in regards to our business or to protect or enforce our patents, it may involve substantial expenditures and require significant management attention, even if we ultimately prevail.

The patent position of biotechnology companies is generally highly uncertain. The degree of patent protection we require may be unavailable or severely limited in some cases and may not adequately protect our rights, provide sufficient exclusivity, or preserve our competitive advantage. For example:

- we might not have been the first to invent or the first to file patent applications on the inventions covered by each of our pending patent applications;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- the patents of others may have an adverse effect on our business;
- any patents we obtain or license from others in the future may not encompass commercially viable products, may not provide us with any competitive advantages or may be challenged by third parties;
- any patents we have obtained, will obtain or license from others in the future may not be valid or enforceable; and
- we may not develop additional proprietary technologies that are patentable.

Patents have a limited lifespan. In the United States, the natural expiration of a utility patent typically is generally 20 years after it is filed. Various extensions may be available; however, the life of a patent, and the protection it affords, is limited.

In addition, some of our technologies are not covered by any patent application and we rely instead on confidentiality agreements and trade secret law to protect such intellectual property rights. We require all of our employees and consultants to sign confidentiality agreements. The agreements also oblige our employees, and to the extent practicable, our consultants, and advisors, to assign to us ideas, developments, discoveries and inventions made by such persons in connection with their work with us. We cannot be sure that these agreements will maintain confidentiality, will prevent disclosure, or will protect our proprietary information or intellectual property, or that others will not independently develop substantially equivalent proprietary information or intellectual property.

The failure of our patents, patent applications, applicable intellectual property law or our confidentiality agreements to protect our intellectual property and other proprietary information, including our trade secrets, could have a material adverse effect on our competitive advantages and on our operations and financial position.

Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our products and our technologies.

There are numerous recent changes to the U.S. patent laws and proposed changes to the rules of the United States Patent and Trademark Office ("USPTO") that may have a significant impact on our ability to obtain and enforce intellectual property rights. In particular, the Leahy-Smith America Invents Act (the "Leahy-Smith Act") was adopted in September 2011. The Leahy-Smith Act includes a number of significant changes to U.S. patent law, including provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. Under the Leahy-Smith Act, the United States transitioned from a "first-to-invent" system to a "first-inventor-to-file" system for patent applications filed on or after March 16, 2013. With respect to patent applications filed on or after March 16, 2013, if we are the first to invent but not the first to file a patent application, we may not be able to fully protect our intellectual property rights and may be found to have violated the intellectual property rights of others if we continue to operate in the absence of a patent issued to us. Many of the substantive changes to patent law associated with the Leahy-Smith Act have recently become effective. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of any patents that issue, all of which could have a material adverse effect on our business and financial condition.

In addition, patent reform legislation may pass in the future that could lead to additional uncertainties and increased costs surrounding the prosecution, enforcement, and defense of patent applications and any patents we may obtain. Furthermore, the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit have made, and will likely continue to make, changes in how the patent laws of the United States are interpreted. Similarly, foreign courts have made, and will likely continue to make, changes in how the patent laws in their respective jurisdictions are interpreted. We cannot predict future changes in the interpretation of patent laws or changes to patent laws that might be enacted into law by United States and foreign legislative bodies. Those changes may materially affect our patents and patent applications or any patents we may obtain and our ability to obtain and enforce or defend additional patent protection in the future.

We may not be able to adequately protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on our products and technologies in all countries throughout the world would be prohibitively expensive. The requirements for patentability may differ in certain countries, particularly developing countries, and the breadth of patent claims allowed can be inconsistent. In addition, the laws of some foreign countries may not protect our intellectual property rights to the same extent as laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection, but enforcement on infringing activities is inadequate.

We seek to protect our proprietary position by, among other methods, filing, when possible, U.S. and foreign patent applications relating to our technology, inventions and improvements that are important to our business. We have obtained patent protection for our non-lethal extraction methods of hemocyanin in the United States and other countries. We also rely on trade secrets, know-how, continuing technological innovation, and in-licensing opportunities to develop and maintain our proprietary position.

We plan to file other international patent applications directed to patentable features of our products and technologies from time to time. If patent rights are obtained in foreign jurisdictions, proceedings to enforce such rights could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly, could put our pending patent applications at risk of not issuing, and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Thus, we may not be able to stop a competitor from marketing and selling in foreign countries products that are the same as or similar to our product.

We may become involved in lawsuits to protect or enforce our patents and patent applications, any patents that may be issued to us or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents or patent applications, or other of our intellectual property. To counter infringement or unauthorized use, we may be required to file infringement or misappropriation claims, which can be expensive and time consuming. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents or claiming that our patents are invalid or unenforceable. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness, non-enablement or lack of statutory subject matter. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant material information from the USPTO, or made a materially misleading statement, during prosecution. Third parties may also raise similar validity claims before the USPTO in post-grant proceedings such as *ex parte* reexaminations, *inter partes* review, or post-grant review, or oppositions or similar proceedings outside the United States, in parallel with litigation or even outside the context of litigation. The outcome following legal assertions of invalidity and unenforceability is unpredictable. We cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. For any patents and patent applications we may license, we may have limited or no right to participate in the defense of any such patents against challenge by a third party. If a defendant were to prevail on a legal assertion of invalidity or unenforceability, we would lose at least part, and perhaps all, of any future patent protection on our products. Such a loss of patent protection could harm our business. In addition, in a patent infringement proceeding, a court may decide that our patent applications or patents, if issued, are invalid or unenforceable, in whole or in part, construe the patent's claims narrowly, or refuse to stop the other party from using the technology at issue on the grounds that our patent applications do not cover the technology. An adverse result in any litigation proceeding could put one or more of our patents at risk of being invalidated or interpreted narrowly.

Our trade secrets are difficult to protect and misappropriation could reduce the market for our products.

We may not be able to obtain adequate remedies for the unauthorized use or disclosure of our proprietary information, including our trade secrets. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time consuming, and the outcome is unpredictable. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position could be harmed.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our success will depend, in part, on our ability to operate without infringing the patents and other proprietary intellectual property rights of third parties. This is generally referred to as having the "freedom to operate." The biotechnology and pharmaceutical industries are characterized by extensive litigation regarding patents and other intellectual property rights. The defense and prosecution of intellectual property claims, interference proceedings and related legal and administrative proceedings, both in the United States and internationally, involve complex legal and factual questions. As a result, such proceedings are lengthy, costly and time-consuming, and their outcome is highly uncertain. We may become involved in protracted and expensive litigation in order to determine the enforceability, scope and validity of the proprietary rights of others, or to determine whether we have the freedom to operate with respect to the intellectual property rights of others.

Patent applications in the United States are, in most cases, maintained in secrecy until approximately 18 months after the patent application is filed. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made. Therefore, patent applications relating to a product or method similar to ours may have already been filed by others without our knowledge. In the event that a third party has also filed a patent application covering our products, methods or other claims, we may have to participate in an adversarial proceeding, such as an interference or derivation proceeding in the USPTO or similar proceedings in other countries, to determine the priority of invention. In the event an infringement claim is brought against us, we may be required to pay substantial legal fees and other expenses to defend such a claim and, if we are unsuccessful in defending the claim, we may be subject to injunctions or damage awards.

In the future, the USPTO or a foreign patent office may grant patent rights to our claims to third parties. Subject to the issuance of these future patents, the claims of which will be unknown until issued, we may need to obtain a license or sublicense to these rights in order to have the appropriate freedom to further use, develop or commercialize such products or methods. Any required licenses may not be available to us on acceptable terms, if at all. If it is determined that we have infringed an issued patent and do not have the freedom to operate, we could be subject to injunctions, and compelled to pay significant damages, including punitive damages. In any cases where we in-license intellectual property, our failure to comply with the terms and conditions of such licensing agreements could harm our business.

If we become involved in any patent litigation or other legal proceedings, we could incur substantial expense, and the efforts of our technical and management personnel could be significantly diverted. A negative outcome of such litigation or proceedings may expose us to the loss of our proprietary position or to significant liabilities, or require us to seek licenses that may not be available from third parties on commercially acceptable terms, if at all. We may be restricted or prevented from using or developing methods, or manufacturing and selling our products in the event of an adverse determination in a judicial or an administrative proceeding, or if we fail to obtain necessary licenses. Further, even if we are successful in defending against claims of infringement, such litigation could be burdensome and costly, and divert management's attention away from executing our business plan.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.

Certain of our employees were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise improperly used or disclosed confidential information of these third parties or our employees' former employers. We may also be subject to claims that former employees, consultants, independent contractors or other third parties have an ownership interest in our patents or other intellectual property. Litigation may be necessary to defend against these and other claims challenging our right to and use of confidential and proprietary information. If we fail in defending any such claims, we may lose our rights to such information, in addition to paying monetary damages. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against these claims, litigation could result in substantial cost and be a distraction to our management and employees.

We have limited marketing, sales and distribution experience and capabilities. We will need to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our products.

We currently have limited experience in the marketing, sales and distribution of KLH-based therapeutic or diagnostic products. Depending on market acceptance of our Stellar KLH^{TM} products, we may need to expand our capabilities. We may not be able to establish such additional capabilities in-house, and then will need to enter into agreements with third parties to successfully perform these tasks. If we contract or make arrangements with third parties for the sales and marketing of our products, our revenues will be dependent on the efforts of these third parties, whose efforts may not be successful. If we market any of our products directly, we must either internally develop or acquire a marketing and sales force, which would require substantial resources and management attention.

We rely on the significant experience and specialized expertise of our Chief Executive Officer and other members of our senior management team, and we will need to hire and retain other highly skilled personnel to maintain and grow our business.

Our ability to be successful in the highly competitive biotechnology and pharmaceutical industries depends in large part upon our ability to attract and retain highly qualified managerial, scientific, medical, sales and other personnel. Our performance is substantially dependent on the research and development and business development expertise of Frank Oakes, our President and Chief Executive Officer, and Catherine Brisson, our Chief Operating Officer. We do not have employment agreements currently in effect with Mr. Oakes and Dr. Brisson, and they are free to leave their employment with us at any time.

There is little possibility that this dependence will decrease in the near term. The loss of the services of Mr. Oakes or Dr. Brisson, or the increased demands placed on our key executives and personnel by our continued growth, could adversely affect our financial performance and our ability to execute our strategies. Our continued success also depends on our ability to attract and retain qualified team members to meet our future growth needs. We may not be able to attract and retain necessary team members to operate our business.

In addition, our future success depends on our ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial and research personnel in all areas within our organization. We plan to continue to grow our business and will need to hire additional personnel to support this growth. We believe that there are only a limited number of individuals with the requisite skills to serve in many of our key positions, and we compete for key personnel with other biotechnology companies, as well as universities and research institutions. It is often difficult to hire and retain these persons, and we may be unable to timely replace key persons if they leave or be unable to fill new positions requiring key persons with appropriate experience. If we fail to attract, integrate and retain the necessary personnel, our ability to maintain and grow our business could suffer significantly.

We are subject to the risk of product liability claims, for which we may not have, or be able to obtain, adequate insurance coverage.

The pharmaceutical 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 our Stellar KLH^{TM} products. Although we currently maintain liability insurance of up to $2 million in the aggregate for our products, we may not be able to obtain or maintain sufficient and affordable insurance coverage for all claims that may occur. The cost of any product liability litigation or other proceeding, even if resolved in our favor, could be substantial. In addition, our inability to obtain or maintain sufficient insurance coverage at an acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the development and commercial production and sale of our products, which could adversely affect our business, financial condition and results of operations.

We may face environmental risks related to handling regulated substances and hazardous materials.

Our research and clinical development activities, as well as the manufacture of materials and products, are subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials, biological specimens and wastes. We may be required to incur significant costs to comply with environmental and health and safety regulations in the future. Our research and clinical development, both now and in the future, may involve the controlled use of hazardous materials, including but not limited to certain hazardous chemicals. We cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an occurrence, we could be held liable for any damages that result and any such liability could exceed our resources.

We deal with hazardous materials and must comply with environmental, health and safety laws and regulations, which can be expensive and restrict how we do business and/or give rise to significant liabilities.

As we operate a manufacturing facility, we are subject to various environmental, health and safety laws and regulations, including those governing air emissions, water and wastewater discharges, noise emissions, the use, management and disposal of hazardous materials and wastes, and the cleanup of contaminated sites. The cost of compliance with these laws and regulations could be significant. In the event of a violation of these requirements, including from accidental contamination or injury, we could be held liable for damages exceeding our available financial resources. We could be subject to monetary fines, penalties or third party damage claims as a result of violations of such laws and regulations or noncompliance with environmental permits required at our facility. As an operator of real property and a generator of hazardous materials and wastes, we also could be subject to environmental cleanup liability, in some cases without regard to fault or whether we were aware of the conditions giving rise to such liability. In addition, we may be subject to liability and may be required to comply with new or existing environmental laws regulating pharmaceuticals in the environment. Environmental laws or regulations (or their interpretation) may become more stringent in the future. If any such future revisions require significant changes in our operations, or if we engage in the development and manufacturing of new products or otherwise expand our operations requiring new or different environmental controls, we will have to dedicate additional management resources and incur additional expenses to comply with such laws and regulations.

In the event of an accident, applicable authorities may curtail our use of hazardous materials and interrupt our business operations. In addition, with respect to our manufacturing facility, we may incur substantial costs to comply with environmental regulations and may become subject to the risk of accidental contamination or injury from the use of hazardous materials in our manufacturing process.

Our business is geographically concentrated and if a catastrophic event, such as a hurricane, an earthquake or coastal flooding, were to impact our facilities, our business may be disrupted which could result in serious harm to our business, results of operations and financial condition.

Our aquaculture operations, research and manufacturing facilities, laboratory space, and executive offices are all located in Port Hueneme, California, a coastal city located along the Pacific Ocean. We conduct all of our aquaculture operations, research and manufacturing at these facilities and there are no backup facilities for any of these operations. If a hurricane, an earthquake or other natural disaster, including coastal flooding, or a virus affecting our limpet colony, were to impact our facilities, we may be unable to manufacture our KLH products, which would have a serious disruptive impact on our business and a material adverse effect on our results of operations and financial condition. While we carry personal property insurance, such insurance may not be adequate to compensate us for losses from any damage or interruption of our business operations resulting from a hurricane, an earthquake, coastal flooding or other catastrophic event.

Risks Related to an Investment in Our Securities

Trading in our common shares is limited and the price of our common shares may be subject to substantial volatility.

Our common shares trade over-the-counter in the United States on the OTCQB Marketplace under the symbol “SBOTF” and on the TSX Venture Exchange in Canada under the stock symbol “KLH.” Our common shares have been quoted on the OTCQB Marketplace since January 15, 2013.

Our common shares can be expected to be subject to volatility in both price and volume arising from market expectations, announcements and press releases regarding our business, and changes in estimates and evaluations by securities analysts or other events or factors. Further, despite the existence of a market for trading our common shares, our shareholders 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. Broker-dealers may also decline to trade in OTCQB stocks given the market for such securities is often limited, the stocks are more volatile and the risk to investors is greater. These factors may reduce the potential market for our common shares by reducing the number of potential investors, which may make it more difficult for investors in our common shares to sell shares to third parties or to otherwise dispose of their shares and therefore, reduce our stock price.

We will likely require additional financing or financings, which would result in substantial dilution to existing shareholders.

We will likely require additional funds to meet our future obligations, which may include the sale of additional common shares or debt securities in order to raise sufficient capital to meet our budgeted expenditures and obligations. Management currently estimates that our operations, including research and development, capital expenditures and general and administrative expenses, will require approximately $7.5 million for the next 18 months. We believe our cash and cash equivalents at August 31, 2014 are sufficient to meet estimated working capital requirements and fund planned operations for at least the next 18 months. Notwithstanding the above, we may decide to expand operations, undertake strategic acquisitions or determine some other business need. In such case, we would then seek financing for such events. Our ongoing research and development activities may be dependent upon our ability to obtain 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 our Stellar KLH^{TM}. Any transaction involving the issuance of previously authorized but unissued shares of common shares, or securities convertible into common shares, could result in dilution, possibly substantial, to present and prospective holders of common shares and may be on terms less favorable to us, if at all.

If an active, liquid trading market for our common shares does not develop, you may not be able to sell your shares quickly or at or above the price you paid for it.

An active and liquid trading market for our common shares has not yet and may not ever develop or be sustained. You may not be able to sell your shares quickly or at or above the price you paid for our stock if trading in our stock is not active.

"Penny stock" rules may make buying or selling our securities difficult and limit the market for our securities.

Trading in our securities is subject to the SEC's "penny stock" rules and it is anticipated that trading in our securities will continue to be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by these requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities.

We could be deemed a passive foreign investment company, which could have negative consequences for U.S. investors.

We could be classified as a "passive foreign investment company" ("PFIC") under the United States tax code. If we are declared a PFIC, then owners of our common shares who are U.S. taxpayers generally will be required to treat any so-called "excess distribution" received on our 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 our shares. A U.S. taxpayer who makes a QEF election generally must report on a current basis its share of our net capital gain and ordinary earnings for any year in which we are classified as a PFIC, whether or not we distribute any amounts to our shareholders.

Risks Related to an Emerging Growth Company

We are an "emerging growth company" under the JOBS Act of 2012 and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common shares less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), and as a result, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." We will remain an "emerging growth company" for up to five years, or until the earliest of the earliest to occur of: (i) the last day of the fiscal year in which we have more than $1.0 billion in annual revenues; (ii) the date we are deemed a "large accelerated filer" as defined in the Exchange Act, with at least $700 million of equity securities held by non-affiliates; or (iii) the issuance, in any three-year period, by us of more than $1.0 billion in non-convertible debt securities. We may choose to take advantage of some but not all of these reduced reporting burdens.

For so long as we remain an emerging growth company, we will not be required to:

- have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of Sarbanes-Oxley;

- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board ("PCAOB"), regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis);

- submit certain executive compensation matters to shareholders advisory votes pursuant to the "say on frequency" and "say on pay" provisions (requiring a non-binding shareholder vote to approve compensation of certain executive officers) and the "say on golden parachute" provisions (requiring a non-binding shareholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and

- include detailed compensation discussion and analysis in our filings under the Exchange Act, and instead may provide a reduced level of disclosure concerning executive compensation.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected not to take advantage of the extended transition period for complying with new or revised accounting standards.

If we take advantage of any of these reduced reporting burdens in future filings, the information that we provide our security holders may be different than you might get from other public companies in which you hold equity interests. We cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our stock price may be more volatile.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

We currently lease 4,300 square feet of executive office and laboratory space in Port Hueneme, California under a lease which was renewed in July 2014 for a two-year term.

Our aquaculture operations are land-based, and encompass three buildings and a 37,000 square foot oceanfront leasehold facility in the Port Hueneme Aquaculture Business Park, located along the Pacific Coast. These facilities include our aquaculture, manufacturing, and laboratory operations, and are leased from the Port Hueneme Surplus Property Authority under sublease agreements that expire in September 2015 with options to extend the leases for an additional five-year term.

Item 3. LEGAL PROCEEDINGS.

In August 2008, we received a Notice of Violations from the Regional Water Quality Control Board, Los Angeles Region ("Regional Board") for violations of waste discharge requirements in the amount of $69,000 related to our National Pollution Discharge Elimination Systems (NPDES) permit. In March 2014, we settled the matter for a payment of $3,000 in full payment of any civil liability, and waived our right to a hearing to dispute the alleged violations or the amount of civil liability. We received notification of the acceptance of the payment from the Regional Board in April 2014.

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

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common shares trade over-the-counter in the United States on the U.S. OTCQB Marketplace Exchange under the symbol "SBOTF" and on the TSX Venture Exchange in Canada under the stock symbol is "KLH." Our CUSIP number is 85855A 10 4.

Our common shares began trading on the OTCQB on January 15, 2013. The table below lists the high and low bid prices for our common shares on the OTCQB since initiation of trading. The quotations on the OTCQB reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

OTCQB Marketplace
Common Shares Trading Activity

Period	- Bids- US Dollars High	Low
Fiscal Year 2014		
Three Months Ended 8/31/14	$ 2.36	$ 0.60
Three Months Ended 5/31/14	$ 1.82	$ 0.93
Three Months Ended 2/28/14	$ 1.95	$ 1.00
Three Months Ended 11/30/13	$ 2.30	$ 1.17
Fiscal Year 2013		
Three Months Ended 8/31/13	$ 1.66	$ 0.62
Three Months Ended 5/31/13	$ 0.78	$ 0.43
Three Months Ended 2/28/13 (1)	$ 0.70	$ 0.32

(1) Includes the period from January 15, 2013, the date of initiation of trading of our common shares on the OTCQB, through the three months ended February 28, 2013.

On August 29, 2008, we commenced trading on the TSX Venture Exchange as a Canadian "capital pool company" under the name "CAG Capital Inc." On April 7, 2010, we changed our name to Stellar Biotechnologies, Inc. and, on April 12, 2010, we completed our qualifying transaction through a reverse merger with Stellar Biotechnologies, Inc., a California corporation. On April 19, 2010, we began trading on the TSX Venture Exchange under the symbol "KLH." The table below lists the high and low sale prices as reported by the TSX Venture Exchange for our common shares for the periods indicated.

TSX Venture Exchange
Common Shares Trading Activity

Period	- Sales- Canadian Dollars High	Low
Fiscal Year 2014		
Three Months Ended 8/31/14	$ 2.55	$ 0.65
Three Months Ended 5/31/14	$ 1.99	$ 0.90
Three Months Ended 2/28/14	$ 2.05	$ 1.36
Three Months Ended 11/30/13	$ 2.15	$ 1.23
Fiscal Year 2013		
Three Months Ended 8/31/13	$ 1.74	$ 0.63
Three Months Ended 5/31/13	$ 0.80	$ 0.44
Three Months Ended 2/28/13	$ 0.72	$ 0.19
Three Months Ended 11/30/12	$ 0.38	$ 0.20

Holders

As of November 1, 2014, we had 26 registered shareholders of record. This figure does not reflect persons or entities that hold their shares in nominee or “street” name through various brokerage firms.

Dividends

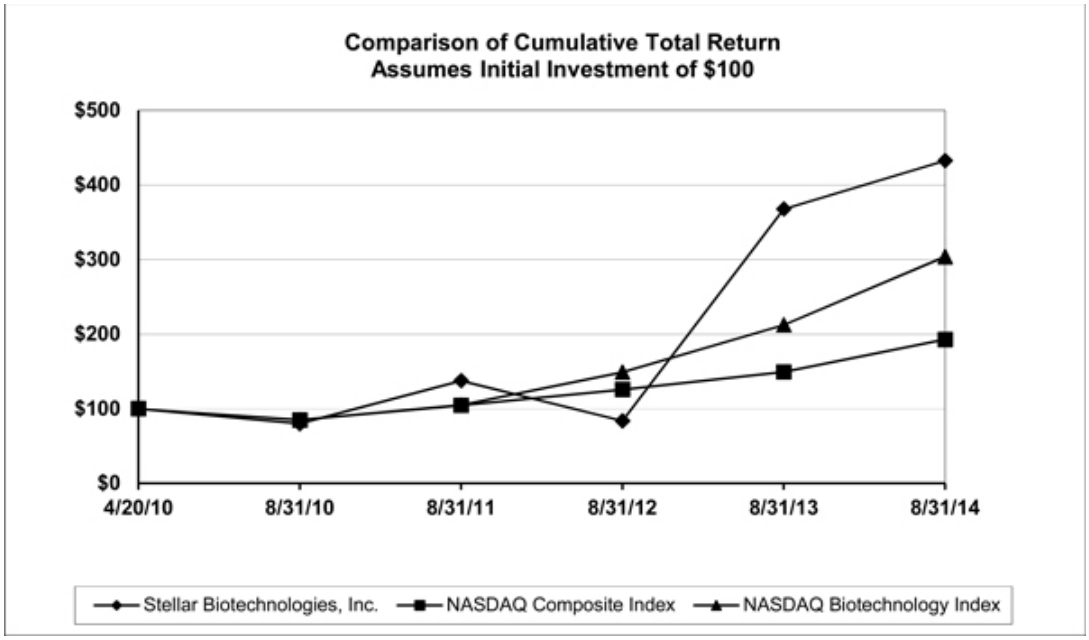
We have not declared any dividends on our common shares since our incorporation and do not anticipate that we will do so in the foreseeable future. Our present policy is to retain future earnings, if any, for use in our operations and the expansion of our business.

Performance Graph

The following performance graph and related information shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following performance graph compares the cumulative total return of our common shares to the NASDAQ Composite Index and the NASDAQ Biotechnology Index from April 20, 2010, the day after we first officially traded on the TSX Venture Exchange under the symbol "KLH," through August 31, 2014. The comparison assumes $100 was invested on April 20, 2010 in our common shares and in each of the comparative indices and assumes reinvestment of dividends, if any. The points on the graph are as of August 31st of the year indicated.

Our historic share price performance is not necessarily indicative of future share price performance.



	8/31/10	8/31/11	8/31/12	8/31/13	8/31/14
Stellar Biotechnologies, Inc.	$ 80.00	$ 137.50	$ 83.75	$ 367.50	$ 432.50
NASDAQ Composite Index	$ 84.86	$ 104.53	$ 125.71	$ 149.28	$ 192.80
NASDAQ Biotechnology Index	$ 85.27	$ 105.01	$ 148.82	$ 212.38	$ 303.71

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. SELECTED FINANCIAL DATA.

Our selected financial data in the table below is derived from our audited financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) for the fiscal years ended August 31, 2014, 2013, and 2012; International Financial Reporting Standards (IFRS) for the fiscal year ended August 31, 2011; and Canadian generally accepted accounting principles (CDN GAAP) for the fiscal year ended August 31, 2010. We adopted IFRS effective September 1, 2010. Our auditors for the fiscal year ended August 31, 2014, Moss Adams LLP, conducted the audit in accordance with United States generally accepted auditing standards, and the standards of the Public Company Accounting Oversight Board. Our auditors for the fiscal years ended August 31, 2013 and 2012, D&H Group LLP, conducted the audits in accordance with Canadian generally accepted auditing standards, and the standards of the Public Company Accounting Oversight Board. You should read these selected financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our audited financial statements and notes thereto that are included in this Annual Report on Form 10-K.

Selected Financial Data
Expressed in U.S. dollars

	Year Ended August 31, 2014 US GAAP	Year Ended August 31, 2013 US GAAP	Year Ended August 31, 2012 US GAAP	Year Ended August 31, 2011 IFRS	Year Ended August 31, 2010 CDN GAAP
Net revenues	$ 372,132	$ 545,469	$ 286,054	$ 697,187	$ 854,837
Net loss	(8,439,523)	(14,495,779)	(5,529,278)	(3,597,279)	(589,971)
Net loss per share	(0.11)	(0.28)	(0.13)	(0.09)	(0.04)
Total assets	14,473,962	8,513,358	1,543,878	4,750,651	2,893,074
Long-term obligations	5,352,663	6,835,199	124,141	1,527,374	-
Dividends per share	-	-	-	-	-

Our financial statements have been prepared in accordance with IFRS for the fiscal year ended August 31, 2011 and CDN GAAP for the fiscal year ended August 31, 2010. Therefore, the information in the table above is not comparable with the information for fiscal years ended August 31, 2014, 2013 and 2012. The table below is derived from reconciliations from IFRS and CDN GAAP to US GAAP for the fiscal years ended August 31, 2011 and 2010.

Selected Financial Data
Expressed in U.S. dollars

	Year Ended August 31, 2011 US GAAP	Year Ended August 31, 2010 US GAAP
Net revenues	$ 697,187	$ 854,837
Net loss	(3,727,773)	(1,067,205)
Net loss per share	(0.10)	(0.07)
Total assets	4,750,651	2,893,074
Long-term obligations	1,212,115	628,005
Dividends per share	-	-

Supplementary Financial Information

Selected Quarterly Financial Data

U.S. dollars are shown in thousands, except per share data

	For the Years Ended August 31,							
	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	$ 119	$ 103	$ 91	$ 59	$ 295	$ 73	$ 61	$ 116
Net income (loss) for period	(4,635)	1,813	(238)	(5,380)	(8,915)	(1,171)	(3,644)	(766)
Income (loss) per share	(0.06)	0.02	(0.00)	(0.08)	(0.17)	(0.02)	(0.07)	(0.02)

The definition of an employee for purposes of accounting for share based payments differs between US GAAP and IFRS. Therefore, non-employee share based payments were accounted for differently under US GAAP than IFRS. The impact of these differences totaling $146 thousand and $390 thousand decrease in net loss for the years ended August 31, 2014 and 2013, respectively, were recorded in the applicable fourth quarter.

Fluctuations in net income (loss) between quarters can be mainly attributed to changes in fair value of warrant liability shown in thousands as follows:

	For the Years Ended August 31,							
	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Change in fair value of warrant liability - gain (loss)	$ (3,355)	$ 3,023	$ 1,469	$ (3,670)	$ (7,575)	$ (353)	$ (2,767)	$ 139

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This discussion contains forward-looking statements that involve risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by such forward-looking statements as a result of many important factors, including those set forth in Part I of this Annual Report on Form 10-K under the caption "Risk Factors." Please see "Special Note Regarding Forward-Looking Statements" in Part I above. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report.

Operating and Financial Review and Prospects

Overview

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and our wholly-owned subsidiary, Stellar Biotechnologies, Inc.

Since inception, we have primarily financed our activities through the issuance of common shares, exercise of warrants, grant revenues, contract services revenue, and product sales. In September 2013, we closed a private placement with total gross proceeds of $12,000,000. Management believes these financial resources are adequate to support our initiatives at the current level for the next 12 months. Management is also continuing the ongoing effort toward expanding the customer base for our currently marketed products, and we may seek additional financing alternatives, including additional equity financing or nondilutive financing alternatives including applying for grants, entering into collaboration and/or licensing arrangements.

Results of Operations

The greatest impact on the comparison of our consolidated statements of operations is from fluctuations in the change in fair value of our warrant liability. As a result of having exercise prices denominated in a currency other than our functional currency, our warrants with Canadian dollar exercise prices meet the definition of derivatives and are therefore classified as derivative liabilities measured at fair value with noncash adjustments to fair value recognized through the consolidated statements of operations. Fair values are based on the Black-Scholes option valuation model. The losses and gains in each year are a reflection of our share price fluctuations with increases in share prices causing greater warrant liability and a resulting loss on fair value of warrant liability, while decreases in share prices cause a resulting gain on fair value of warrant liability. Changes in fair value of warrant liability have no impact on cash flow. If the warrants are exercised, the warrant liability is reclassified to common shares. If the warrants expire, the decrease in warrant liability offsets the changes in fair value.

Fiscal Year Ended August 31, 2014

In September 2013, we closed a private placement with total gross proceeds of $12,000,000.

Our net loss for fiscal 2014 was $8,439,523, or ($0.11) per share, as compared to a net loss of $14,495,779, or ($0.28) per share, for the fiscal 2013. The decrease in net loss of approximately $6 million for fiscal 2014 was primarily due to a large change in the fair value of warrant liability.

Revenue for fiscal 2014 totaled $372,132, as compared to revenue of $545,469 in fiscal 2013. As expected during this early stage of our development, our revenues have high volatility as we establish a market for our products and services. Revenue for fiscal 2014 included product sales of $143,553, as compared to $76,055 in the prior year. The increase in revenue for fiscal 2014 was due to greater product sales volume. Grant revenue for fiscal 2014 decreased to $36,579, as compared to $409,414 in the prior year due to completion of our work associated with the NSF Phase II/IIB grant in fiscal 2013. Contract services revenue was $192,000 for fiscal 2014, as compared to $60,000 in the prior year. The increase for fiscal 2014 was due to new contract services under a collaboration agreement.

Expenses for fiscal 2014 increased to $6,090,648, as compared to $4,393,388 incurred in fiscal 2013. Costs of production and aquaculture increased to $662,946 for fiscal 2014, as compared to $183,276 for the prior year, due to the operations department resuming manufacturing activities during fiscal 2014 and greatly reducing the efforts spent on the NSF grant and on other internal research. It should be noted that we do not capitalize the cost of inventory at this early stage of our development, so manufacturing costs of production are expensed, although related product sales normally occur in a later period. Grant costs decreased to $36,579 from $409,414 in line with the decrease in grant revenue due to completion of NSF Phase II/IIB in fiscal 2013 with the close out period ended November 2013. Research and development was $2,458,934 for fiscal 2014, as compared to $2,018,554 for the prior year, due to preclinical research on C. diff immunotherapy, coupled with a decrease in our other internal research and development activities caused by operations shifting time from process development to manufacturing. General and administration expenses increased to $2,871,455 for fiscal 2014, as compared to $1,770,619 in the prior year, as management executed on strategic initiatives for fiscal 2014, particularly related to corporate development and business development. Share-based compensation is allocated to all expense types but the greatest portion is recorded as general and administration expenses. Share-based compensation was $956,634 for fiscal 2014, which was an increase from $786,585 recorded in fiscal 2013. The increase for fiscal 2014 was related to the timing of granting stock options, increases in our share price that affect the valuation model and the vesting of options granted in prior years.

Other income (loss) was an overall loss of $2,693,807 in fiscal 2014, as compared to a loss of $10,647,060 in fiscal 2013. The largest change for fiscal 2014 as compared to the prior year occurred due to a change in fair value of warrant liability, which decreased to a loss of $2,533,305 for fiscal 2014 from a loss of $10,566,208 in the prior year. The loss in fiscal 2014 is a reflection of the increase in our share price from August 31, 2013 to August 31, 2014, but not as much as in the prior year. Our foreign exchange loss in fiscal 2014 was $222,437, as compared to $95,842 in fiscal 2013. The change was due to unfavorable exchange rates for Canadian funds in the fiscal 2014.

Fiscal Year Ended August 31, 2013

Our net loss for fiscal 2013 was $14,495,779, or ($0.28) per share, as compared to a net loss of $5,529,278, or ($0.13) per share, for fiscal 2012. The higher loss reported in fiscal 2013 was primarily due to a large change in the fair value of warrant liability.

Revenue for fiscal 2013 totaled $545,469, as compared to revenue of $286,054 in the prior year. Revenue for fiscal 2013 included product sales of $76,055, as compared to $131,825 in the prior year. A significant portion of the revenue for fiscal 2012 was attributed to a large sale of KLH which occurred in the prior year under a marketing and supply agreement and did not occur in fiscal 2013. Grant revenue rose to $409,414 for fiscal 2013, as compared to $94,229 in the prior year due to timing of grant activities and completion of NSF Phase II/IIB grant in fiscal 2013. Contract services revenue of $60,000 was the same in both periods.

Expenses for the year ended August 31, 2013 declined to $4,393,388 as compared to$6,832,053 incurred in fiscal 2012. During fiscal 2013, management made efforts to temporarily reduce operating costs until additional financing was received, including voluntary salary reductions and reductions in the number of personnel, which resulted in the significant decline in overall operating expenses. Costs of production and aquaculture decreased for fiscal 2013 to $183,276, as compared to $426,310 in the prior year, as the operations department was largely focused on grant and research activities. Grant costs increased to $409,414 for fiscal 2013, as compared to $94,043 in the prior year, consistent with fluctuations in grant revenue due to the timing of grant activities and the completion of a NSF Phase II/IIB grant in fiscal 2013. Research and development was $2,018,554 in fiscal 2013, as compared to $2,634,119 in the prior year, due to the timing of research and development activity, particularly a reduction in outside contracts. General and administration expenses declined to $1,770,619 in fiscal 2013, as compared to $3,662,009 in the prior year, as a result of management’s efforts to reduce operating costs, curtailment of outside contracted services, the voluntary salary reductions and reductions in the number of personnel, and the impact of lower share-based compensation. Share-based compensation was $786,585 in fiscal 2013, which was a decline from $1,923,200 recorded in the prior year. The decline for fiscal 2013 was related to the timing of granting stock options, and share-based compensation under the performance share program fully vesting during the prior year.

Other income (loss) was an overall loss of $10,647,060 in fiscal 2013, as compared to gain of $1,017,521 in fiscal 2012. The largest change occurred due to the change in fair value of warrant liability, which increased to a loss of $10,566,208 in fiscal 2013 from a gain of $897,549 in the prior year. The loss in fiscal 2013 is a reflection of the increase in our share price from August 31, 2012 to August 31, 2013. Foreign exchange in fiscal 2013 was a loss of $95,842 compared to a gain of $10,091 in fiscal 2012. The change was due to unfavorable exchange rates for Canadian funds in fiscal 2013. Loss recovery was $105,000 in fiscal 2012 as we received a settlement for the value of KLH which had been damaged by a vendor. This one-time loss recovery did not recur in fiscal 2013.

Capital Expenditures

Our capital expenditures, which primarily consist of scientific, manufacturing, and aquaculture equipment, for the previous three fiscal years are as follows:

Fiscal Year	Capital Expenditures	Assets Acquired
2014	$ 279,065	Property, plant and equipment
2013	9,541	Property, plant and equipment
2012	78,338	Property, plant and equipment

Liquidity and Capital Resources

Our working capital position at August 31, 2014 was $12,650,004, including cash and cash equivalents of $13,427,404 and net of $879,040 in the noncash current portion of our warrant liability. Management believes the current working capital is sufficient to meet our present requirements, including all contractual obligations and anticipated research and development expenditures for the next 12 months. We expect to finance our future expenditures and obligations through revenues from product sales, contract services income, grant revenues, and sales of common shares. We expect to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue our business plan and continue as a going concern. We cannot provide any assurances that we will be able to raise additional capital. Our management believes that we have access to capital resources through possible public or private equity offerings, debt financings, corporate collaborations or other means, if needed; however, we have not secured any commitment for new financing at this time, nor can we provide any assurance that new financing will be available on commercially acceptable terms, if needed.

Fiscal Year Ended August 31, 2014

As of August 31, 2014, our working capital position was $12,650,004 compared to working capital of $4,260,364 as of August 31, 2013. Working capital is reduced by the noncash current portion of our warrant liability in the amount of $879,040 and $3,454,745 at August 31, 2014 and 2013, respectively.

Our cash and cash equivalents totaled $13,427,404 at August 31, 2014, as compared to cash and cash equivalents of $7,859,889 at August 31, 2013, which represented an increase of $5,567,515.

During fiscal 2014 operating activities used cash of $4,266,707. Items not affecting cash included: depreciation and amortization of $158,313; share-based compensation related to the issuance of stock options of $956,634; unrealized foreign exchange loss of $222,437; change in fair value of warrant liability of $2,533,305 due to adjustment to fair value of warrants previously issued; impairment loss of $90,476 and loss on disposal of property, plant and equipment of $3,670. Changes in non-cash working capital items include a decrease in accounts receivable of $121,075 related mostly to grants; decrease in deferred financing costs related to the private placement of units completed in September 2013 of $60,656; increase in prepaid expenses of $94,974; increase in accounts payable and accrued liabilities of $106,224; and increase in deferred revenue of $15,000 related to contract services billed in advance.

Investing activities used cash of $741,415. The acquisition of property, plant and equipment used cash of $279,065. Proceeds on sale of property, plant and equipment totaled $2,150. Purchase of short-term investments used cash of $464,500. The effect of exchange rate changes on cash and cash equivalents was a reduction of $212,338.

Financing activities provided cash of $10,787,975. The proceeds from exercise of warrants and options provided cash of $4,308,878; share subscription proceeds provided cash of $7,000,000; and share issuance costs used cash of $520,903.

During the year 2014, a total of 20,322,690 common shares were issued:

- 11,428,570 common shares were issued pursuant to private placements for gross proceeds of $12,000,000 (with $5,000,000 of these proceeds received as subscriptions in the prior fiscal year).
- 1,515,152 common shares were issued for performance shares under the reverse merger transaction. The vested value had been recorded in prior years and there were no proceeds received in fiscal 2014.
- 5,937,300 common shares were issued pursuant to the exercise of warrants for gross proceeds of $3,920,134 (with $155,674 of these proceeds received as subscriptions in the prior fiscal year).
- 1,441,668 common shares were issued pursuant to the exercise of options for proceeds of $544,418.

Fiscal Year Ended August 31, 2013

As of August 31, 2013, our working capital position was $4,260,364, as compared to working capital of $530,569 as of August 31, 2012. Working capital is reduced by the noncash current portion of our warrant liability of $3,454,745 and $0 at August 31, 2013 and 2012, respectively.

Our cash and cash equivalents totaled $7,859,889 at August 31, 2013, as compared to cash and cash equivalents of $998,998 at August 31, 2012, which represented an increase of $6,860,891.

During fiscal 2013, operating activities used cash of $2,795,823. Items not affecting cash included: depreciation and amortization of $124,833; share-based compensation related to the issuance of stock options and broker units totaling $786,585; unrealized foreign exchange loss of $95,842; change in fair value of warrant liability of $10,556,208 due to adjustment to fair value of warrants previously issued; and fair value of shares and warrants issued for an exclusive license in the amount of $491,408. Changes in non-cash working capital items included: an increase in amounts receivable of $192,067 related mostly to grants; increase in deferred financing costs related to the private placement of units completed after the fiscal year of $62,027 increase in prepaid expenses of $2,658; increase in accounts payable and accrued liabilities of $29,309; and decrease in deferred revenue of $127,477 related to the timing of work performed under grants for which cash had been received in the prior year but earned in the current year.

Investing activities used cash of $9,541, with the entire amount used for the acquisition of property, plant and equipment. The effect of exchange rate changes on cash and cash equivalents was a reduction of $64,571.

Financing activities provided cash of $9,730,826. The proceeds from exercise of warrants and options provided cash of $1,582,739; share subscription proceeds provided cash of $8,271,549, including $5,000,000 received in advance of the closing of our September 2013 private placement; share issuance costs used cash of $125,062; and refund of deposit provided cash of $1,600.

During the year 2013, a total of 12,532,599 common shares were issued:

- 9,258,400 common shares were issued pursuant to private placements for gross proceeds of $3,115,875.
- 2,738,000 common shares were issued pursuant to the exercise of warrants for proceeds of $1,510,336.
- 164,999 common shares were issued pursuant to the exercise of options for proceeds of $72,403.
- 371,200 common shares were issued to acquire a license at a deemed value of $491,408 less $195,014 allocated to fair value of warrants for 278,400 non-transferrable share purchase warrants issued to acquire license.

Research and Development

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

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

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

Fiscal Year	Research and Development Expense
2014	$ 2,458,934
2013	2,018,554
2012	2,634,119

Disclosure of Contractual Obligations

We lease three buildings and facilities used in operations under sublease agreements with the Port Hueneme Surplus Property Authority. In September 2010, we exercised our option to extend these sublease agreements for an additional five-year term. We have an option to extend the lease for an additional five-year term to August 2020.

We also lease facilities used for executive offices and laboratories, and we must pay a portion of the common area maintenance. In July 2014, we exercised our option to extend this lease for a two-year term.

We have purchase commitments for contract research organizations and consultants.

The approximate amounts of our contractual obligations are as follows:

Contractual Obligations
As of August 31, 2014

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$ 228,000	$ 157,000	$ 71,000	$ -	$ -
Purchase obligations	78,000	78,000	-	-	-
Total	$ 306,000	$ 235,000	$ 71,000	$ -	$ -

Basis of Presentation, Significant Accounting Policies and Estimates

Basis of Presentation

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company and its wholly-owned subsidiary Stellar Biotechnologies, Inc. Intercompany balances and transactions are eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. These estimates include warrant liability, share-based compensation, intangible assets, valuation of accounts receivable, and income taxes. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which by their nature are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Cash and Cash Equivalents

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

Investments

Investments include Canadian enhanced yield deposits with original maturity of 180 days. Investments are classified as held-to-maturity and are reported at amortized cost, which approximates fair value. We regularly review our investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is determined to be other than temporary, the cost basis of the investment is written down to fair value.

Allowance for Doubtful Accounts Receivable

We assess the collectability of our accounts receivable through a review of our current aging, as well as an analysis of our historical collection rate and credit status of our customers. As of August 31, 2014 and 2013, all outstanding accounts receivables were deemed to be fully collectible, and therefore, no allowance for doubtful accounts was recorded.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is recorded on the straight-line method over useful lives ranging from 5 to 10 years. Leasehold improvements are depreciated over the shorter of the useful life of the improvement or remaining term of lease. Maintenance and repairs are charged to operations as incurred.

Impairment of Long-Lived Assets

If indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the amount of such impairment is measured by comparing the carrying value of the asset to the fair value of the asset and we record the impairment as a reduction in the carrying value of the related asset and a charge to operating results. Estimating the undiscounted future cash flows associated with long-lived assets requires judgment, and assumptions could differ materially from actual results. We incurred impairment loss for licensing rights of $90,476 for the year ended August 31, 2014.

Fair Value of Financial Instruments

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

Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As of August 31, 2014 and 2013, the carrying value of certain financial instruments such as accounts receivable, accounts payable, accrued liabilities, and deferred revenue approximates fair value due to the short-term nature of such instruments.

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

Level 1: Quoted prices in active markets for identical or similar assets and liabilities.

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

We record our cash and cash equivalents at fair value using Level 1 inputs in the fair value hierarchy. We record our warrant liability at fair value using Level 2 input using the Black-Scholes option valuation model.

Revenue Recognition

Contract Services Revenue

We recognize contract services revenue when contract services have been performed and reasonable assurance exists regarding measurement and collectability. An appropriate amount will be recognized as revenue in the period that we are assured of fulfilling the contract requirements. Amounts received in advance of performance of contract services are recorded as deferred revenue.

Contract services include services performed under collaboration agreements and monthly maintenance of limpet colonies designated to meet the needs of the customer. We also have the right to use raw material produced from designated limpet colonies at no cost to us with prior written consent from the customer.

Product Sales

We recognize product sales when KLH product is shipped (for which the risk is typically transferred upon delivery to the shipping carrier) and there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectability is reasonably assured. We document arrangements with customers with purchase orders and sales agreements.

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

Grants

We have taken the income approach to recognizing grant revenue. We recognize grant revenue when there is reasonable assurance that we will comply with the conditions attached, the benefits have been earned and we are reasonably assured of collection. An appropriate amount of earned revenue will be recognized as revenue in the period that we are assured of fulfilling the grant requirements.

Research and Development

Research and development costs are expensed as incurred.

Equity Financing

We engage in equity financing transactions to obtain the funds necessary to continue operations and perform research and development activities. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction.

Share-Based Compensation

We grant options to buy common shares of the Company to our directors, officers, employees and consultants, and grant other equity-based instruments to non-employees.

The fair value of share-based compensation is measured on the date of grant, using the Black-Scholes option valuation model and is recognized over the vesting period net of estimated forfeitures for employees or the service period for non-employees. The Black-Scholes option valuation model requires the input of subjective assumptions, including price volatility of the underlying stock, risk-free interest rate, dividend yield, and expected life of the option.

Foreign Exchange

Items included in the financial statements of our subsidiary are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Our functional currency and the functional currency of our subsidiary is the U.S. dollar.

Transactions in currencies other than the U.S. dollar are recorded at exchange rates prevailing on the dates of the transactions.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. To the extent that we do not consider it more likely than not that a deferred tax asset will be recovered, we provide a valuation allowance against that excess.

We periodically evaluate our tax positions to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities. We have not incurred any interest or penalties as of August 31, 2014 with respect to uncertain income tax matters. We do not expect that there will be unrecognized tax benefits of a significant nature that will increase or decrease within 12 months of the reporting date.

We file income tax returns in the U.S. federal, Canadian and state jurisdictions. Management believes that there are no material uncertain tax positions that would impact the consolidated financial statements. Our policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. We may be subject to examination by the Internal Revenue Service for tax years 2010 through 2013 and by the Canada Revenue Agency for tax years 2010 through 2014. We may also be subject to examination on certain state and local jurisdictions for the tax years 2009 through 2013.

Loss Per Share

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

The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. Conversion of outstanding warrants, broker units and options would have an antidilutive effect on loss per share for the years ended August 31, 2014, 2013 and 2012, and are therefore excluded from the computation of diluted loss per share.

Segments

We operate in one reportable segment and, accordingly, no segment disclosures have been presented. All equipment, leasehold improvements and other fixed assets owned by us are physically located within the United States, and all supply, collaboration and licensing agreements are denominated in U.S. dollars. The geographic markets of our potential customers are principally Europe, the United States and Asia. The geographic breakdown of revenues in fiscal 2014 was 41% Europe, 40% Asia, 14% U.S., and 6% Canada; fiscal 2013 was 84% Europe, 12% U.S., 3% South America and 1% Canada; and fiscal 2012 was 42% Europe and 58% U.S.

CERTAIN TAX CONSIDERATIONS

United States Federal Income Taxation

As used below, a "U.S. holder" is a beneficial owner of a common share that is, for U.S. federal income tax purposes, (i) a citizen or resident alien individual of the United States, (ii) a corporation (or an entity treated as a corporation) created or organized under the law of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person. For purposes of this discussion, a "non-U.S. holder" is a beneficial owner of a common share that is (i) a nonresident alien individual, (ii) a corporation (or an entity treated as a corporation) created or organized in or under the law of a country other than the United States or a political subdivision thereof or (iii) an estate or trust that is not a U.S. Holder. If a partnership (including for this purpose any entity treated as a partnership for U.S. federal tax purposes) is a beneficial owner of a common share, the U.S. federal tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of a common share that is a partnership and partners in that partnership should consult their own tax advisers regarding the U.S. federal income tax consequences of holding and disposing of common shares. We have not sought a ruling from the Internal Revenue Service ("IRS") or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with the description herein, and its determination may be upheld by a court. This discussion does not address U.S. federal tax laws other than those pertaining to U.S. federal income taxation (such as estate or gift tax laws or the recently enacted Medicare tax on investment income), nor does it address any aspects of U.S. state or local or non-U.S. taxation.

GIVEN THE COMPLEXITY OF THE TAX LAWS AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR SHAREHOLDER MAY BE AFFECTED BY MATTERS NOT DISCUSSED HEREIN, SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF COMMON SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS.

Taxation of Dividends

U.S. Holders. In general, subject to the passive foreign investment company rules discussed below, a distribution on a common share will constitute a dividend for U.S. federal income tax purposes to the extent that it is made from our current or accumulated earnings and profits as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, it will be treated as a non-taxable reduction of basis to the extent of the U.S. holder's tax basis in the common share on which it is paid, and to the extent it exceeds that basis it will be treated as capital gain. For purposes of this discussion, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend on a common share (which will include the amount of any Canadian taxes withheld) generally will be subject to U.S. federal income tax as foreign source dividend income, and will not be eligible for the corporate dividends received deduction. The amount of a dividend paid in Canadian dollars will be its value in U.S. dollars based on the prevailing spot market exchange rate in effect on the day the U.S. holder receives the dividend. A U.S. holder will have a tax basis in any distributed Canadian dollars equal to its U.S. dollar amount on the date of receipt, and any gain or loss realized on a subsequent conversion or other disposition of Canadian dollars generally will be treated as U.S. source ordinary income or loss. If dividends paid in Canadian dollars are converted into U.S. dollars on the date they are received by a U.S. holder, the U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, as well as the passive foreign investment rules, a dividend that a non-corporate holder receives on a common share will generally be subject to a maximum federal income tax rate of 20% if the dividend is a “qualified dividend.” A dividend on a common share will be a qualified dividend if (i) either (a) the common shares are readily tradable on an established market in the United States or (b) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Secretary of the Treasury determines is satisfactory for purposes of these rules and that includes an exchange of information program, and (ii) we were not, in the year prior to the year the dividend was paid, and are not, in the year the dividend is paid, a passive foreign investment company (“PFIC”). The common shares are listed on the OTCQB, which may be treated as an established securities market in the United States. In any event, the U.S. Canada Income Convention (the “Treaty”) satisfies the requirements of clause (i)(b), the Company is incorporated in and tax resident of Canada and should be entitled to the benefits of the Treaty. However, based on our audited financial statements and relevant market and shareholder data, we believe that we would likely be classified as a PFIC in the current taxable year and may be classified as a PFIC in future taxable years. Accordingly, no assurance can be made that a dividend paid, if any, would be a “qualified dividend.” In addition, as described in the section below entitled “Passive Foreign Investment Company Rules,” if we were a PFIC in a year while a U.S. holder held a common share, and if the U.S. holder has not made a qualified electing fund election effective for the first year the U.S. holder held the common share, the ordinary share underlying the common share remains an interest in a PFIC for all future years or until such an election is made. The IRS takes the position that such rule will apply for purposes of determining whether a common share is an interest in a PFIC in the year a dividend is paid or in the prior year, even if we do not satisfy the tests to be a PFIC in either of those years. Even if dividends on the common shares would otherwise be eligible for qualified dividend treatment, in order to qualify for the reduced qualified dividend tax rates, a non-corporate holder must hold the ordinary share on which a dividend is paid for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date, disregarding for this purpose any period during which the non-corporate holder has an option to sell, is under a contractual obligation to sell or has made (and not closed) a short sale of substantially identical stock or securities, is the grantor of an option to buy substantially identical stock or securities or, pursuant to Treasury regulations, has diminished their risk of loss by holding one or more other positions with respect to substantially similar or related property. In addition, to qualify for the reduced qualified dividend tax rates, the non-corporate holder must not be obligated to make related payments with respect to positions in substantially similar or related property. Payments in lieu of dividends from short sales or other similar transactions will not qualify for the reduced qualified dividend tax rates.

A non-corporate holder that receives an extraordinary dividend eligible for the reduced qualified dividend rates must treat any loss on the sale of the stock as a long-term capital loss to the extent of the dividend. For purposes of determining the amount of a non-corporate holder’s deductible investment interest expense, a dividend is treated as investment income only if the non-corporate holder elects to treat the dividend as not eligible for the reduced qualified dividend tax rates. Special limitations on foreign tax credits with respect to dividends subject to the reduced qualified dividend tax rates apply to reflect the reduced rates of tax.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which non-corporate holders of stock of non-U.S. corporations, and intermediaries through whom the stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those procedures have not yet been issued, it is not clear whether we will be able to comply with them.

Non-corporate holders of ordinary shares are urged to consult their own tax advisers regarding the availability of the reduced qualified dividend tax rates with respect to dividends, if any, received on the common shares in the light of their own particular circumstances.

Any Canadian withholding tax imposed on dividends received with respect to the common shares will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations under U.S. federal income tax law. For purposes of computing those limitations separately under current law for specific categories of income, a dividend generally will constitute foreign source "passive category income" or, in the case of certain holders, "general category income." A U.S. holder will be denied a foreign tax credit with respect to Canadian income tax withheld from dividends received with respect to the common shares to the extent the U.S. holder has not held the common shares for at least 16 days of the 30-day period beginning on the date which is 15 days before the ex-dividend date or to the extent the U.S. holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the common shares are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers to determine whether and to what extent they will be entitled to foreign tax credits as well as with respect to the determination of the foreign tax credit limitation. Alternatively, any Canadian withholding tax may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year. In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax.

Non-U.S. Holders. A dividend paid to a non-U.S. holder of a common share will generally not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-U.S. holder to be subject to U.S. taxation on a net income basis on income from the common share). A non-U.S. holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. holder. A corporate non-U.S. holder under certain circumstances may also be subject to an additional "branch profits tax," the rate of which may be reduced pursuant to an applicable income tax treaty.

Taxation of Capital Gains

U.S. Holders. Subject to the passive foreign investment company rules discussed below, on a sale or other taxable disposition of a common share, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder's adjusted basis in the common share and the amount realized on the sale or other disposition, each determined in U.S. dollars. Such capital gain or loss will be long-term capital gain or loss if at the time of the sale or other taxable disposition the common share has been held for more than one year. In general, any adjusted net capital gain of an individual is subject to a maximum federal income tax rate of 20%. Capital gains recognized by corporate U.S. holders generally are subject to U.S. federal income tax at the same rate as ordinary income. The deductibility of capital losses is subject to limitations.

Any gain a U.S. holder recognizes generally will be U.S. source income for U.S. foreign tax credit purposes, and, subject to certain exceptions, any loss will generally be a U.S. source loss. If a Canadian tax is paid on a sale or other disposition of a common share, the amount realized will include the gross amount of the proceeds of that sale or disposition before deduction of the Canadian tax. The generally applicable limitations under U.S. federal income tax law on crediting foreign income taxes may preclude a U.S. holder from obtaining a foreign tax credit for any Canadian tax paid on a sale or other disposition of a common share. The rules relating to the determination of the foreign tax credit are complex, and U.S. holders are urged to consult with their own tax advisers regarding the application of such rules. Alternatively, any Canadian tax paid on the sale or other disposition of a common share may be taken as a deduction against taxable income, provided the U.S. holder takes a deduction and not a credit for all foreign income taxes paid or accrued in the same taxable year.

Non-U.S. Holders. A non-U.S. holder will not be subject to U.S. federal income tax on gain recognized on a sale or other disposition of a common share unless (i) the gain is effectively connected with the conduct of trade or business by the non-U.S. holder within the United States (and is attributable to a permanent establishment or fixed base the non-U.S. holder maintains in the United States if an applicable income tax treaty so requires as a condition for the non-U.S. holder to be subject to U.S. taxation on a net income basis on income from the common share), or (ii) in the case of a non-U.S. holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions apply. Any effectively connected gain of a corporate non-U.S. holder may also be subject under certain circumstances to an additional "branch profits tax," the rate of which may be reduced pursuant to an applicable income tax treaty.

Passive Foreign Investment Company Rules

A special set of U.S. federal income tax rules applies to a foreign corporation that is a PFIC for U.S. federal income tax purposes. As noted above, based on our audited financial statements and relevant market and shareholder data, we believe may be classified as a PFIC in the current taxable year. In addition, given that the determination of PFIC status involves the application of complex tax rules, and that it is based on the nature of our income and assets from time to time, no assurances can be provided that we will not be considered a PFIC for any past or future taxable years.

In general, a non-US corporation is a PFIC if in any taxable year either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the quarterly average value of its assets is attributable to assets that produce or are held to produce "passive income." In applying these tests, the Company generally is treated as holding its proportionate share of the assets and receiving its proportionate share of the income of any other corporation in which the Company owns at least 25% by value of the shares. Passive income for this purpose generally includes dividends, interest, royalties, rent and capital gains, but generally does not include certain royalties derived in an active business. Passive assets are those assets that are held for production of passive income or do not produce income at all. Thus cash will be a passive asset. Interest, including interest on working capital, is treated as passive income for purposes of the income test. Without taking into account the value of its goodwill, more than 50% of the Company's assets by value would be passive so that the Company would be a PFIC under the asset test. Based upon its current operations, its goodwill (the value of which should be based upon the Company's market capitalization) may be attributable to its activities that will generate active income and accordingly, may be treated as an active asset. Even if the Company is not a PFIC under the asset test, however, the Company may qualify as a PFIC in its current taxable year under the income test, since the Company to date has generally had no gross income from active operations (after deducting cost of sales from gross receipts), but generally has some interest income. The determination of whether a foreign corporation is a PFIC is a factual determination made annually and is therefore subject to change. Subject to exceptions pursuant to certain elections that generally require the payment of tax, once stock in a foreign corporation is stock in a PFIC in the hands of a particular shareholder that is a United States person, it remains stock in a PFIC in the hands of that shareholder.

If we are treated as a PFIC, contrary to the tax consequences described in "Taxation of Dividends" and "Taxation of Capital Gains" above, a U.S. holder that does not make an election described in the succeeding two paragraphs would be subject to special rules with respect to (i) any gain realized on a sale or other disposition of a common share (for purposes of these rules, a disposition of a common share includes many transactions on which gain or loss is not realized under general U.S. federal income tax rules) and (ii) any "excess distribution" by the Company to the U.S. holder (generally, any distribution during a taxable year in which distributions to the U.S. holder on the common share exceed 125% of the average annual taxable distributions (whether actual or constructive and whether or not out of earnings and profits) the U.S. holder received on the common share during the preceding three taxable years or, if shorter, the U.S. holder's holding period for the common share). Under those rules, (i) the gain or excess distribution would be allocated ratably over the U.S. holder's holding period for the common share, (ii) the amount allocated to the taxable year in which the gain or excess distribution is realized would be taxable as ordinary income in its entirety and not as capital gain, would be ineligible for the reduced qualified dividend rates, and could not be offset by any deductions or losses, and (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each of those years. A U.S. holder who owns a common share during any year we are a PFIC will generally have to file IRS Form 8621.

The special PFIC rules described above will not apply to a U.S. holder if the U.S. holder makes a timely election, which remains in effect, to treat the Company as a "qualified electing fund" ("QEF") in the first taxable year in which the U.S. holder owns a common share and the Company is a PFIC and if the Company complies with certain reporting requirements. Instead, a shareholder of a QEF generally is currently taxable on a pro rata share of the Company's ordinary earnings and net capital gain as ordinary income and long-term capital gain, respectively. Neither that ordinary income nor any actual dividend from the Company would qualify for the 20% maximum federal income tax rate on dividends described above if the Company is a PFIC in the taxable year the ordinary income is realized or the dividend is paid or in the preceding taxable year. A QEF election cannot be made unless the Company provides U.S. Holders the information and computations needed to report income and gains pursuant to a QEF election. The Company expects that will not provide this information. It is, therefore, likely that U.S. holders would not be able to make a QEF election in any year we are a PFIC.

In lieu of a QEF election, a U.S. holder of stock in a PFIC that is considered marketable stock could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the stock and the U.S. holder's adjusted basis in the stock. Losses would be allowed only to the extent of net mark-to-market gain previously included in income by the U.S. holder under the election for prior taxable years. A U.S. holder's adjusted basis in the common shares will be adjusted to reflect the amounts included or deducted with respect to the mark-to-market election. If the mark-to-market election were made, the rules set forth in the second preceding paragraph would not apply for periods covered by the election. A mark-to-market election will not apply during any later taxable year in which the Company does not satisfy the tests to be a PFIC. In general, the common shares will be marketable stock if the common shares are traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter on a national securities exchange that is registered with the SEC or on a designated national market system or on any exchange or market that the Treasury Department determines to have rules sufficient to ensure that the market price accurately represents the fair market value of the stock**.** Under current law, the mark-to-market election may be available to U.S. holders of common shares because the common shares are listed on the OTCQB and the TSX Venture Exchange (at least one of which should constitute a qualified exchange for this purpose), although there can be no assurance that the common shares will be "regularly traded" for purposes of the mark-to-market election.

Given the complexities of the PFIC rules and their potentially adverse tax consequences, U.S. holders of common shares are urged to consult their tax advisers about the PFIC rules.

Medicare Surtax on Net Investment Income

Non-corporate U.S. Holders whose income exceeds certain thresholds generally will be subject to 3.8% surtax on their "net investment income" (which generally includes, among other things, dividends on, and capital gain from the sale or other taxable disposition of, the common shares). Absent an election to the contrary, if a QEF election is available and made, QEF inclusions will not be included in net investment income at the time a U.S. Holder includes such amounts in income, but rather will be included at the time distributions are received or gains are recognized. Non-corporate U.S. Holders should consult their own tax advisors regarding the possible effect of such tax on their ownership and disposition of the common shares, in particular the applicability of this surtax with respect to a non-corporate U.S. Holder that makes a QEF or mark-to-market election in respect of their common shares.

Information Reporting and Backup Withholding

Dividends paid on, and proceeds from the sale or other disposition of, a common share to a U.S. holder generally may be subject to information reporting requirements and may be subject to backup withholding unless the U.S. holder provides an accurate taxpayer identification number or otherwise establishes an exemption. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided certain required information is furnished to the Internal Revenue Service. A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

Under U.S. federal income tax law and U.S. Treasury Regulations, certain categories of U.S. holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. U.S. holders are urged to consult with their own tax advisors concerning such reporting requirements.

Reporting Obligations of Individual Owners of Foreign Financial Assets

Section 6038D of the Code generally requires U.S. individuals (and possibly certain entities that have U.S. individual owners) to file IRS Form 8938 if they hold certain "specified foreign financial assets," the aggregate value of which exceeds $50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-US. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity.

Canadian Federal Income Tax Consequences

The following summary of the material Canadian federal income tax consequences is stated in general terms and is not intended to be legal or tax advice to any particular shareholder. Each shareholder or prospective shareholder is urged to consult his or her own tax advisor regarding the tax consequences of his or her purchase, ownership and disposition of common shares. The tax consequences to any particular holder of common shares 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 for income tax purposes, have never been resident in Canada for income tax purposes, deal at arm's length with the Company, hold their common shares as capital property and who will not use or hold the common shares 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 (Canada) and the regulations thereunder (collectively, the "Tax Act" or "ITA") and the Canada-United States Tax Convention (the "Tax Convention") at the date of this Annual Report and the current administrative practices of the Canada Revenue Agency. This summary does not take into account provincial income tax consequences. The comments in this summary that are based on the Tax Convention are applicable to U.S. holders only if they qualify for benefits under the Tax Convention. 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.

Non-Resident Holders

The summary below is restricted to the case of a holder (a "Holder") of one or more 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. 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, persons with whom he did not deal at arm's length or (under currently proposed rules) partnerships in which he or persons with whom he did not deal at arm's length held an interest, 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 and at any time during the 60 months preceding the disposition more than 50% of the value of the common shares is derived from, or from an interest in, Canadian real estate, including Canadian resource or timber resource properties.

Holders Resident in the United States

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, if qualified for benefits under the Tax Convention, 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, (ii) owned the common shares when he ceased to be resident in Canada, and (iii) the common shares were not subject to a deemed disposition on the Holder's departure from Canada.

Inclusion in Taxable Income

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.

Subject to certain exceptions, a non-resident person who disposes of taxable Canadian property must notify the Canada Revenue Agency either before or after the disposition (within ten days of the disposition).

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to financial market risks associated with foreign exchange rates, concentration of credit, and liquidity. In accordance with our policies, we manage our exposure to various market-based risks and where material, these risks are reviewed and monitored by our Board of Directors.

Foreign Exchange Risk

Our exposure to foreign exchange risk is primarily related to fluctuations between the Canadian dollar and the U.S. dollar. We incur operating expenses and capital expenditures mostly in U.S. dollars, with some operating expenses incurred in Canadian dollars which are subject to foreign currency fluctuations. The fluctuation of the U.S. dollar in relation to the Canadian dollar will have an impact upon our profitability and may also affect the value of our assets and the amount of shareholders' equity. We have not entered into any agreements or purchased any instruments to hedge possible currency risks. At August 31, 2014, we held approximately $3,946,000 in cash and cash equivalents and short-term investments in Canadian dollars and the U.S. dollar was equal to 1.087 Canadian dollars. Based on the exposure at August 31, 2014, a 5% change in the Canadian/U.S. exchange rate would impact our net loss by approximately $197,000.

Concentration of Credit Risk

We are potentially subject to financial instrument concentration of credit risk through our cash equivalents and accounts receivables. We place our cash and cash equivalents in financial institutions believed to be credit worthy and perform periodic evaluations of their relative credit standing. Accounts receivables can be potentially exposed to a concentration of credit risk with our major customers.

Approximately 73%, 73% and 90% of our product sales and contract services revenue during the years ended August 31, 2014, 2013 and 2012, respectively, were from two customers. All of the grant revenue during the years ended August 31, 2014, 2013 and 2012 was received from the National Science Foundation.

Approximately 76% of our accounts receivable at August 31, 2014 were from one customer. Approximately 88% of our accounts receivable at August 31, 2013 was from a grant from the National Science Foundation.

We assess the collectability of our accounts receivable through a review of our current aging, as well as an analysis of our historical collection rate, general economic conditions and credit status of our customers. As of August 31, 2014 and 2013, all outstanding accounts receivable were deemed to be fully collectible, and therefore, no allowance for doubtful accounts was recorded. We determine terms and conditions for our customers primarily based on the volume purchased by the customer, customer creditworthiness and past transaction history.

Management works to mitigate our concentration of credit risk with respect to accounts receivable through our credit evaluation policies, reasonably short payment terms and geographical dispersion of sales. Revenue includes export sales to foreign companies located principally in Europe and Asia.

Liquidity Risk

Liquidity risk is the risk we will not be able to meet our financial obligations as they fall due. We attempt 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 our short term obligations. At August 31, 2014 and 2013, we had a cash and cash equivalents balance of $13,427,404 and $7,859,889, respectively, to settle current liabilities of $1,420,666 and $3,874,158, respectively. Current liabilities include the current portion of our warrant liability in the amount of $879,040 and $3,454,745, respectively, which will not be settled in cash.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and related financial information required to be filed hereunder are indexed under Item 15 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Effective June 3, 2014, we terminated our relationship with D&H Group LLP, Chartered Accountants as our principal independent registered public accounting firm. The report of D&H Group LLP on the financial statements for our fiscal years ended August 31, 2012 through August 31, 2013 previously issued contained no adverse opinion or any disclaimer of opinion, and such reports were not qualified or modified as to uncertainty, audit scope or accounting principles, other than to state that there was substantial doubt as to our ability to continue as a going concern in fiscal 2012. Effective June 3, 2014, we engaged Moss Adams LLP, Certified Public Accountants as our principal independent registered public accounting firm. Our Board of Directors recommended the decision to change our principal independent registered public accounting firm. The termination of D&H Group LLP was not the result of any disagreement or dispute.

During the years ended August 31, 2014 and 2013, and through the interim period preceding such termination, there were no disagreements between us and D&H Group LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of D&H Group LLP, would have caused D&H Group LLP to make reference to the subject matter of the disagreements in connection with its reports. Further, there were no "reportable events," as described in Item 304(a)(1)(iv) of Regulation S-K of the SEC promulgated under the Exchange Act.

Item 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities and Exchange Act of 1934, as amended) as of August 31, 2014. Our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of August 31, 2014, were effective to give reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the Chief Executive Office and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for designing, establishing and maintaining a system of internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f)) to provide reasonable assurance that the financial information prepared by us for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner in accordance with accounting principles generally accepted in the United States. The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and annual financial statements. Management reviewed the results of their assessment with our Audit Committee.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all possible misstatements or frauds. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management has used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control — Integrated Framework of 1992" to evaluate the effectiveness of our internal control over financial reporting. Management has assessed the effectiveness of our internal control over financial reporting and concluded that such internal control over financial reporting was effective as of August 31, 2014.

Attestation Report of Our Registered Public Accounting Firm

This Annual Report does not include an attestation report from our independent registered public accounting firm. We are an "emerging growth company," as defined under the JOBS Act, and are subject to reduced public company reporting requirements. The JOBS Act provides that an emerging growth company is not required to have the effectiveness of such company's internal control over financial reporting audited by its external auditors for as long as such company is deemed to be an emerging growth company.

Limitations on the Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter ended August 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION.

On June 3, 2014, our Board of Directors approved a change to our fiscal year-end from August 31 to September 30, with effect from September 1, 2014.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors

Set forth below is certain information with respect to our directors, including each director's name, age as of November 1, 2014, and Committee membership. Each director is elected annually to serve until the annual general and special meeting of shareholders, or until his or her successor is duly elected.

Name	Age	Position(s) Held	Director Since
Gregory T. Baxter, Ph.D. (1)(2)(3)	53	Director	August 15, 2012
Tessie M. Che, Ph.D.	64	Director	September 25, 2013
David L. Hill, Ph.D. (1)(2)(3)	61	Director	May 17, 2011
Daniel E. Morse, Ph.D.	71	Director	April 9, 2010
Frank R. Oakes	63	President, Chief Executive Officer and Chairman of our Board of Directors	April 9, 2010
Mayank D. Sampat (1)(2)(3)	57	Director	August 15, 2012

(1) Member of Audit Committee.
(2) Member of Compensation Committee.
(3) Member of the Nominating and Corporate Governance Committee.

Biographies and Qualifications. The biographies of our directors and certain information regarding each director's experience, attributes, skills and/or qualifications that led to the conclusion that the director should be serving as a director of our Company are as follows:

Gregory T. Baxter, Ph.D. has been a director of our Company since August 2012, and serves as chairman of the Nominating and Corporate Governance Committee. Dr. Baxter has served as an executive and scientist for several biotechnology corporations and foundations. Since 2001, he has held the position of Senior Scientist within the Department of Clinical Drug Development for CCS Associates Inc. Dr. Baxter previously served as a Program Director with the National Science Foundation and was also the founder and Chief Science Officer of Hurel Corporation. Prior to his time at Hurel, he was a Senior Scientist at the Cornell Nanoscale Science and Technology Facility and the Biotechnology Liaison for the National Nanofabrication Users Network. He also serves as Adjunct Associate Professor in College of Chemical Engineering at Cornell University and as a member of the Founders Board of Advisors at StartX Stanford Student Startup Accelerator. Dr. Baxter received his B.A. and Ph.D. in Biochemistry/Molecular Biology from University of California, Santa Barbara. Dr. Baxter has extensive scientific, clinical drug development and senior management experience in the pharmaceutical and biotechnology industries.

Tessie M. Che, Ph.D. was appointed a director of our Company as a result of our September 2013 private placement. Dr. Che currently serves as General Manager and Chair of the Board of Directors of Amaran Biotechnology Inc., a privately-held biopharmaceuticals manufacturer based in Taiwan, a position she has held since 2012. She co-founded Optimer Pharmaceuticals Inc. in 1998, and served as Optimer's Chief Operating Officer and Senior Vice-President of Corporate Affairs from1998 to 2011. During the process development years of Optimer's flagship drug, Dificid™, Dr. Che built and led the company's chemistry, manufacturing and quality control (CMC) teams through the successful and cost-effective registration and commercialization of Dificid in the United States, Canada and Europe in 2011. Prior to her founding of Optimer, Dr. Che's past experience included 20 years in research, management and operations at large companies, including Exxon Mobil Corp., Aventis Pharmaceuticals Inc. and EniChem SpA. She also served as vice president, operations, of M and D Precision Science Group Inc. in 1988, and co-founded Cinogen Pharmaceuticals Inc. (China) serving as vice-president from 1994 to 1996. Cinogen later became a wholly owned subsidiary of Pharmanex Inc., where Dr. Che served as senior director of quality assurance and sourcing. Dr. Che holds bachelor degrees in chemistry from Illinois State University and Fu-Jen Catholic University (Taiwan), a PhD in physical-inorganic chemistry from Brandeis University, and did postdoctoral work at Columbia University. She has authored numerous scientific publications and holds over 20 U.S. patents in material synthesis and applications. Dr. Che currently serves as a director of OBI Pharma USA, a wholly-owned subsidiary of OBI Pharma, Inc., a publicly traded biotechnology corporation in Taiwan. Dr. Che has extensive scientific, operational, manufacturing, quality assurance, product development and senior management experience in the pharmaceutical and biotechnology industries, as well as experience serving on a board of directors within our industry.

David L. Hill, Ph.D. has been a director of our Company since May 2011, and serves as chairman of the Compensation Committee. He currently serves as Scientific Director for the ART Reproductive Center, Beverly Hills, California, a position he has held since December 1999. He is also 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 has extensive scientific and clinical research experience in our industry.

Daniel E. Morse, Ph.D. has been a director of our Company since April 2010. Dr. Morse is the Wilcox Professor Emeritus of Molecular Genetics and Biochemistry Biotechnology, Biomolecular Science and Engineering, a position he has held since 2008, and Director of the Marine Biotechnology Center, at the University of California, Santa Barbara, a position he has held since 1986. Previously, he served as Director of the UCSB-MIT-Caltech Institute of Collaborative Biotechnologies from 2003 to 2010, and also served as our Executive Vice-President, Science & Technology from 2010 until December 2011. Dr. Morse is an expert in the structure and function of the KLH molecule and internationally recognized expert in protein chemistry, molecular biology, molluscan reproductive biology, and aquaculture, and has an intimate understanding of our technology.

Frank R. Oakes was appointed our President and Chief Executive Officer and Chairman of our Board of Directors in April 2010. Prior to that time, he served as founder and Chief Executive Officer of our California subsidiary since 1999. He has more than 30 years of management experience in aquaculture including a decade as Chief Executive Officer of The Abalone Farm, Inc., during which he led the company through the R&D, capitalization, and commercialization phases of development to become the largest abalone producer in the United States. Mr. Oakes is the inventor of our patented method for non-lethal extraction of hemolymph from a live gastropod mollusk. He was the principal investigator on our Small Business Innovation Research ("SBIR") grant from the National Science Foundation and was principal investigator on our 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. Mr. Oakes has consulted and lectured for the aquaculture industry around the world. He 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 University's management-training program. Mr. Oakes is a valuable member of our Board due to his depth of operating, strategic, and senior management experience in our industry, specifically as related to aquaculture. Additionally, Mr. Oakes holds an intimate knowledge of our Company due to his longevity in the industry and with us.

Mayank (Mike) D. Sampat has been a director of our Company since August 2012, and serves as chairman of the Audit Committee. Mr. Sampat is currently an independent consultant, a position he has held since September 2014. He previously held the position of controller for Zpower, LLC, an emerging manufacturer in the microbattery industry, from June 2012 to September 2014. Prior to that time, he held the position of controller for Imaging Advantage LLC from September 2010 to June 2012, and the position of Chief Financial Officer for Gamma Medica-Ideas, a supplier of imaging equipment to the medical industry, from September 2007 to June 2010. Mr. Sampat received a BBA in accounting from Bombay University and his MBA in Finance at Mercer University. Mr. Sampat is a seasoned finance and accounting executive, having worked with multiple companies ranging from startups to large Fortune 100 companies.

Executive Officers

Set forth below is certain information with respect to the names, ages, and positions of our executive officers as of November 1, 2014. Biographical information pertaining to Mr. Oakes, who is a director and an executive officer, may be found in the above section entitled "Directors." The executive officers serve at the pleasure of our Board of Directors.

Name	Age	Position(s) Held	Date of Appointment
Frank R. Oakes	63	President, Chief Executive Officer and Chairman of our Board of Directors	April 9, 2010
Catherine Brisson, Ph.D.	40	Chief Operating Officer	November 1, 2013
Kathi Niffenegger	56	Chief Financial Officer and Corporate Secretary	November 1, 2013
Herbert S. Chow, Ph.D.	59	Chief Technology Officer	August 9, 2012
Mark A. McPartland	47	Vice President of Corporate Development and Communications	November 15, 2013

Catherine Brisson, Ph.D. was appointed our Chief Operating Officer in November 2013. She initially joined us in November 2010 and has held positions of increasing responsibility with our Company since that time, including serving as our Executive Director of Quality Assurance and Regulatory Affairs and our Chief Pharmaceutical Officer. Prior to 2010, Dr. Brisson held the position of the Executive Director of Quality Systems at MacuSight, Inc. from 2005 until 2010. Dr. Brisson has more than 20 years of experience in the biotechnology, pharmaceutical, and medical device industries with strong expertise, and broad scientific and operational understanding, in the areas of quality systems, regulatory affairs, manufacturing, and product development. She has extensive background in process development and a strong working knowledge of global regulatory requirements. Dr. Brisson holds a B.S. degree in Chemistry from North Carolina State University and a Ph.D. in Organic Chemistry from the University of North Carolina.

Kathi Niffenegger was appointed our Chief Financial Officer in November 2013 and our Corporate Secretary in June 2013. She initially joined us in May 2012 as Controller, after previously holding the position of our outside Certified Public Accountant since the founding of our California subsidiary in 1999. Ms. Niffenegger has more than 30 years of experience in accounting and finance in a range of industries. She held positions of increasing responsibility in the audit division of Glenn Burdette CPAs from 1988 to 2012 and served most recently as technical partner, obtained CFO experience at Martin Aviation, and began her career at Peat, Marwick, Mitchell & Co. (now KPMG LLP). She has held leadership roles for audits of manufacturing, aquaculture, pharmaceutical, and governmental grant clients, and developed specific expertise in cost accounting systems and internal controls. Ms. Niffenegger holds a B.S. degree in Business Administration, Accounting from California State University, Long Beach and is a member of the American Institute of Certified Public Accountants (AICPA).

Herbert S. Chow, Ph.D. was appointed our Chief Technology Officer in August 2012 and initially joined our Company in May 2010. Dr. Chow has more than 25 years of experience in business management and product development positions in new biologic devices, clinical diagnostic and consumer diagnostic markets. He has operational expertise in developing and commercializing innovative technologies, and building successful strategic partnership in the fields of medical diagnostic and therapeutic devices. Prior to joining us in 2010, Dr. Chow served as a director at MagnaBioScience from 2002-2007 and held the position of a General Manager at Rubicon Consultant from 2000-2010. He has also held key senior management positions with start-up biotechnology companies, as well as international pharmaceutical companies Abbott Labs and Johnson & Johnson. Dr. Chow earned a B.S. in Microbiology and Immunochemistry at Ohio State University and a Ph.D. in Immunopathology at the University of Illinois. Dr. Chow has been granted nine patents in chemical processing, microfluidic devices, liquid sensing devices and medical devices for point-of-care diagnosis.

Mark A. McPartland was appointed our Vice President of Corporate Development and Communications in November 2013. Mr. McPartland has more than 16 years of experience in business development, capital markets advisory, corporate communications and C-suite consulting. Prior to joining us, he served as Senior Vice President at MZ Group, a subsidiary of @titude Global, the world’s largest independent global investor relations consulting firm, from September 2011 to November 2013. Mr. McPartland’s background includes guiding the development and execution of corporate strategy for private and public companies at all stages of commercial evolution, including early- and mid-stage biopharmaceutical entities. His previous positions include Vice President and Partner at Alliance Advisors, LLC from January 2005 until January 2011, and Regional Vice President of Hayden Communications, Inc. from September 1999 until January 2005. Mr. McPartland holds a B.S. in Business Administration and Marketing from Coastal Carolina University.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) did not apply to our Company or executive officers, directors and persons who own more than 10% of our common shares during our fiscal year ended August 31, 2014 because we were a "foreign private issuer" and exempt from such requirements under Rule 3a12-3 under the Securities Exchange Act of 1934, as amended.

Code of Ethics

We have adopted a Code of Ethics and Business Conduct that applies to all of our directors, officers, and employees. A copy of our Code of Ethics and Business Conduct is available on the Investor Relations section of our website at http://ir.stellarbiotechnologies.com. We intend to satisfy the SEC's disclosure requirements regarding amendments to, or waivers of, our Code of Ethics and Business Conduct by posting such information on our website. Copies of our Code of Ethics and Business Conduct may be obtained, free of charge, by writing to our Corporate Secretary, Stellar Biotechnologies, Inc., 332 East Scott Street, Port Hueneme, California 93041.

Nominations for Board of Directors

The Board of Directors has approved an advance notice policy, which was subsequently approved by our shareholders, that requires advance notice be given to us in certain circumstances where nominations of persons for election to the Board are made by our shareholders.

In the case of an annual meeting of shareholders, notice to the Company must be made not less than 30 days nor more than 65 days prior to the date of the annual meeting. However, in the event that the annual meeting is to be held on a date that is less than 40 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the tenth (10th) day following such public announcement.

In the case of a special meeting of shareholders (which is not also an annual meeting), notice to the Company must be made not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting was made.

Information about our Board Committees

Our Board of Directors has appointed an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The Board of Directors has determined that each director who serves on these committees is "independent," as that term is defined by the Nasdaq Listing Rules and rules of the Securities and Exchange Commission. The Board of Directors has adopted written charters for its Audit Committee, its Compensation Committee, and its Nominating and Corporate Governance Committee. Copies of these charters are available on our website at http://ir.stellarbiotechnologies.com.

Audit Committee

Our Audit Committee is composed of Gregory Baxter, David Hill, and Mayank Sampat (chairman). The purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the audits of our financial statements. In that regard, the Audit Committee assists the Board in monitoring: (a) the integrity of our financial statements; (b) our independent auditor's qualifications, independence, and performance; (c) the performance of our internal audit function, including our system of internal controls, financial reporting, and disclosure controls; and (d) our compliance with legal and regulatory requirements. To fulfill this obligation and perform its duties, the Audit Committee maintains effective working relationships with the Board, management, our internal auditor, and our independent auditor.

The Board has identified Mayank Sampat as its audit committee financial expert. Mr. Sampat is the Chairman of our Audit Committee and has extensive financial experience. He received an MBA in Finance from Mercer University, and has served in several financial positions with other companies, including several years as Chief Financial Officer for a medical equipment manufacturer. Mr. Sampat is considered to be "independent" as defined pursuant to the rules of the Nasdaq Listing Rules.

Compensation Committee

Our Compensation Committee is composed of Gregory Baxter, David Hill (chairman), and Mayank Sampat. The purpose of the Compensation Committee is to oversee the Board's responsibilities relating to compensation of our Company's Chief Executive Officer and our other executive officers. It has overall responsibility for approving and evaluating all of our compensation plans, policies and programs as such plans, policies and programs affect executive officers.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee is composed of Gregory Baxter (chairman), David Hill, and Mayank Sampat. The purpose of the Nominating and Corporate Governance Committee is to identify individuals qualified to become Board members; recommend to the Board individuals to serve as directors; advise the Board with respect to Board composition, procedures and committees; develop, recommend to the Board and annually review a set of corporate governance principles applicable to the Company; and oversee any related matters required by the federal securities laws.

Item 11. EXECUTIVE COMPENSATION.

Executive Compensation

Set forth below is information regarding the all compensation paid or earned by (i) our principal executive officer and (ii) our two most highly compensated executive officers other than our principal executive officer who were serving as executive officers at the end of fiscal 2014. Such officers are collectively referred to as our "named executive officers."

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($) (1)	All Other Compensation ($) (2)	Total ($)
Frank R. Oakes,	2014	$ 222,273	$ 180,000		$ 21,435	$ 423,708
President, Chief Executive	2013	33,280(3)			19,602	52,882
Officer and Chairman of our Board of Directors						
Kathi Niffenegger,	2014	175,000		162,891	15,080	352,971
Chief Financial Officer and	2013	137,500		55,201	10,957	203,658
Corporate Secretary (4)						
Herbert S. Chow, Ph.D.,	2014	178,333		162,891	18,089	359,313
Chief Technology Officer	2013	155,833		74,864	13,232	243,929

(1) Represents the aggregate grant date fair value of the stock option award granted in the covered fiscal year as computed in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The fair value of each stock option award is estimated for the covered fiscal year on the date of grant using the Black-Scholes option valuation model. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 8 to our audited consolidated financial statements for the year ended August 31, 2014 included in this Annual Report.

(2) Includes contributions made by us on the executive's behalf to our Company's 401(k) plan. Under the plan, we contribute a flat non-elective contribution of 3% of eligible compensation for each plan participant at the end of each fiscal year.

(3) Frank Oakes voluntarily reduced his annual base salary to $33,280 for fiscal 2013.

(4) Ms. Niffenegger was appointed our Chief Financial Officer effective November 1, 2013. Prior to then, she served as our Controller. Ms. Niffenegger was appointed Corporate Secretary in July 2013.

Employment Agreements

We do not have employment agreements currently in effect with any of our named executive officers. Like our other employees, our executives are eligible for annual salary increases and discretionary equity grants.

Performance Share Plan

Under the merger agreement between our Company and our California subsidiary, we allotted 10,000,000 common shares (the "Performance Shares") under a performance share plan (the "Plan"). The purpose of the Plan was to encourage the development of our products and business by distributing shares to key management, employees, and consultants upon the meeting of certain milestones. These milestones were set 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 was met as determined by our Board of Directors, one-third of the Performance Shares were available to be released to the Plan members. In January 2011, it was determined that Milestone No. 3 was successfully completed and the Board authorized the issuance of an aggregate of 3,333,335 Performance Shares to all participants in the Plan. In August 2012, the Board of Directors determined that Milestones No. 1 and 2 had been met and authorized the issuance of an aggregate of 1,313,130 Performance Shares to the non-director participants in the Plan. The Board did not take any action at that time on the issuance of shares to the participants of the Plan who were also directors of the Company. No action was taken regarding the Plan in fiscal 2013. In December 2013, we issued 1,515,152 common shares to a former director of the Company named as an eligible participant in the Plan.

Mr. Oakes, our Chief Executive Officer and Chairman of the Board, and Dr. Morse, our director, are eligible participants in the Plan. 2,356,902 and 1,346,801 shares, respectively, are reserved for future issuance to Mr. Oakes and Dr. Morse under the Plan. No other named executive officer is eligible to participate in the Plan.

Outstanding Equity Awards at 2014 Fiscal Year-End

The following table summarizes the equity awards made to our named executive officers that were outstanding at August 31, 2014.

	Option Awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable (1)	Option exercise price ($)	Option expiration date
Frank R. Oakes	1,035,000	-	CDN$ 0.28	04/09/17
	425,600	-	CDN$ 0.65	08/08/18
	375,600	-	CDN$ 0.42	04/13/19
Kathi Niffenegger	90,000	-	CDN$ 0.29	06/18/19
	50,000	-	CDN$ 0.25	12/19/19
	60,000	30,000	CDN$ 0.58	05/14/20
	33,333	66,667	US$ 1.83	11/01/20
Herbert S. Chow, Ph.D.	55,000	-	CDN$ 0.25	05/17/17
	75,000	-	CDN$ 0.65	08/08/18
	75,000	-	CDN$ 0.42	04/13/19
	75,000	-	CDN$ 0.37	08/09/19
	57,500	-	CDN$ 0.25	12/19/19
	66,667	33,333	CDN$ 0.58	05/23/20
	33,333	66,667	US$ 1.83	11/01/20

(1) Options granted to the named executive officers are subject to the following vesting schedule: (a) one-third of the option shall vest on the date of grant; (b) one-third of the option shall vest 12 months from the date of grant; and (c) the remaining one-third of the option shall vest 18 months from the date of grant.

Retirement Benefits

We have established a 401(k) plan to provide retirement benefits to eligible executive officers and employees. Employees may enter the plan after they have been employed by us for at least three consecutive months. Under the plan, we contribute a flat non-elective contribution of 3% of eligible compensation for each plan participant at the end of the fiscal year. Any Company contributions we made to the plan for our named executive officers are reflected in the "All Other Compensation" column of the Summary Compensation Table above.

Other than the funds contributed under our 401(k) plan, no other funds were set aside or accrued by us during fiscal 2014 to provide pension, retirement or similar benefits for our named executive officers.

Director Compensation

The following table sets forth information regarding the compensation of our non-employee directors for the fiscal year ended August 31, 2014.

Name	Fees earned or paid in cash ($)	Option awards ($) (1) (2) (3)	Total ($)
Gregory T. Baxter, Ph.D.	4,700	-	4,700
Tessie M. Che, Ph.D.	2,350	114,024 (4)	116,374
David L. Hill, Ph.D.	4,750	40,723 (5)	45,473
Daniel E. Morse, Ph.D.	3,350	-	3,350
Mayank D. Sampat	5,750	-	5,750

(1) Represents the aggregate grant date fair value of the stock option award granted in the covered fiscal year as computed in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The fair value of each stock option award is estimated for the covered fiscal year on the date of grant using the Black-Scholes option valuation model. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 8 to our audited consolidated financial statements for the year ended August 31, 2014 included in this Annual Report.

(2) The aggregate number of option awards outstanding at August 31, 2014 held by each non-employee director is as follows:

Name	**Outstanding Options (#)**
Gregory T. Baxter, Ph.D.	70,000
Tessie M. Che, Ph.D.	70,000
David L. Hill, Ph.D.	75,000
Daniel E. Morse, Ph.D.	521,000
Mayank D. Sampat	70,000

(3) Options granted to directors are subject to the following vesting schedule: (a) one-third of the option shall vest on the date of grant; (b) one-third of the option shall vest 12 months from the date of grant; and (c) the remaining one-third of the option shall vest 18 months from the date of grant.

(4) On November 1, 2013, Dr. Che was awarded an option to purchase up to 70,000 of our common shares. The option expires on November 1, 2020 and has an exercise price of $1.83.

(5) On November 1, 2013, Dr. Hill was awarded an option to purchase up to 25,000 of our common shares. The option expires on November 1, 2020 and has an exercise price of $1.83.

Narrative to Director Compensation Table

Non-Employee Director Compensation Policy

Pursuant to our non-employee director compensation policy, non-employee directors receive $1,000 for each Board meeting attended in person and $350 for each Board meeting attended by telephone. Members of Board committees also receive $350 for each committee meeting attended. Non-executive directors may also receive stock option awards at the discretion of the Board of Directors.

Non-Employee Directors on our Scientific Advisory Board

Dr. Morse and Dr. Baxter are members of our Scientific Advisory Board. As compensation for their services, the members of our Scientific Advisory Board receive certain advisory fees and expense reimbursements. During fiscal 2014, we paid an aggregate of $600 to Dr. Baxter for his services as a member of our Scientific Advisory Board and such amount is not reflected in the Director Compensation table above.

Consulting with Dr. Baxter

During fiscal 2014, we paid Dr. Baxter an aggregate of $600 for his services for our Scientific Advisory Board.

Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee during the fiscal year ended August 31, 2013 were Gregory Baxter, David Hill, Daniel Morse and Mayank Sampat. The Compensation Committee was reconstituted in June 2014 and is currently composed of Gregory Baxter, David Hill (chairman), and Mayank Sampat.

None of the individuals who served as a member of the Compensation Committee during fiscal 2014 was at any time during fiscal 2014 an officer or employee of our Company. Dr. Morse served as our Executive Vice-President, Science & Technology from 2010 until December 2011.

None of our executive officers currently serves, or in fiscal 2014 served, as a member of the compensation committee or director of any entity that has one or more executive officers serving as a member of our Board of Directors or on our Compensation Committee.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Equity Compensation Plan Information

The following table provides certain information as of August 31, 2014 about our common shares that may be issued under our equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	5,935,533	CDN$ 0.61	3,471,966
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	5,935,533		3,471,966

Security Ownership of Certain Beneficial Owners and Management

The following tables sets forth certain information as of November 1, 2014, with respect to the beneficial ownership of our common shares by: (1) all of our directors; (2) our named executive officers listed in the Summary Compensation Table; (3) all of directors and executive officers as a group; and (4) each person known by us to beneficially own more than 5% of our outstanding common shares.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all common shares that they beneficially own, subject to applicable community property laws.

Common shares subject to options or warrants currently exercisable or exercisable within 60 days of November 1, 2014 are deemed outstanding for computing the share ownership and percentage of the person holding such options and warrants, but are not deemed outstanding for computing the percentage of any other person. The percentage ownership of our common shares of each person or entity named in the following table is based on 79,121,650 common shares outstanding as of November 1, 2014.

Directors and Officers

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percentage of Shares Beneficially Owned
Frank R. Oakes	5,343,846 (2)	6.6%
Kathi Niffenegger	296,667 (3)	*
Herbert S. Chow, Ph.D.	1,104,334 (4)	1.4%
Gregory T. Baxter, Ph.D.	70,000 (5)	*
Tessie M. Che, Ph.D.	46,667 (6)	*
David L. Hill, Ph.D.	86,667 (7)	*
Daniel E. Morse, Ph.D.	1,486,094 (8)	1.9%
Mayank D. Sampat	70,000 (9)	*
All directors and executive officers as a group (10 persons)	9,134,789 (10)	11.0%

* Percentage of shares beneficially owned does not exceed one percent.

(1) Unless otherwise indicated, the address of each beneficial owner is c/o Stellar Biotechnologies, Inc., 332 E. Scott Street, Port Hueneme, California 93041.

(2) This amount includes (i) 1,836,200 shares issuable upon the exercise of options and (ii) 40,000 shares issuable upon the exercise of warrants, each as currently exercisable or exercisable within 60 days of November 1, 2014; and excludes (iii) 464,273 common shares and 50,000 common shares issuable upon the exercise of outstanding options which are held by Mr. Oakes' spouse who has sole voting and dispositive power over the securities, and as to which Mr. Oakes disclaims beneficial ownership. Mr. Oakes does not have the power to vote or dispose of, or to direct the voting or disposition of, the shares held by his spouse, or with respect to any shares acquired under her outstanding options.

(3) Represents 296,667 shares issuable upon the exercise of options currently exercisable or exercisable within 60 days of November 1, 2014.

(4) This amount includes (i) 504,167 shares issuable upon the exercise of options and (ii) 38,400 shares issuable upon the exercise warrants, each as currently exercisable or exercisable within 60 days of November 1, 2014.

(5) Represents 70,000 shares issuable upon the exercise of options currently exercisable or exercisable within 60 days of November 1, 2014.

(6) Represents 46,667 shares issuable upon the exercise of options currently exercisable or exercisable within 60 days of November 1, 2014.

(7) This amount includes 66,667 shares issuable upon the exercise of options currently exercisable or exercisable within 60 days of November 1, 2014.

(8) This amount includes 521,000 shares issuable upon the exercise of options currently exercisable or exercisable within 60 days of November 1, 2014.

(9) Represents 70,000 shares issuable upon the exercise of options currently exercisable or exercisable within 60 days of November 1, 2014.

(10) This amount includes (i) 3,887,202 shares issuable upon the exercise of options and (ii) 78,400 shares issuable upon the exercise of warrants, currently exercisable or exercisable within 60 days of November 1, 2014.

Shareholders Known by Us to Own 5% or More of Our Common Shares

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares Beneficially Owned
Ernesto Echavarria (1)	15,220,266(2)	18.26%
Amaran Biotechnology Inc. (3)	7,142,858(4)	8.76%
Frank R. Oakes	5,343,846(5)	6.60%

(1) The address of Mr. Echavarria is Blvd. Anaya, 1225 Culiacan Sinaloa, Mexico 80040.

(2) Of the amount reported, 4,253,333 common shares represent common shares to be acquired upon exercise of warrants.

(3) The address of Amaran Biotechnology Inc. is 11F-1, No. 308, Sec. 2, BaDe Road, ZhongShan District, Taipei City, 10492, Taiwan (R.O.C.).

(4) This amount includes 2,380,953 common shares underlying warrants.

(5) This amount includes (i) 1,836,200 shares issuable upon the exercise of options and (ii) 40,000 shares issuable upon the exercise of warrants, each as currently exercisable or exercisable within 60 days of November 1, 2014; and excludes (iii) 464,273 common shares and 50,000 common shares issuable upon the exercise of outstanding options which are held by Mr. Oakes' spouse who has sole voting and dispositive power over the securities, and as to which Mr. Oakes disclaims beneficial ownership. Mr. Oakes does not have the power to vote or dispose of, or to direct the voting or disposition of, the shares held by his spouse, or with respect to any shares acquired under her outstanding options.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Related Party Transactions

Patent Royalty Agreement

On August 14, 2002, through our California subsidiary, we entered into an agreement with Frank Oakes, our Chief Executive Officer, where he would receive royalty payments in exchange for the assignment of his rights to U.S. Patent No. 6,852,338 to us. The royalty is 5% of gross receipts from products using this invention in excess of $500,000 annually. Our current operations utilize this invention. There were no royalties paid to Mr. Oakes for the year ended August 31, 2014.

Amaran Biotechnology, Inc.

In September 2013, we completed a private placement financing, raising total gross proceeds of $12,000,000 (the "Private Placement"). In connection with the Private Placement, we issued a total of 11,428,570 units. Each unit consisted of one common share and one half of a share purchase warrant, with each whole warrant exercisable into one additional common share at a price of $1.35 for a period of three years from the issuance date of the warrants. The Private Placement included a $5,000,000 investment by Amaran Biotechnology, Inc., a privately-held Taiwan biopharmaceuticals manufacturer. As a result of the Private Placement, we appointed Tessie Che, General Manager and Chair of the Board of Directors of Amaran Biotechnology, to our Board. Following the Private Placement, Amaran Biotechnology holds 8.8% of our common shares.

In December 2013, we entered into a collaboration agreement with Amaran Biotechnology. Under the terms of the agreement, we are responsible for the production and delivery of GMP grade KLH for evaluation as a potential carrier molecule in the OBI-822 active immunotherapy. We are also responsible for method development, product formulation, and process qualification for certain KLH reference standards. Amaran is responsible for development objectives and product specifications. The agreement also provides for Amaran to pay us fees for certain expenses and costs associated with the collaboration. Subject to certain conditions and timing, the terms of the collaboration also provide for the possible negotiation of a commercial supply agreement for Stellar KLH™ in the future. However, there can be no assurance that any such negotiations will lead to successful execution of any further agreements related to this collaboration.

Policies and Procedures for Review of Related Party Transactions

The Audit Committee reviews, approves and oversees any transaction between us and any "related person" (as defined in Item 404 of Regulation S-K) and any other potential conflict of interest situations, on an ongoing basis. Under these policies and procedures, the Audit Committee is to be informed of transactions subject to review before their implementation. The procedures establish our practices for obtaining and reporting information to the Audit Committee regarding such transactions on a periodic and an as-needed basis. The policy provides that such transactions are to be submitted for approval before they are initiated but also provides for ratification of such transactions. No director who is interested in a transaction may participate in the Audit Committee's determinations as to the appropriateness of such transaction.

Director Independence

We are not currently listed on any national securities exchange or quoted on an inter-dealer quotation system that has a requirement that our Board of Directors be independent. However, in evaluating the independence of our Board members and the composition of the committees of our Board of Directors, the Board of Directors utilizes the definition of "independence" as that term is defined by the Securities Exchange Act of 1934, the Nasdaq Listing Rules, and the rules and regulations of the TSX Venture Exchange. Using this standard, the Board of Directors has determined that Gregory Baxter, David Hill, and Mayank Sampat are "independent directors."

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following table shows the aggregate fees paid or accrued for audit and other services provided for the years ended August 31, 2014 and 2013 rendered by Moss Adams LLP and D&H Group LLP, respectively. Effective June 3, 2014, we dismissed D&H Group LLP, Chartered Accountants as our principal independent registered public accounting firm. That same date, we engaged Moss Adams LLP, Certified Public Accountants as our principal independent registered public accounting firm.

Principal Accountant Fees and Services

Type of Service	Fiscal Year 2014	Fiscal Year 2013
Audit Fees	$ 88,000	CDN$ 44,952
Audit-Related Fees	-	-
Tax Fees	-	4,342
All Other Fees	-	2,893
Total	$ 88,000	CDN$ 52,187

Audit Fees consisted of fees incurred for professional services rendered for audits of the years ended August 31, 2014 and 2013.

Tax Fees for fiscal year 2013 were related to preparation of Canadian corporate tax returns.

All Other Fees for fiscal year 2013 were related to consents and comments provided for our Annual Report on Form 20-F.

Pre-Approval Policies and Procedures

The Audit Committee is directly responsible for the appointment, compensation and oversight of our auditors. It has established procedures for the receipt, retention, and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. The Audit Committee also has the authority and the funding to engage independent counsel and other outside advisors.

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and rules issued by the Securities and Exchange Commission, our Audit Committee Charter includes a procedure for the review and pre-approval of all audit and permitted non-audit and tax services, subject to the de minimis exception for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, the Commission rules promulgated thereunder, and under the rules of the TSX-V, that may be provided by our independent auditor or other registered public accounting firms. The procedure requires that all proposed engagements of the auditor for audit and permitted non-audit services are submitted to the Audit Committee for approval prior to the beginning of any such services. The Audit Committee pre-approved 100% of the audit, audit-related and tax services performed by our independent registered public accounting firm for the fiscal year ended August 31, 2014.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as a part of this Annual Report:

(1) Financial Statements

The list of consolidated financial statements and notes required by this Item 15 (a) (1) is set forth in the “Index to Financial Statements” on page F-1 of this Annual Report.

(2) Financial Statement Schedules

All schedules have been omitted because the required information is included in the financial statements or notes thereto.

(b) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as part of this Annual Report.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company, dated June 12, 2007 (included as Exhibit 1(a) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
3.2	Certificate of Amendment, dated April 15, 2008 (included as Exhibit 1(b) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
3.3	Certificate of Continuation of the Company, dated November 25, 2009 (included as Exhibit 1(c) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
3.4	Certificate of Name Change of the Company, dated April 7, 2010 (included as Exhibit 1(f) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
3.5	Notice of Articles of the Company, dated April 7, 2010 (included as Exhibit 1(g) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
3.6	Articles of the Company, effective November 20, 2009 (included as Exhibit 1(h) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.1	Patent Assignment Agreement between the Company and Frank Oakes, dated August 14, 2002 (included as Exhibit 4(a) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.2	Sublease Agreement between the Company and the Port Hueneme Surplus Property Authority, dated October 2, 2000 (included as Exhibit 4(j) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.3	Sublease Agreement between the Company and the Port Hueneme Surplus Property Authority, dated March 21, 2005 (included as Exhibit 4(k) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.4	Lease Agreement between the Company and Beachport Center, dated March 29, 2011(included as Exhibit 4(l) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.5	Supply Agreement between the Company and Neovacs S.A. for subunit KLH, effective January 1, 2008 (included as Exhibit 4(14) to the Company's Amendment No. 2 to its Registration Statement on Form 20-F filed on July 5, 2012, and incorporated herein by reference).
10.6	Supply Agreement between the Company and Neovacs S.A. for KLH raw material, effective January 1, 2008 (included as Exhibit 4(15) to the Company's Amendment No. 2 to its Registration Statement on Form 20-F filed on July 5, 2012, and incorporated herein by reference).
10.7	Research Collaboration Agreement between the Company and Bayer Innovation GmbH, dated August 27, 2009 (included as Exhibit 4(16) to the Company's Amendment No. 2 to its Registration Statement on Form 20-F filed on July 5, 2012, and incorporated herein by reference).
10.8	Agreement between the Company and Life Diagnostics, effective October 18, 2011 (included as Exhibit 4(18) to the Company's Amendment No. 2 to its Registration Statement on Form 20-F filed on July 5, 2012, and incorporated herein by reference).

10.9 #	License Agreement between the Company and University of Guelph, dated July 24, 2013 (included as Exhibit 99.1 to the Company's Report on Form 6-K filed on August 30, 2013, and incorporated herein by reference).
10.10	Share Option Plan, as Amended, dated December 13, 2011 (included as Exhibit 10(b) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.11	Fixed Share Option Plan dated December 18, 2013 (filed herewith).
10.12	Shareholder's Rights Plan, As Amended, dated January 9, 2014 (filed herewith).
10.13@	Performance Share Plan dated April 9, 2010 (included as Exhibit 10(d) to the Company's Registration Statement on Form 20-F filed on February 3, 2012, and incorporated herein by reference).
10.14	Advance Notice Policy, adopted October 31, 2013 (filed herewith).
10.15	Amendment One to Lease Agreement between the Company and Beachport Center, dated June 24, 2014 (filed herewith).
10.16	Sublease Amendment No. 2 to Sublease Agreement between the Company and the Port Hueneme Surplus Property Authority, dated October 2, 2000 (filed herewith).
10.17	Sublease Amendment No. 1 to Sublease Agreement between the Company and the Port Hueneme Surplus Property Authority, dated March 21, 2005 (filed herewith).
14.1	Code of Ethics and Business Conduct (included as Exhibit 99.4 to the Company's Report on Form 6-K filed on August 14, 2014, and incorporated herein by reference).
21	Subsidiaries of Stellar Biotechnologies, Inc. (filed herewith).
31.1^	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2^	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1^	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2^	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Label Linkbase Document.
101.PRE+	XBRL Taxonomy Presentation Linkbase Document.

@	Management contract or compensatory plan or arrangement.
#	Confidential treatment has been granted for certain portions of this exhibit. Original copies have been filed separately with the Securities and Exchange Commission pursuant to Rule 24B-2 of the Securities Exchange Act of 1934, as amended.
^	A signed original of this written statement required by Section 906 has been provided and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
+	IN ACCORDANCE WITH THE TEMPORARY HARDSHIP EXEMPTION PROVIDED BY RULE 201 OF REGULATION S-T, THE DATE BY WHICH THE INTERACTIVE DATA FILE IS REQUIRED TO BE SUBMITTED HAS BEEN EXTENTED BY SIX BUSINESS DAYS.

SIGNATURES

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

Date: November 14, 2014

STELLAR BIOTECHNOLOGIES, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Frank R. Oakes **Frank R. Oakes**	President, Chief Executive Officer, and Chairman of the Board of Directors (Principal Executive Officer)	November 14, 2014
/s/ Kathi Niffenegger **Kathi Niffenegger**	Chief Financial Officer (Principal Financial Officer)	November 14, 2014
/s/ Gregory T. Baxter **Gregory T. Baxter**	Director	November 14, 2014
/s/ Tessie M. Che **Tessie M. Che**	Director	November 14, 2014
/s/ David L. Hill **David L. Hill**	Director	November 14, 2014
/s/ Daniel E. Morse **Daniel E. Morse**	Director	November 14, 2014
/s/ Mayank D. Sampat **Mayank D. Sampat**	Director	November 14, 2014

STELLAR BIOTECHNOLOGIES, INC.
INDEX TO FINANCIAL STATEMENTS

Consolidated Financial Statements
For the Years Ended August 31, 2014, 2013 and 2012

(In U.S. Dollars)

AUDITORS' REPORT 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Stellar Biotechnologies, Inc.

We have audited the accompanying consolidated balance sheet of Stellar Biotechnologies, Inc. as of August 31, 2014, and the related consolidated statements of operations, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stellar Biotechnologies, Inc. as of August 31, 2014, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Los Angeles, California
November 14, 2014

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 sheet as at August 31, 2013, and the consolidated statements of operations, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended August 31, 2013 and August 31, 2012 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 generally accepted accounting principles accepted in the United States of America 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 audit 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 in our audits 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, 2013, and its financial performance and its cash flows for the years ended August 31, 2013 and August 31, 2012 in accordance with generally accepted accounting principles accepted in the United States of America.

Vancouver, B.C.
November 14, 2014

"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
Member of BHD™ an Association of Independent Accounting Firms Located Across Canada and Internationally

Stellar Biotechnologies, Inc.
Consolidated Balance Sheets
(Expressed in U.S. Dollars)

	August 31, 2014	August 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	**$ 13,427,404**	$ 7,859,889
Accounts receivable	**56,575**	177,720
Short-term investments	**458,098**	-
Deferred financing costs	**-**	62,027
Prepaid expenses	**128,593**	34,886
Total current assets	**14,070,670**	8,134,522
Noncurrent assets:		
Property, plant and equipment, net	**387,392**	246,269
Licensing rights	**-**	116,667
Deposits	**15,900**	15,900
Total noncurrent assets	**403,292**	378,836
Total Assets	**$ 14,473,962**	$ 8,513,358
Liabilities and Shareholders' Equity (Deficit):		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 526,626**	$ 419,413
Deferred revenue	**15,000**	-
Warrant liability, current portion	**879,040**	3,454,745
Total current liabilities	**1,420,666**	3,874,158
Long-term liabilities:		
Warrant liability, less current portion	**5,352,663**	6,835,199
Total Liabilities	**6,773,329**	10,709,357
Commitments *(Note 7)*		
Shareholders' equity (deficit):		
Common shares, unlimited common shares authorized, no par value, 78,268,850 and 57,946,160 issued and outstanding at August 31, 2014 and 2013, respectively	**36,240,838**	13,180,677
Shares subscribed	**-**	5,155,674
Accumulated share-based compensation	**5,079,985**	4,648,317
Accumulated deficit	**(33,620,190)**	(25,180,667)
Total shareholders' equity (deficit)	**7,700,633**	(2,195,999)
Total Liabilities and Shareholders' Equity (Deficit)	**$ 14,473,962**	$ 8,513,358

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

Stellar Biotechnologies, Inc.
Consolidated Statements of Operations
(Expressed in U.S. Dollars)

	Year Ended		
	August 31, 2014	August 31, 2013	August 31, 2012
Revenues:			
Contract services revenue	**$ 192,000**	$ 60,000	$ 60,000
Product sales	**143,553**	76,055	131,825
Grant revenue	**36,579**	409,414	94,229
	372,132	545,469	286,054
Expenses:			
Costs of contract services	**60,734**	11,525	15,572
Costs of production and aquaculture	**662,946**	183,276	426,310
Grant costs	**36,579**	409,414	94,043
Research and development	**2,458,934**	2,018,554	2,634,119
General and administration	**2,871,455**	1,770,619	3,662,009
	6,090,648	4,393,388	6,832,053
Other Income (Loss)			
Loss recovery	**-**	-	105,000
Foreign exchange gain (loss)	**(222,437)**	(95,842)	10,091
Change in fair value of warrant liability	**(2,533,305)**	(10,556,208)	897,549
Investment income	**61,935**	4,990	4,881
	(2,693,807)	(10,647,060)	1,017,521
Loss Before Income Tax	**(8,412,323)**	(14,494,979)	(5,528,478)
Income tax expense	**27,200**	800	800
Net Loss	**$ (8,439,523)**	$ (14,495,779)	$ (5,529,278)
Loss per common share - basic and diluted	**$ (0.11)**	$ (0.28)	$ (0.13)
Weighted average number of common shares outstanding	75,826,642	51,611,944	43,775,766

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

Stellar Biotechnologies, Inc.
Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)

	Year Ended		
	August 31, 2014	August 31, 2013	August 31, 2012
Cash Flows Used In Operating Activities:			
Net loss	**$ (8,439,523)**	$ (14,495,779)	$ (5,529,278)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	**158,313**	124,833	112,144
Share-based compensation	**956,634**	786,585	1,923,200
Foreign exchange (gain) loss	**222,437**	95,842	(10,091)
Change in fair value of warrant liability	**2,533,305**	10,556,208	(897,549)
Loss on disposal of property, plant and equipment	**3,670**	-	-
Impairment loss	**90,476**	-	-
Fair value of shares issued for research license	-	491,408	-
			-
Changes in working capital items:			
Accounts receivable	**121,075**	(192,067)	29,740
Deferred financing costs	**60,656**	(62,027)	-
Prepaid expenses	**(94,974)**	(2,658)	4,376
Accounts payable and accrued liabilities	**106,224**	29,309	292,167
Deferred revenue	**15,000**	(127,477)	127,477
Net cash used in operating activities	**(4,266,707)**	(2,795,823)	(3,947,814)
Cash Flows Used In Investing Activities:			
Acquisition of property, plant and equipment	**(279,065)**	(9,541)	(78,338)
Proceeds on sale of property, plant and equipment	**2,150**	-	-
Purchase of short-term investments	**(464,500)**	-	-
Net cash used in investing activities	**(741,415)**	(9,541)	(78,338)
Cash Flows From Financing Activities:			
Proceeds from exercise of warrants and options	**4,308,878**	1,582,739	877,210
Proceeds from issuance of common stock, net	**6,479,097**	8,146,487	-
Refund of deposit	-	1,600	-
		-	
Net cash provided by financing activities	**10,787,975**	9,730,826	877,210
Effect of exchange rate changes on cash and cash equivalents	**(212,338)**	(64,571)	2,448
Net change in cash and cash equivalents	**5,567,515**	6,860,891	(3,146,494)
Cash and cash equivalents - beginning of year	**7,859,889**	998,998	4,145,492
Cash and cash equivalents - end of year	**$ 13,427,404**	$ 7,859,889	$ 998,998

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

Stellar Biotechnologies, Inc.
Consolidated Statements of Changes in Equity
(Expressed in U.S. Dollars)

	Shares	Common Shares	Shares Subscribed	Accumulated Share-Based Compensation	Accumulated Deficit	Total Shareholders' Equity
Balance - August 31, 2011	41,611,831	$ 6,541,810	$ -	$ 2,054,399	$ (5,155,610)	$ 3,440,599
Performance shares to be issued	-	-	-	1,209,000	-	1,209,000
Issuance of performance shares	1,313,130	366,363	-	(366,363)	-	-
Proceeds from exercise of warrants	2,318,600	830,716	-	-	-	830,716
Transfer to common stock on exercise of warrants	-	190,425	-	-	-	190,425
Proceeds from exercise of options	170,000	46,494	-	-	-	46,494
Transfer to common stock on exercise of options	-	41,087	-	(41,087)	-	-
Share-based compensation	-	-	-	714,200	-	714,200
Net loss	-	-	-	-	(5,529,278)	(5,529,278)
Balance - August 31, 2012	45,413,561	$ 8,016,895	$ -	$ 3,570,149	$ (10,684,888)	$ 902,156
Proceeds of private placements	9,258,400	3,115,875	-	-	-	3,115,875
Issuance costs of private placements including fair value of broker units	-	(275,956)	-	150,894	-	(125,062)
Fair value of warrants issued in private placements	-	(1,749,004)	-	-	-	(1,749,004)
Proceeds from exercise of warrants	2,738,000	1,510,336	-	-	-	1,510,336
Transfer to common stock on exercise of warrants	-	2,139,409	-	-	-	2,139,409
Proceeds from exercise of options	164,999	72,403	-	-	-	72,403
Transfer to common stock on exercise of options	-	54,325	-	(54,325)	-	-
Share-based compensation	-	-	-	786,585	-	786,585
Shares issued to acquire license	371,200	491,408	-	-	-	491,408
Fair value of warrants issued to acquire license	-	(195,014)	-	195,014	-	-
Subscriptions received for private placement and warrants	-	-	5,155,674	-	-	5,155,674
Net loss	-	-	-	-	(14,495,779)	(14,495,779)
Balance - August 31, 2013	57,946,160	$ 13,180,677	$ 5,155,674	$ 4,648,317	$ (25,180,667)	$ (2,195,999)
Proceeds of private placements	11,428,570	12,000,000	(5,000,000)	-	-	7,000,000
Issuance costs of private placements including fair value of broker warrants	-	(907,801)	-	386,898	-	(520,903)
Issuance of performance shares	1,515,152	422,728	-	(422,728)	-	-
Proceeds from exercise of warrants	5,937,300	3,920,134	(155,674)	-	-	3,764,460
Transfer to common stock on exercise of warrants	-	6,591,546	-	-	-	6,591,546
Proceeds from exercise of options	1,441,668	544,418	-	-	-	544,418
Transfer to common stock on exercise of options	-	489,136	-	(489,136)	-	-
Share-based compensation	-	-	-	956,634	-	956,634
Net loss	-	-	-	-	(8,439,523)	(8,439,523)
Balance - August 31, 2014	78,268,850	$ 36,240,838	$ -	$ 5,079,985	$ (33,620,190)	$ 7,700,633

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

1. Nature of Operations and Going Concern

Stellar Biotechnologies, Inc. ("the Company") is listed on the U.S. OTCQB Marketplace Exchange under the trading symbol, "SBOTF" and on the TSX Venture Exchange as a Tier 2 issuer under the trading symbol, "KLH."

On April 7, 2010, the Company changed its name from CAG Capital, Inc. to Stellar Biotechnologies, Inc. On April 12, 2010, the Company completed a reverse merger transaction with Stellar Biotechnologies, Inc. a California corporation, which was founded in September 1999, and remains the Company's wholly-owned subsidiary and principal operating entity. The Company's executive offices are located at 332 E. Scott Street, Port Hueneme, California, 93041, USA, and the registered and records office is Royal Centre, 1055 West Georgia Street, Suite 1500, Vancouver, BC, V6E 4N7, Canada.

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

For the years ended August 31, 2014, 2013 and 2012, the Company reported net losses of approximately $8.4 million, $14.5 million, and $5.5 million, respectively. As of August 31, 2014, the Company had an accumulated deficit of approximately $33.6 million and working capital of approximately $12.7 million.

In the past, operations of the Company have primarily been funded by the issuance of common shares, exercise of warrants, grant revenues, contract services revenue, and product sales. In September 2013, the Company closed a private placement with gross proceeds of $12,000,000. Management believes these financial resources are adequate to support the Company's initiatives at the current level for the foreseeable future. Management is also continuing the ongoing effort toward expanding the customer base for existing marketed products, and the Company may seek additional financing alternatives, including nondilutive financing through grants, collaboration and licensing arrangements, and additional equity financing.

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

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

2. Basis of Presentation

The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its wholly-owned subsidiary, Stellar Biotechnologies, Inc. Intercompany balances and transactions are eliminated on consolidation.

3. Significant Accounting Policies

a) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. These estimates include warrant liability, share-based compensation, intangible assets, valuation of accounts receivable, and income taxes. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which by their nature are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

b) Cash and Cash Equivalents

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

c) Investments

Investments include Canadian enhanced yield deposits with original maturity of 180 days. Investments are classified as held-to-maturity and are reported at amortized cost, which approximates fair value. The Company regularly reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is determined to be other than temporary, the cost basis of the investment is written down to fair value.

d) Allowance for Doubtful Accounts Receivable

The Company assesses the collectability of its accounts receivable through a review of its current aging, as well as an analysis of its historical collection rate, general economic conditions and credit status of its customers. As of August 31, 2014 and 2013, all outstanding accounts receivable were deemed to be fully collectible, and therefore, no allowance for doubtful accounts was recorded.

e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is recorded on the straight-line method over useful lives ranging from 5 to 10 years. Leasehold improvements are depreciated over the shorter of the useful life of the improvement or remaining term of lease. Maintenance and repairs are charged to operations as incurred.

f) Impairment of Long-Lived Assets

If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the amount of such impairment is measured by comparing the carrying value of the asset to the fair value of the asset and the Company records the impairment as a reduction in the carrying value of the related asset and a charge to operating results. Estimating the undiscounted future cash flows associated with long-lived assets requires judgment, and assumptions could differ materially from actual results. See Note 6 for impairment of licensing rights.

g) Fair Value of Financial Instruments

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

Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As of August 31, 2014 and 2013, the carrying value of certain financial instruments such as accounts receivable, accounts payable, accrued liabilities, and deferred revenue approximates fair value due to the short-term nature of such instruments.

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

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

The Company records its cash and cash equivalents at fair value using Level 1 inputs in the fair value hierarchy. The Company records its warrant liability at fair value using Level 2 input using the assumptions disclosed in Note 8.

h) Revenue Recognition

Contract services revenue
The Company recognizes contract services revenue when contract services have been performed and reasonable assurance exists regarding measurement and collectability. An appropriate amount will be recognized as revenue in the period that the Company is assured of fulfilling the contract requirements. Amounts received in advance of performance of contract services are recorded as deferred revenue.

Contract services include services performed under collaboration agreements and monthly maintenance of limpet colonies designated to meet the needs of the customer. The Company also has the right to use raw material produced from designated limpet colonies at no cost to the Company with prior written consent from the customer.

Product Sales

The Company recognizes product sales when KLH product is shipped (for which the risk is typically transferred upon delivery to the shipping carrier) and there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectability is reasonably assured. The Company documents arrangements with customers with purchase orders and sales agreements.

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

Grants

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 of earned revenue will be recognized as revenue in the period that the Company is assured of fulfilling the grant requirements.

i) Research and Development

Research and development costs are expensed as incurred.

j) Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and perform research and development activities. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction.

k) Share-Based Compensation

The Company grants options to buy common shares of the Company to its directors, officers, employees and consultants, and grants other equity-based instruments to non-employees.

The fair value of share-based compensation is measured on the date of grant, using the Black-Scholes option valuation model and is recognized over the vesting period net of estimated forfeitures for employees or the service period for non-employees. The Black-Scholes option valuation model requires the input of subjective assumptions, including price volatility of the underlying stock, risk-free interest rate, dividend yield, and expected life of the option.

l) Foreign Exchange

Items included in the financial statements of the Company's subsidiary are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent and its subsidiary is the U.S. dollar.

Transactions in currencies other than the U.S. dollar are recorded at exchange rates prevailing on the dates of the transactions.

m) Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

The Company periodically evaluates its tax positions to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities. The Company has not incurred any interest or penalties as of August 31, 2014 with respect to uncertain income tax matters. The Company does not expect that there will be unrecognized tax benefits of a significant nature that will increase or decrease within 12 months of the reporting date.

The Company files income tax returns in the U.S. federal, Canadian and state jurisdictions. Management believes that there are no material uncertain tax positions that would impact the accompanying consolidated financial statements. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in income tax expense. The Company may be subject to examination by the Internal Revenue Service for tax years 2010 through 2013 and by the Canada Revenue Agency for tax years 2010 through 2014. The Company may also be subject to examination on certain state and local jurisdictions for the tax years 2009 through 2013.

n) 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 computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. Conversion of outstanding warrants, broker units and options would have an antidilutive effect on loss per share for the years ended August 31, 2014, 2013 and 2012, and are therefore excluded from the computation of diluted loss per share.

o) Segments

The Company operates in one reportable segment and, accordingly, no segment disclosures have been presented. All equipment, leasehold improvements and other fixed assets owned by the Company are physically located within the United States, and all supply, collaboration and licensing agreements are denominated in U.S. dollars.

(Expressed in U.S. Dollars)

p) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 creates a new topic in the ASC Topic 606 and establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenue. In addition, ASU 2014-09 adds a new Subtopic to the Codification, ASC 340-40, *Other Assets and Deferred Costs: Contracts with Customers*, to provide guidance on costs related to obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer that are not in the scope of another ASC Topic. The guidance in ASU 2014-09 is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods therein. Early application is not permitted. Management is in the process of assessing the impact of ASU 2014-09 on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The guidance in ASU 2014-15 is effective for annual reporting periods beginning after December 15, 2016, with early application permitted. Management is in the process of assessing the impact of ASU 2014-15 on the Company's financial statements.

4. Accounts Receivable

Accounts receivable consisted of the following:

	August 31, 2014	August 31, 2013
Accounts receivable	$ 55,713	$ 17,648
Grants receivable	-	157,297
Other receivable	862	2,775
	$ 56,575	$ 177,720

(Expressed in U.S. Dollars)

5. Property, Plant and Equipment, net

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

	August 31, 2014	August 31, 2013
Aquaculture system	$ 58,923	$ 58,923
Laboratory facilities	62,033	62,033
Computer and office equipment	77,697	56,710
Tools and equipment	622,289	393,497
Vehicles	10,997	10,997
Leasehold improvements	61,187	59,107
	893,126	641,267
Less: accumulated depreciation	(505,734)	(394,998)
	$ 387,392	$ 246,269

Depreciation expense amounted to $132,122, $96,262 and $83,572 for the years ended August 31, 2014, 2013 and 2012, respectively.

(Expressed in U.S. Dollars)

6. Intangible Assets - Licensing Rights

In December 2010, the Company entered into a research collaboration agreement with a customer. When the agreement terminated according to its terms in August 2011, the Company acquired an exclusive, worldwide sub-licensable and royalty-free license for certain technology developed under collaboration with the customer. The Company paid a $200,000 license fee for the licensing rights, which are jointly owned by the Company and the customer. The licensing rights do not have a fixed term or termination provisions. The licensing rights are amortized over the estimated useful life of seven years and are shown net of accumulated amortization and impairment losses. During the year ended August 31, 2014, the Company discontinued its use of these licensing rights and recorded impairment loss for the remaining value of licensing rights. At August 31, 2013, the value of these licensing rights and related accumulated amortization were $200,000 and $83,333, respectively.

Amortization expense amounted to $26,191, $28,571 and $28,572 for the years ended August 31, 2014, 2013 and 2012, respectively. Impairment loss for the year ended August 31, 2014 totaled $90,476 and is included in general and administrative expenses in the accompanying financial statements.

7. Commitments

Operating leases

The Company leases three buildings and facilities used in its operations under sublease agreements with the Port Hueneme Surplus Property Authority. In September 2010, the Company exercised its option to extend these sublease agreements for an additional five-year term. The Company has an option to extend the lease for an additional five-year term.

The Company also leases facilities used for executive offices and laboratories. The Company must pay a portion of the common area maintenance. In July 2014, the Company exercised its option to extend this lease for a two-year term.

Future minimum lease payments are as follows:

For The Year Ending August 31,	**August 31, 2014**
2015	$ 157,000
2016	71,000
	$ 228,000

Rent expense on these lease agreements amounted to approximately $181,000, $178,000, and $171,000 for the years ended August 31, 2014, 2013 and 2012, respectively.

Purchase obligations

The Company has commitments totaling approximately $78,000 at August 31, 2014, for signed agreements with contract research organizations and consultants, which are scheduled to be paid in accordance with contract terms during the 2015 fiscal year.

Supply agreements

The Company has two commitments under certain supply agreements with customers for fixed prices per gram on a non-exclusive basis except within that customer's field of use. The agreements automatically renew each January unless terminated in writing by either party.

Licensing fees

In July 2013, the Company acquired the exclusive, worldwide license to certain patented technology for the development of human immunotherapies against *Clostridium difficile* infection ("C. diff"). The license agreement required an initial, non-refundable license fee of $25,000, which was paid in fiscal 2013, and payment of an aggregate of $200,000 in delayed license fees, which were paid in fiscal 2014. Beginning September 2014, the terms also require a license fee of $20,000 to be paid annually, creditable against royalties due, if any. Royalties are payable for a percentage of related net sales, if any. License fees are also payable for a percentage of related non-royalty sublicensing revenue, if any. No royalties have been paid to date. The Company also reimbursed patent filing costs of approximately $34,000 and $50,000 in fiscal 2014 and 2013, respectively, and will reimburse certain future patent filing, prosecution, and maintenance costs. License fees and patent cost reimbursements paid during the years ended August 31, 2014 and 2013, have been accounted for as research and development expense in the accompanying statements of operations.

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

Upon execution of the license agreement, the Company issued 371,200 common shares and warrants to purchase up to 278,400 of the Company's common shares to the licensor, as further described in Note 8. The warrants expire on January 23, 2015 and have an exercise price of C$1.25 per share.

The license agreement provides for the Company up to an aggregate of $6,020,000 in milestone payments to the licensor upon achievement of various financing and development targets up to the first regulatory approval. Remaining contingent milestone payments to the licensor totaling $57,025,000 are related to achievement of sales targets A financing milestone was met during the year ended August 31, 2014, and accordingly, the Company made a milestone payment of $100,000. No milestones were met during the year ended August 31, 2013, and there can be no assurance that any of the remaining milestones will be met in the future.

Retirement savings plan 401(k) contributions

The Company sponsors a 401(k) retirement savings plan that requires an annual non-elective safe harbor employer contribution of 3% of eligible employee wages. All employees over 21 years of age are eligible beginning the first payroll after 3 consecutive months of employment. Employees are 100% vested in employer contributions and in any voluntary employee contributions. Contributions to the 401(k) plan were approximately $52,000, $71,000 and $23,000 for the years ended August 31, 2014, 2013 and 2012, respectively.

Related party commitments

See Note 9.

8. Share Capital

Authorized: unlimited common shares without par value.

Private Placements During the Year Ended August 31, 2014:

The Company closed a private placement and issued 11,428,570 units for total gross proceeds of $12,000,000, completed in two closings. The private placement included a brokered portion sold to institutional and accredited investors totaling $5,000,000 (4,761,903 units) (the "brokered offering") and a non-brokered portion totaling $7,000,000 (6,666,667 units) (the "non-brokered offering"). The non-brokered offering included a $5,000,000 investment by a privately-held Taiwan biopharmaceuticals manufacturer. Each unit, sold for $1.05, consisted of (i) one share of the Company's common shares and (ii) one half of a share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one additional share of the Company's common shares at a purchase price of $1.35 for a period of three years from the issuance date of the Warrants. Subject to additional requirements imposed by the United States Securities Act of 1933, as amended requiring longer hold-periods on certain of the securities for resale by U.S. subscribers in the U.S. market and a lock-up agreement with certain holders of the securities, the securities issued in the initial closing (2,857,143 brokered offering units, 6,666,667 non-brokered offering units, and 200,000 broker warrants) were subject to a hold period that expired January 10, 2014 and the securities issued in the final closing (1,904,760 brokered offering units and 133,333 broker warrants) were subject to a hold period that expired January 21, 2014. The Company issued 333,333 broker warrants valued at $387,000 using the Black Scholes model and paid $521,000 cash share issuance costs in relation to the private placement.

Private Placements During the Year Ended August 31, 2013:

a) In October 2012, the Company issued 4,000,000 units at a price of CDN$0.25 per unit for total gross proceeds of $1,007,900 (CDN$1,000,000). Each unit consisted of one common share of the Company and one transferable share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of CDN$0.40 and is exercisable on or before October 25, 2015. The warrants were valued at $831,000. The Company issued 400,000 broker units valued at $91,000 and paid $50,000 of cash share issuance costs in relation to the private placement.

b) In January 2013, the Company issued 1,998,400 units at a price of CDN$0.25 per unit for total gross proceeds of $502,098 (CDN$499,600). Each unit consisted of one common share of the Company and one transferable share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of CDN$0.40 and is exercisable on or before January 4, 2016. The warrants were valued at $448,000. The Company issued 97,200 broker units valued at $24,000 and paid $24,000 of cash share issuance costs in relation to the private placement.

c) In April 2013, the Company issued 3,260,000 units at a price of CDN$0.50 per unit for total gross proceeds of $1,605,877 (CDN$1,630,000). Each unit consisted of one common share of the Company and one half of a transferable share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of CDN$0.75 and is exercisable on or before October 2, 2014. The warrants were valued at $470,000. The Company issued 102,000 broker units valued at $36,000 and paid $50,000 of cash share issuance costs in relation to the private placement.

Performance Shares

There were 10,000,000 common shares were allotted for officers, directors and employees of the Company based on meeting milestones related to completion of method development for commercial-scale manufacture of KLH, compilation and regulatory submittal of all required chemistry, manufacturing and control data and completion of preclinical toxicity and immunogenicity testing of products under a performance share plan (the "Performance Share Plan"). Share-based compensation was recorded over the estimated vesting period.

No amounts were recorded as share-based compensation during the years ended August 31, 2014 or 2013 since the performance shares had fully vested during the prior years. Share-based compensation expense for the year ended August 31, 2012 was $1,209,000.

During the year ended August 31, 2011, the Company determined that one of the three milestones set forth in the Performance Share Plan was successfully met and the Board authorized the issuance of an aggregate of 3,333,335 common shares of the Company to all participants in the Performance Share Plan. Accordingly, $930,000 was transferred from accumulated share-based compensation to common shares.

During the year ended August 31, 2012, the Company determined that it had successfully met the final two milestones set forth in the Performance Share Plan and issued an aggregate of 1,313,130 common shares of the Company to non-director participants in the Performance Share Plan. Accordingly, $366,363 was transferred from accumulated share-based compensation to common shares.

During the year ended August 31, 2014, the Company issued 1,515,152 common shares of the Company to a former director named in the Performance Share Plan. Accordingly, $422,728 was transferred from accumulated share-based compensation to common shares.

At August 31, 2014, there are 3,838,383 performance shares outstanding to be issued.

License Agreement

During the year ended August 31, 2013, the Company entered into a license agreement and issued 371,200 common shares and warrants to purchase up to 278,400 of the Company's common shares to the licensor. Each warrant entitles the holder to purchase one common share of the Company at a price of CDN$1.25 per share on or before January 23, 2015. The common shares were subject to a hold period that ended on November 25, 2013. The value of the shares and warrants were recorded as research and development expense.

Black-Scholes option valuation model

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

(Expressed in U.S. Dollars)

Warrants

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

	Number of Warrants	Weighted Average Exercise Price	
Balance - August 31, 2012	7,713,000	$ 1.02	CDN $
Granted	7,908,300	0.50	CDN $
Exercised	(2,735,000)	0.57	CDN $
Expired	(1,560,000)	0.53	CDN $
Balance - August 31, 2013	11,326,300	$ 0.57	CDN $
Granted	38,100	0.46	CDN $
Granted	6,047,612	1.33	
Exercised	(5,832,300)	0.68	CDN $
Exercised	(60,000)	1.35	
Balance - August 31, 2014	11,519,712	$ 0.97	CDN $

The weighted average contractual life remaining on the outstanding warrants at August 31, 2014 is 1.57 years.

The following table summarizes information about the warrants outstanding at August 31, 2014:

Exercise Price	Number of Warrants	Expiry Date	
CDN$0.75	975,300	October 2, 2014	
CDN$1.25	278,400	January 23, 2015	
CDN$0.40	4,000,000	October 25, 2015	
CDN$0.40	278,400	January 4, 2016	
$1.35	4,701,902	September 9, 2016	
$1.05	200,000	September 9, 2016	Broker warrants
$1.35	952,377	September 20, 2016	
$1.05	133,333	September 20, 2016	Broker warrants
	11,519,712		

Warrant Liability

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

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

The fair value of warrants exercised during the years ended August 31, 2014, 2013 and 2012 was determined using the Black-Scholes option valuation model, using the following weighted average assumptions:

	2014	2013	2012
Risk free interest rate	1.07%	1.23%	2.49%
Expected life (years)	0.27	1.17	0.11
Expected share price volitility	106%	111%	110%

There were no warrants granted during the year ended August 31, 2012. The fair value of warrants granted during the years ended August 31, 2014 and 2013 was determined using the Black-Scholes option valuation model, using the following weighted average assumptions at the date of the grant:

	2014	2013
Risk free interest rate	1.48%	1.18%
Expected life (years)	3.00	2.76
Expected share price volitility	112%	123%
Expected dividend yield	0%	0%

(Expressed in U.S. Dollars)

Broker units

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

A summary of broker units activity is as follows:

	Number of Units	Weighted Average Exercise Price	
Balance - August 31, 2012	345,600	$ 0.60	CDN $
Granted	599,200	0.29	CDN $
Exercised	(3,000)	0.50	CDN $
Expired	(345,600)	0.60	CDN $
Balance - August 31, 2013	596,200	$ 0.29	CDN $
Exercised	(45,000)	0.33	CDN $
Balance - August 31, 2014	551,200	$ 0.29	CDN $

The weighted average contractual life remaining on the outstanding broker units is 1.01 years.

The following table summarizes information about the broker units outstanding at August 31, 2014:

Exercise Price	Number of Units	Expiry Date
CDN$0.50	85,200	October 2, 2014
CDN$0.25	400,000	October 25, 2015
CDN$0.25	66,000	January 4, 2016
	551,200	

The broker units expiring October 2, 2014 include one-half warrant. The broker units expiring October 25, 2015 and January 4, 2016 include one warrant.

There were no broker units granted during the years ended August 31, 2014 or 2012. The estimated fair value of the broker units granted during the year ended August 31, 2013 was determined using a Black-Scholes option valuation model with the following weighted average assumptions:

	2013
Risk free interest rate	1.17%
Expected life (years)	2.83
Expected share price volitility	123%
Expected dividend yield	0%

(Expressed in U.S. Dollars)

The weighted average fair value of broker units awarded during the year ended August 31, 2013 was CDN$0.25.

Options

The Company has a 2013 fixed stock option plan ("the Plan") to be administered by the Board of Directors, which has the discretion to grant up to an aggregate of 10,000,000 options. The exercise price of an option is set at the closing price of the Company's common shares on the date of grant. Stock options granted to directors, officers, employees and consultants are subject to the following vesting schedule:

(a) One-third shall vest immediately;

(b) One-third shall vest 12 months from the date of grant; and

(c) One-third shall vest 18 months from the date of grant.

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

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

	Number of Options	Weighted Average Exercise Price	
Balance - August 31, 2012	5,789,200	$ 0.42	CDN $
Granted	1,200,000	0.43	CDN $
Exercised	(164,999)	0.45	CDN $
Expired	(40,000)	0.70	CDN $
Forfeited	(195,333)	0.45	CDN $
Balance - August 31, 2013	6,588,868	$ 0.42	CDN $
Granted	195,000	1.42	CDN $
Granted	595,000	1.83	
Exercised	(1,441,668)	0.41	CDN $
Expired	(1,667)	0.42	CDN $
Balance - August 31, 2014	5,935,533	$ 0.61	CDN $

The weighted average contractual life remaining on the outstanding options is 4.17 years.

(Expressed in U.S. Dollars)

The following table summarizes information about the options under the Plan outstanding and exercisable at August 31, 2014:

Exercise Price	Number of Options	Exercisable at August 31, 2014	Expiry Date
CDN$0.25	125,000	125,000	October 23, 2015
CDN$0.28	1,645,000	1,645,000	April 9, 2017
CDN$0.25	55,000	55,000	May 17, 2017
CDN$0.28	20,000	20,000	June 28, 2017
CDN$0.28	70,000	70,000	July 13, 2017
CDN$0.64	70,000	70,000	October 25, 2017
CDN$1.00	60,000	60,000	February 10, 2018
CDN$0.65	848,600	848,600	August 8, 2018
CDN$0.50	5,000	5,000	September 26, 2018
CDN$1.87	100,000	33,333	November 7, 2018
CDN$0.40	70,000	70,000	December 22, 2018
CDN$0.42	853,600	853,600	April 13, 2019
CDN$0.29	90,000	90,000	June 18, 2019
CDN$0.37	150,000	150,000	August 9, 2019
CDN$0.37	150,000	150,000	August 16, 2019
CDN$0.25	58,333	58,333	October 23, 2019
CDN$0.25	215,000	215,000	December 19, 2019
CDN$0.58	560,000	373,333	May 14, 2020
CDN$0.58	100,000	66,667	May 23, 2020
$1.83	495,000	165,000	November 1, 2020
$1.84	100,000	33,333	November 15, 2020
CDN$0.94	95,000	31,667	June 27, 2021
	5,935,533	5,188,866	

The estimated fair value of the stock options granted during the years ended August 31, 2014, 2013 and 2012 was determined using a Black-Scholes option valuation model with the following weighted average assumptions:

	2014	2013	2012
Risk free interest rate	2.01%	1.55%	1.63%
Expected life (years)	6.75	6.17	7.00
Expected share price volitility	120%	123%	147%
Expected dividend yield	0%	0%	0%

The weighted average fair value of stock options awarded during the years ended August 31, 2014, 2013 and 2012 was CDN$1.58, CDN$0.38 and CDN$0.40, respectively.

As of August 31, 2014, the Company had approximately $327,000 of unrecognized share-based compensation expense, which is expected to be recognized over a period of 1.32 years.

The intrinsic value of the options exercised during the years ended August 31, 2014, 2013 and 2012 was $1.38, $0.67, and $0.05 respectively. The intrinsic value of the vested options at August 31, 2014 was $1.25.

(Expressed in U.S. Dollars)

9. Related Party Disclosures

Royalty agreement

On August 14, 2002, through its California subsidiary, the Company entered into an agreement with a director and officer of the Company, where he would receive royalty payments in exchange for assignment of his patent rights to the Company. The royalty is 5% of gross receipts from products using this invention in excess of $500,000 annually. The Company's current operations utilize this invention. There was no royalty expense incurred during the years ended August 31, 2014, 2013 and 2012.

Collaboration agreement

In December 2013, the Company entered into a collaboration agreement with a privately-held Taiwan biopharmaceuticals manufacturer and a beneficial owner of over 5% of the Company's common shares. Under the terms of the agreement, the Company will be responsible for the production and delivery of GMP grade KLH for evaluation as a carrier molecule in the collaboration partner's potential manufacture of OBI-822 active immunotherapy. The Company is also responsible for method development, product formulation, and process qualification for certain KLH reference standards. The collaboration partner will be responsible for development objectives and product specifications. The agreement provides for the collaboration partner to pay fees for certain expenses and costs associated with the collaboration. Subject to certain conditions and timing, the collaboration also provides for the parties to negotiate a commercial supply agreement for Stellar KLH™ in the future. However, there can be no assurance that any such negotiations will lead to successful execution of any further agreements related to this collaboration.

10. Loss Recovery

A shipment of KLH was damaged by a vendor. The vendor agreed to reimburse the Company for the value of the KLH. The loss recovery of $105,000 was recorded during the year ended August 31, 2012 when the realization of income was virtually certain.

11. Income Taxes

The breakdown of loss before income tax by jurisdiction is as follows:

	August 31, 2014	August 31, 2013	August 31, 2012
U.S.	**$ (4,183,392)**	$ (2,082,441)	$ (3,773,748)
Canadian	**(4,096,931)**	(12,412,538)	(1,754,730)
Other foreign	**(132,000)**	-	-
Total Loss Before Income Tax	**$ (8,412,323)**	$ (14,494,979)	$ (5,528,478)

Deferred income tax assets and liabilities of the Company at August 31, 2014, 2013 and 2012 are as follows:

	August 31, 2014	August 31, 2013	August 31, 2012
Deferred income tax assets:			
Non-capital loss carry-forwards	**$ 6,418,300**	$ 4,426,800	$ 3,409,600
Research and development tax credits	**616,600**	450,400	267,900
Deferred expenses	**90,000**	65,100	39,400
Share issuance costs	**131,800**	63,300	73,400
Deferred income tax liabilities:			
US federal benefit net of state taxes	**(509,000)**	(350,600)	(265,200)
Property, plant and equipment	**(14,500)**	(33,400)	(32,700)
Valuation allowance	**(6,733,200)**	(4,621,600)	(3,492,400)
Net deferred income tax asset (liability)	**$ -**	$ -	$ -

Realization of the deferred tax assets is dependent upon the generation of future taxable income, the amount and timing of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance.

(Expressed in U.S. Dollars)

As of August 31, 2014, the Company had federal and California net operating loss ("NOL") carryforwards of approximately $13,137,000 and $13,068,000, respectively, that will expire beginning in 2030 and 2015, respectively, and both continue expiring through 2034. Portions of these NOL carryforwards may be used to offset future taxable income, if any.

As of August 31, 2014, the Company also has federal and California research and development tax credit carryforwards of approximately $290,000 and $326,000, respectively, available to offset future taxes. The federal credits begin expiring in 2024 and continue expiring through 2034. The state tax credits do not expire.

Under the provisions of Section 382 of the Internal Revenue Code, substantial changes in the Company's ownership limit the amount of net operating loss carryforwards and tax credit carryforwards that can be utilized annually in the future to offset taxable income. A valuation allowance has been established to reserve the potential benefits of these carryforwards in the Company's consolidated financial statements to reflect the uncertainty of future taxable income required to utilize available tax loss carryforwards and other deferred tax assets.

The recovery of income taxes shown in the consolidated statements of operations differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	August 31, 2014	August 31, 2013	August 31, 2012
Combined Canadian federal and provincial tax rates	**26.0%**	25.0%	28.5%
Expected income tax (recovery)/expense	**$ (2,187,200)**	$ (3,623,700)	$ (1,575,600)
Nondeductible share-based payments	**248,700**	327,000	549,900
Nondeductible change in fair value of warrant liability	**659,300**	2,807,300	(246,100)
Effect of higher income tax rate in US	**(602,100)**	(308,400)	(426,700)
Foreign currency differences	**(50,900)**	(26,300)	9,000
Other	**(219,800)**	(322,500)	(137,300)
Change in valuation allowance on deferred tax assets	**2,179,200**	1,147,400	1,827,600
Income tax expense	**$ 27,200**	$ 800	$ 800

(Expressed in U.S. Dollars)

The components of income tax provision (benefits) are as follows:

	August 31, 2014	August 31, 2013	August 31, 2012
Current tax provision			
U.S. federal	**$ -**	$ -	$ -
Canadian	**-**	-	-
Other foreign	**26,400**	-	-
State	**800**	800	800
Deferred tax provision			
U.S. federal	**(1,431,400)**	(738,000)	(1,165,700)
Canadian	**(289,800)**	(157,500)	(249,200)
Other foreign	**-**	-	-
State	**(458,000)**	(251,900)	(412,700)
Change in valuation allowance on deferred tax assets	**2,179,200**	1,147,400	1,827,600
Total	**$ 27,200**	$ 800	$ 800

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

Supplemental disclosure of cash flow information follows:

	August 31, 2014	August 31, 2013	August 31, 2012
Cash paid during the period for taxes	**30,200**	800	800
Cash paid during the period for interest	-	-	-

(Expressed in U.S. Dollars)

Supplemental disclosure of non-cash financing and investing activities follows:

	August 31, 2014	August 31, 2013	August 31, 2012
Share issuance costs - broker units and warrants	**$ 386,898**	$ 150,894	$ -
Transfer to common stock on exercise of warrants	**6,591,546**	2,139,409	190,425
Transfer to common stock on exercise of options	**489,136**	54,325	41,087
Transfer to common stock on issuance of performance shares	**422,728**	-	366,363
Shares subscribed transferred to common stock	**5,155,674**	-	-
Warrant valuations on private placements	-	1,749,004	-
Fair value of shares issued for acquisition of license	-	491,408	-
Warrant valuation on acquisition of license	-	195,014	-

13. Concentrations of Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, 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.

Approximately 73%, 73% and 90% of the Company's product sales and contract services revenue during the years ended August 31, 2014, 2013 and 2012, respectively, were from two customers. All of the grant revenue during the years ended August 31, 2014, 2013 and 2012 was received from the National Science Foundation.

Approximately 76% of the Company's accounts receivable at August 31, 2014, was from one customer. Approximately 88% of the Company's accounts receivable at August 31, 2013 was from a grant from National Science Foundation.

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.

14. Subsequent Events

Subsequent to August 31, 2014, the Company issued 1,152,800 common shares upon the exercise of 1,102,800 warrants for gross proceeds of CDN$805,800 and the exercise of 50,000 stock options for gross proceeds of CDN$12,500 through November 1, 2014.

STELLAR BIOTECHNOLOGIES, INC.
(the "Company")

FIXED SHARE OPTION PLAN

Dated for Reference December 18, 2013

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, NEX Policies) and any inconsistencies between this Plan and TSX Venture Policies (or, if applicable, 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) any one 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 materially affect control of the Company or its successor and, 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 the 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:

(i) 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;

(ii) provides the services under a written contract between the Company or an Affiliate and the individual or the Consultant Company;

(iii) 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

(iv) 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 Pric**e 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* Canada (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) **Exchange Hold Period** has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

(q) **Exercise Price** means the amount payable per Common Share on the exercise of an Option, as determined in accordance with the terms hereof;

(r) **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;

(s) **Insider** means an insider as defined in the TSX Venture Policies or as defined in securities legislation applicable to the Company;

(t) **Investor Relations Activities** has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

(u) **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;

(v) **Market Price** has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

(w) **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;

(x) **NEX Issuer** means a company listed on NEX;

(y) **NEX Policies** means the rules and policies of NEX as amended from time to time;

(z) **Officer** means a Board appointed officer of the Company;

(aa) **Option** means the right to purchase Common Shares granted hereunder to a Service Provider;

(bb) **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;

(cc) **Optioned Shares** means Common Shares that may be issued in the future to a Service Provider upon the exercise of an Option;

(dd) **Optionee** means the recipient of an Option hereunder;

(ee) **Outstanding Shares** means at the relevant time, the number of issued and outstanding Common Shares of the Company from time to time;

(ff) **Participant** means a Service Provider that becomes an Optionee;

(gg) **Person** includes a company, any unincorporated entity, or an individual;

(hh) **Plan** means this share option plan, the terms of which are set out herein or as may be amended;

(ii) **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;

(jj) **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;

(kk) **Securities Act** means the Securities Act, R.S.B.C. 1996, c. 418, or any successor legislation;

(ll) **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;

(mm) **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;

(nn) **Shareholder Approval** means approval by a majority of the votes cast by eligible shareholders of the Company at a duly constituted shareholders' meeting;

(oo) **Take Over Bid** means a take over bid as defined in Multilateral Instrument 62-104 (Take-over Bids and Issuer Bids) or the analogous provisions of securities legislation applicable to the Company;

(pp) **TSX Venture** means the TSX Venture Exchange and any successor thereto; and

(qq) **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, 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 10,000,000 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, NEX Policies).

Eligibility

2.3 Options to purchase Common Shares may be granted hereunder to Service Providers of the Company, or its affiliates, 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 §2.10, 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) the aggregate number of Options granted to all 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 (or NEX, as the case may be); and

(c) the aggregate number of Options granted to any one 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; and

(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.

Amendment 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 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 previous 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 any one Optionee, within a 12-month period, of a number of Common Shares exceeding 5% of the 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 §2.10(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, or 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, vesting of Options will generally be 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 §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, subject to approval of the TSX Venture (or the NEX, as the case may be) for vesting requirements imposed by the TSX Venture Policies.

Acceleration of Vesting on Change of Control

3.9 In the event of a Change of Control occurring, Options granted and outstanding, which are subject to vesting provisions, shall be deemed to have immediately vested upon the occurrence of the Change of Control, except for Options granted to Consultants conducting Investor Relations Activities.

Extension of Options Expiring During Blackout Period

3.10 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 §2.8, the tenth Business Day period referred to in this §3.10 may not be extended by the Board.

Optionee Ceasing to be Director, Employee or Service Provider

3.11 Options may be exercised after the Service Provider has left his/her employ/office or has been advised by the Company that his/her services are no longer required or his/her service contract has expired, until the term applicable to such Options expires, 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) an Option granted to any Service Provider will expire 90 days (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, and only to the extent that such Option was 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

3.12 Subject to §3.11(a), 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

3.13 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 §3.13;

(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 §3.13, 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 §3.13, 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, including any additional requirements contemplated with respect to the payment of required withholding taxes on behalf of Optionees.

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, plus any required withholding tax amount subject to §4.3.

Tax Withholding and Procedures

4.3 Notwithstanding anything else contained in this Plan, the Company may, from time to time, implement such procedures and conditions as it determines appropriate with respect to the withholding and remittance of taxes imposed under applicable law, or the funding of related amounts for which liability may arise under such applicable law. Without limiting the generality of the foregoing, an Optionee who wishes to exercise an Option must, in addition to following the procedures set out in§4.2 and elsewhere in this Plan, and as a condition of exercise:

(a) deliver a certified cheque, wire transfer or bank draft payable to the Company for the amount determined by the Company to be the appropriate amount on account of such taxes or related amounts; or

(b) otherwise ensure, in a manner acceptable to the Company (if at all) in its sole and unfettered discretion, that the amount will be securely funded;

and must in all other respects follow any related procedures and conditions imposed by the Company.

Delivery of Optioned Shares and Hold Periods

4.4 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 to the Optionee the appropriate number of Optioned Shares. If the Exercise Price is set below the then current market price of the Common Shares on the TSX Venture at the time of grant, the certificate representing the Optioned Shares or written notice in the case of uncertificated shares will include a legend stipulating that the Optioned Shares issued are subject to a four-month Exchange Hold Period commencing the date of the Option Commitment.

ARTICLE 5
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.

Interpretation

5.3 The Plan will be governed and construed in accordance with the laws of the Province of British Columbia.

Effective Date of Plan

5.4 The Plan will become effective from and after December 18, 2013, and will remain effective provided that the Plan, or any amended version thereof, receives Shareholder Approval as required by the TSX Venture Policies.

Amendment of the Plan

5.5 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.

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.

Optioned Shares are to vest immediately.

OR

Optioned Shares will vest *[INSERT VESTING SCHEDULE AND TERMS]*

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, or written notice in the case of uncertificated shares, 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. *[Note: A Company 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. If a four month hold period is applicable, the following legend must be placed on the certificate or the written notice in the case of uncertificated shares.]*

> "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, HYPOTHECATED 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 Option Commitment.

STELLAR BIOTECHNOLOGIES, INC.

STELLAR BIOTECHNOLOGIES, INC.

_____

Authorized Signatory

_____

[insert name of optionee]

_____

Signature of Optionee

Exhibit 10.12

SHAREHOLDER RIGHTS PLAN AGREEMENT

DATED AS OF

JANUARY 9, 2014

BETWEEN

STELLAR BIOTECHNOLOGIES, INC.

AND

COMPUTERSHARE INVESTOR SERVICES INC.

TABLE OF CONTENTS

SHAREHOLDER RIGHTS PLAN AGREEMENT

MEMORANDUM OF AGREEMENT, dated as of January 9, 2014 between Stellar Biotechnologies, Inc. (the "**Company**"), a company continued under the laws of British Columbia and Computershare Investor Services Inc., a corporation existing under the laws of Canada (the "**Rights Agent**");

WHEREAS the Board of Directors of the Company, in the exercise of its fiduciary duties to the Company, has determined that it is advisable for the Company to adopt a shareholder rights plan (the "**Rights Plan**") to take effect on the Effective Date (as hereinafter defined) to prevent, to the extent possible, a creeping takeover of the Company and to ensure that any offer to acquire shares of the Company is made to all shareholders and cannot be completed unless shareholders holding at least 50% of the outstanding shares (other than the offeror and related parties) are deposited or tendered in acceptance of the offer, to ensure, to the extent possible, the fair treatment of all shareholders in connection with any take-over bid for the securities of the Company, and to ensure that the Board of Directors is provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize shareholder value;

AND WHEREAS in order to implement the adoption of a shareholder rights plan as established by this Agreement, the board of directors of the Company has:

(a) authorized the issuance, effective at the close of business (Vancouver time) on the Effective Date, of one Right (as hereinafter defined) in respect of each Share (as hereinafter defined) outstanding at the close of business (Vancouver time) on the Effective Date (the "**Record Time**");

(b) authorized the issuance of one Right in respect of each Voting Share (as hereinafter defined) of the Company issued after the Record Time and prior to the earlier of the Separation Time (as hereinafter defined) and the Expiration Time (as hereinafter defined); and

(c) authorized the issuance of Rights Certificates (as hereinafter defined) to holders of Rights pursuant to the terms and subject to the conditions set forth herein;

AND WHEREAS each Right entitles the holder thereof, after the Separation Time, to purchase securities of the Company pursuant to the terms and subject to the conditions set forth herein;

AND WHEREAS 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 1

INTERPRETATION

1.1 Certain Definitions

For purposes of this Agreement, the following terms have the meanings indicated:

(a) "**1934 Exchange Act**" means the *Securities Exchange Act of 1934* of the United States, as amended, and the rules and regulations thereunder as now in effect or as the same may from time to time be amended, re-enacted or replaced;

(b) "**Acquiring Person**" shall mean any Person who is the Beneficial Owner of 20% or more of the outstanding Voting Shares; provided, however, that the term "**Acquiring Person**" shall 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 as a result of one or any combination of:

(A) a Voting Share Reduction;

(B) Permitted Bid Acquisitions;

(C) an Exempt Acquisition;

(D) Pro Rata Acquisitions; or

(E) a Convertible Security Acquisition;

provided, however, that if a Person becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares by reason of one or any combination of the operation of Paragraphs (A), (B), (C), (D) or (E) above and such Person's Beneficial Ownership of Voting Shares thereafter increases by more than 1% of the number of Voting Shares outstanding (other than pursuant to one or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition, a Pro Rata Acquisition or a Convertible Security Acquisition), then as of the date such Person becomes the Beneficial Owner of such additional Voting Shares, such Person shall become an "**Acquiring Person**";

(iii) for a period of ten days after the Disqualification Date (as defined below), 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 Clause 1.1(g)(iii)(B) because such Person is making or has announced a current intention to make a Take-over Bid, 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 public announcement that any Person is making or intends to make 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 distribution of securities of the Company pursuant to an underwriting agreement with the Company; or

(v) a Person (a "**Grandfathered Person**") who is the Beneficial Owner of 20% or more 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, other than through one or any combination of a Permitted Bid Acquisition, an Exempt Acquisition, a Voting Share Reduction, a Pro Rata Acquisition or a Convertible Security 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;

(c) "**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 specified Person;

(d) "**Agreement**" or "**Shareholder Rights Plan Agreement**" shall mean this shareholder rights plan agreement dated as of January 9, 2014 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;

(e) "**annual cash dividend**" shall mean cash dividends paid in any fiscal year of the Company to the extent that such cash dividends do not exceed, in the aggregate on a per share basis, in any fiscal year, the greatest of:

(i) 200% of the aggregate amount of cash dividends, on a per share basis, declared payable by the Company on its Shares in its immediately preceding fiscal year; and

(ii) 300% of the arithmetic mean of the aggregate amounts of the cash dividends, on a per share basis, declared payable by the Company on its Shares in its three immediately preceding fiscal years;

(f) "**Associate**" shall mean, 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 if that relative has the same residence as that Person;

(g) A Person shall be deemed the "**Beneficial Owner**" of, and to have "**Beneficial Ownership**" of, and to "**Beneficially Own**",

(i) any securities as to which such Person or any of such Person's Affiliates or Associates is the owner at law or in equity;

(ii) any securities as to which such Person or any of such Person's Affiliates or Associates has the right to become the owner at law or in equity (where such right is exercisable within a period of 60 days, whether or not on condition or on the happening of any contingency) pursuant to any agreement, arrangement, pledge or understanding, whether or not in writing, or upon the exercise of any conversion, exchange or purchase right (other than the Rights) attaching to a Convertible Security; other than pursuant to (x) customary agreements between the Company and underwriters or between underwriters and/or banking group members and/or selling group members with respect to a distribution of securities by the Company, (y) pledges of securities in the ordinary course of business), and (z) any agreement between the Company and any Person or Persons relating to a plan of arrangement, amalgamation or other statutory procedure which is subject to the approval of the holders of Voting Shares;

(iii) any securities which are Beneficially Owned within the meaning of Clauses 1.1(g)(i) or (ii) by any other Person with which 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) where such security has been deposited or tendered pursuant to any Take-over Bid or where the holder of such security has agreed pursuant to a Permitted Lock-Up Agreement to deposit or tender such security pursuant to a Take-Over Bid, in each case 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;

(B) where such Person, any of such Person's Affiliates or Associates or any other Person referred to in Clause 1.1(g)(iii), holds such security provided that (1) the ordinary business of any such Person (the "**Investment Manager**") includes the management of mutual funds or 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/or includes the acquisition or holding of securities for a non-discretionary account of a Client (as defined below) by a dealer or broker registered under applicable securities laws to the extent required) and such security is held by the Investment Manager in the ordinary course of such business and in the performance of such Investment Manager's duties for the account of any other Person or Persons (a "**Client**"); or (2) such Person (the "**Trust Company**") 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 (each an "**Estate Account**") or in relation to other accounts (each an "**Other Account**") and holds such security in the ordinary course of such duties for such Estate Accounts or for such Other Accounts, or (3) such Person is a pension plan or fund registered under the laws of Canada or any Province thereof or the laws of the United States of America (a "**Plan**") or is a Person 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 of various public bodies; or (4) such Person (the "**Administrator**") is the administrator or trustee of one or more Plans and holds such security for the purposes of its activities as an Administrator; provided, in any of the above cases, that the Investment Manager, the Trust Company, the Statutory Body, the Administrator or the Plan, as the case may be, is not then making and has not then announced an intention to make a Take-over Bid (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 prearranged trades) executed through the facilities of a stock exchange or organized over-the-counter market), alone or by acting jointly or in concert with any other Person;

(C) where such Person or any of such Person's Affiliates or Associates is (1) a Client of the same Investment Manager as another Person on whose account the Investment Manager holds such security, (2) an Estate Account or an Other Account of the same Trust Company as another Person on whose account the Trust Company holds such security, or (3) a Plan with the same Administrator as another Plan on whose account the Administrator holds such security;

(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, (2) an Estate Account or an Other Account of a Trust Company and such security is owned at law or in equity by the Trust Company or (3) a Plan and such security is owned at law or in equity by the Administrator of the Plan; or

(E) where such person is the registered holder of securities as a result of carrying on the business of or acting as a nominee of a securities depository.

(h) "**Board of Directors**" shall mean the board of directors of the Company or any duly constituted and empowered committee thereof;

(i) "**Business Day**" shall mean 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) "**Business Corporations Act**" shall mean the British Columbia *Business Corporations Act*, S.B.C. 2002, c.57, as amended, and the regulations made thereunder and any comparable or successor laws or regulations thereto;

(k) "**Canadian Dollar Equivalent**" of any amount which is expressed in United States dollars shall mean on any day the Canadian dollar equivalent of such amount determined by reference to the U.S.- Canadian Exchange Rate in effect on such date;

(l) "**close of business**" on any given date shall mean 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 transfer office of the transfer agent for the Shares (or, after the Separation Time, the principal transfer office of the Rights Agent) is closed to the public in the city in which such transfer agent or rights agent has an office for the purposes of this Agreement;

(m) "**Competing Permitted Bid**" shall mean a Take-over Bid that:

(i) 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) satisfies all of the provisions of a Permitted Bid other than the condition set forth in Clause (iii) of the definition of a Permitted Bid; and

(iii) contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no Voting Shares will be 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;

(n) "**controlled**": a body corporate is "controlled" by another Person or two or more Persons acting jointly or in concert 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 two or more Persons acting jointly or in concert; and

(ii) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such body corporate;

and "**controls**", "**controlling**" and "**under common control with**" shall be interpreted accordingly;

(o) "**Convertible Security**" shall mean a security convertible, exercisable or exchangeable into a Voting Share and a "**Convertible Security Acquisition**" shall mean an acquisition by a Person of Voting Shares upon the exercise, conversion or exchange of a Convertible Security received by a Person pursuant to a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition;

(p) "**Co-Rights Agents**" shall have the meaning ascribed thereto in Subsection 4.1(a);

(q) "**Disposition Date**" shall have the meaning ascribed thereto in Subsection 5.1(d);

(r) "**Dividend Reinvestment Acquisition**" shall mean an acquisition of Voting Shares of any class pursuant to a Distribution Reinvestment Plan;

(s) "**Dividend Reinvestment Plan**" shall mean a regular dividend reinvestment or other plan of the Company made available by the Company to holders of its securities 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;

(ii) proceeds of redemption of shares of the Company;

(iii) interest paid on evidences of indebtedness of the Company; or

(iv) optional cash payments;

be applied to the purchase from the Company of Shares;

(t) "**early warning requirements**" shall have the meaning ascribed thereto under National Instrument 62-103 The Early Warning System promulgated under the Securities Act;

(u) "**Effective Date**" shall mean February 14, 2014;

(v) "**Election to Exercise**" shall have the meaning ascribed thereto in Clause 2.2(d)(ii);

(w) "**Exempt Acquisition**" shall mean an acquisition by a Person of Voting Shares and/or Convertible Securities (i) in respect of which the Board of Directors has waived the application of Section 3.1 pursuant to the provisions of Subsection 5.1(b), (c) or (d); (ii) pursuant to a distribution of Voting Shares and/or Convertible Securities made by the Company: (A) to the public pursuant to a prospectus, provided that such Person does not thereby become the Beneficial Owner of a greater percentage of Voting Shares so offered than the percentage of Voting Shares Beneficially Owned by such Person immediately prior to such distribution; or (B) pursuant to a private placement provided that: (x) all necessary stock exchange approvals for such private placement have been obtained and such private placement complies with the terms and conditions of such approvals; and (y) such Person does not thereby become the Beneficial Owner of Voting Shares equal in number to more than 25% of the Voting Shares outstanding immediately prior to the private placement and, in making this determination, the securities to be issued to such Person on the private placement shall be deemed to be held by such Person but shall not be included in the aggregate number of Voting Shares outstanding immediately prior to the private placement; or (iii) pursuant to an amalgamation, merger, arrangement or other statutory procedure requiring shareholder approval;

(x) "**Exercise Price**" shall mean, as of any date, the price at which a holder may purchase the securities issuable upon exercise of one whole Right which, until adjustment thereof in accordance with the terms hereof, shall be:

(i) until the Separation Time, an amount equal to three times the Market Price, from time to time, per Share; and

(ii) from and after the Separation Time, an amount equal to three times the Market Price, as at the Separation Time, per Share;

(y) "**Expansion Factor**" shall have the meaning ascribed thereto in Clause 2.3(a)(x);

(z) "**Expiration Time**" shall have the meaning ascribed thereto in Clause 5.15(a);

(aa) "**Flip-in Event**" shall mean a transaction in or pursuant to which any Person becomes an Acquiring Person;

(bb) "**holder**" shall have the meaning ascribed thereto in Section 2.8;

(cc) "**Independent Shareholders**" shall mean holders of Voting Shares, other than:

(i) any Acquiring Person;

(ii) any Offeror, other than a Person referred to in Clause 1.1(g)(B);

(iii) any Affiliate or Associate of such Acquiring Person or Offeror;

(iv) any Person acting jointly or in concert with such Acquiring Person or Offeror; and

(v) any employee benefit plan, deferred profit sharing plan, stock participation plan and any other 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;

(dd) "**Market Price**" per share of any securities on any date of determination shall mean 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 Section 2.3 hereof shall have caused the 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 Section 2.3 hereof 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, in case no such sale takes place on such date, the average of the closing bid and asked prices for each of such securities as reported by the principal Canadian stock exchange on which such securities are listed or admitted to trading;

(ii) 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, the last sale price or, in case no such sale takes place on such date, the average of the high bid and low asked prices for each of such securities in the Canadian over-the-counter market, as quoted by any reporting system then in use; or

(iii) 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 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 in good faith by the Board of Directors;

provided, however, that if for any reason none of such prices is available on such day, the closing price per share of such securities on such date means the fair value per share of such securities on such date as determined by a nationally or internationally recognized investment dealer or investment banker with respect to the fair value per share of such securities. 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;

(ee) "**Meeting Deadline Date**" is the date six months after the Effective Date or if such date is not a Business Day then the next Business Day following such date.

(ff) "**Nominee**" shall have the meaning ascribed thereto in Subsection 2.2(c);

(gg) "**Offer to Acquire**" shall include:

(i) an offer to purchase or a solicitation of an offer to sell or a public announcement of an intention to make such an offer or solicitation; and

(ii) an acceptance of an offer to sell, 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;

(hh) "**Offeror**" shall mean a Person who has made a public announcement of a current intention to make or who is making a Take-over Bid but only so long as the Take-over Bid so announced or made has not been withdrawn or terminated or has not expired;

(ii) "**Permitted Bid**" shall mean a Take-over Bid made by an Offeror by way of take-over bid circular 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 shall have been deposited or tendered pursuant to the Take-over Bid and not withdrawn;

(iii) the Take-over Bid contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no Voting Shares will be taken up or paid for pursuant to the Take-over Bid prior to the close of business on the date which is not less than 60 days following the date of the Take-over Bid;

(iv) the Take-over Bid contains an irrevocable and unqualified provision that unless the Take-over Bid is withdrawn, 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 that any Voting Shares deposited pursuant to the Take-over Bid may be withdrawn until taken up and paid for; and

(v) the Take-over Bid contains an irrevocable and unqualified provision that if, on the date on which Voting Shares may be taken up and paid for, more than 50% of the Voting Shares held by Independent Shareholders shall have been deposited pursuant to the Take-over Bid and not withdrawn, the Offeror will make a public announcement of that fact and the Take-over Bid will 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.

(jj) "**Permitted Bid Acquisition**" shall mean an acquisition of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid;

(kk) "**Permitted Lock-Up Agreement**" shall mean an agreement between a Person and one or more holders of Voting Shares pursuant to which such holders (each a "**Locked-Up Person**") agree to deposit or tender Voting Shares to a Take-Over Bid (the "**Lock-Up Bid**") made or to be made by such Person or any of such Person's Affiliates or Associates or any other Person with which such Person is acting jointly or in concert, provided that:

(i) the terms of such agreement are publicly disclosed and a copy of such agreement is made available to the public (including the Company) not later than the date of the Lock-Up Bid or, if the Lock-Up Bid has been made prior to the date on which such agreement is entered into, not later than the first business day following the date of such agreement;

(ii) the agreement permits a Locked-Up Person to terminate its obligation to deposit or tender Voting Shares to or not to withdraw such Voting Shares from the Lock-Up Bid, and to terminate any obligation with respect to the voting of such Voting Shares, in order to tender or deposit the Voting Shares to another Take-over Bid or to support another transaction:

(A) where the price or value of the consideration per Voting Share offered under such other Take-over Bid or transaction:

(I) is greater than the price or value of the consideration per Voting Share at which the Locked-Up Person has agreed to deposit or tender Voting Shares to the Lock-Up Bid; or

(II) exceeds by as much as or more than a specified amount (the "**Specified Amount**") the price or value of the consideration per Voting Share at which the Locked-Up Person has agreed to deposit or tender Voting Shares to the Lock-Up Bid, provided that such Specified Amount is not greater than 7% of the price or value of the consideration per Voting Share at which the Locked-Up Person has agreed to deposit or tender Voting Shares to the Lock-Up Bid; and

(B) if the number of Voting Shares offered to be purchased under the Lock-Up Bid is less than 100% of the Voting Shares held by Independent Shareholders, where the number of Voting Shares to be purchased under such other Take-over Bid or transaction at a price or value per Voting Share that is not less than the price or value per Voting Share offered under the Lock-Up Bid:

(I) is greater than the number of Voting Shares that the Offeror has offered to purchase under the Lock-Up Bid; or

(II) exceeds by as much as or more than a specified number (the "**Specified Number**") the number of Voting Shares that the Offeror has offered to purchase under the Lock-Up Bid, provided that the Specified Number is not greater than 7% of the number of Voting Shares offered to purchased under the Lock-Up Bid,

and, for greater clarity, the agreement may contain a right of first refusal or require a period of delay to give such Person an opportunity to match a higher price 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, so long as the limitation does not preclude the exercise by the Locked-up Person of the right to withdraw Voting Shares during the period of the other Take-over Bid or transaction; and

(iii) no "**break-up**" fees, "**top-up**" fees, penalties, expenses or other amounts that exceed in aggregate the greater of:

(A) 2.5% of the price or value of the consideration payable under the Lock-Up Bid to a Locked-Up Person; and

(B) 50% of the amount by which the price or value of the consideration received by a Locked-Up Person under another Take-over Bid or transaction exceeds the price or value of the consideration that the Locked-Up Person would have received under the Lock-Up Bid,

shall be payable by such Locked-Up Person pursuant to the agreement if the Locked-Up Person fails to deposit or tender Voting Shares to the Lock-Up Bid, withdraws Voting Shares previously tendered thereto or supports another transaction;

(ll) "**Person**" shall include an individual, body corporate, firm, partnership, syndicate or other form of unincorporated association, trust, trustee, executor, administrator, legal personal representative, group, unincorporated organization, a government and its agencies or instrumentalities, or other entity whether or not having legal personality;

(mm) "**Pro Rata Acquisition**" shall mean an acquisition by a Person of Voting Shares pursuant to:

(i) a Dividend Reinvestment Acquisition;

(ii) a stock dividend, stock split or other event in respect of securities of the Company of one or more particular classes or series pursuant to which such Person becomes the Beneficial Owner of Voting Shares on the same pro rata basis as all other holders of securities of the particular class, classes or series; or

(iii) the acquisition or the exercise by the Person of rights to purchase Voting Shares issued by the Company to all holders of securities of the Company (other than holders resident in any jurisdiction where such issuance is restricted or impractical as a result of applicable law) of one or more particular classes or series pursuant to a rights offering or pursuant to a prospectus, provided that such rights are acquired directly from the Company and not from any other Person and the Person does not thereby acquire a greater percentage of such Voting Shares than the Person's percentage of Voting Shares Beneficially Owned immediately prior to such acquisition;

(nn) "**Record Time**" has the meaning set forth in the recitals hereto;

(oo) "**Redemption Price**" shall have the meaning attributed thereto in Subsection 5.1(a);

(pp) "**Right**" shall mean a right to purchase a Share of the Company, upon the terms and subject to the conditions set forth in this Agreement;

(qq) "**Rights Certificate**" shall mean a certificate representing the Rights after the Separation Time, which shall be substantially in the form attached hereto as Attachment 1;

(rr) "**Rights Register**" shall have the meaning ascribed thereto in Subsection 2.6(a);

(ss) "**Securities Act**" shall mean the *Securities Act* (British Columbia), as amended, and the regulations thereunder, and any comparable or successor laws or regulations thereto;

(tt) "**Separation Time**" shall mean, subject to Subsection 5.1(d), the close of business on the tenth Trading Day after the earlier of:

(i) the Share 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); 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 clause (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 commenced, made or announced and further provided that if the Board of Directors determines, pursuant to Section 5.1, to waive the application of Section 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;

(uu) "**Share 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 early warning requirements under applicable securities laws) by the Company or an Acquiring Person of facts indicating that a Person has become an Acquiring Person;

(vv) "**Shares**" shall mean the common shares in the capital of the Company as presently constituted, as such shares may be subdivided, consolidated, reclassified or otherwise changed from time to time;

(ww) "**Subsidiary**": a Person is a Subsidiary of another Person if:

(i) it is controlled by:

(A) that other; or

(B) that other and one or more Persons each of which is controlled by that other; or

(C) two or more Persons each of which is controlled by that other; or

(ii) it is a Subsidiary of a Person that is that other's Subsidiary;

(xx) "**Take-over Bid**" shall mean an Offer to Acquire Voting Shares or Convertible Securities, 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, the Voting Shares Beneficially Owned by the Person making the Offer to Acquire would constitute in the aggregate 20% or more of the outstanding Voting Shares at the date of the Offer to Acquire;

(yy) "**Termination Time**" shall mean the time at which the right to exercise Rights shall terminate pursuant to Section 5.1(g);

(zz) "**Trading Day**", when used with respect to any securities, shall mean a day on which the principal Canadian stock 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 stock exchange, a Business Day;

(aaa) "**U.S. – Canadian Exchange Rate**" on any date shall mean:

(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 which is calculated in the manner which shall be determined by the Board of Directors from time to time acting in good faith;

(bbb) "**Voting Share Reduction**" shall mean an acquisition or redemption by the Company of Voting Shares which, by reducing the number of Voting Shares outstanding, increases the percentage of outstanding Voting Shares Beneficially Owned by any Person to 20% or more of the Voting Shares then outstanding; and

(ccc) "**Voting Shares**" shall mean the Shares and any other shares in the capital of the Company entitled to vote generally in the election of all directors of the Company.

1.2 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada, unless otherwise specified.

1.3 Headings

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.

1.4 Calculation of Number and Percentage of Beneficial Ownership of Outstanding Voting Shares

(a) For purposes of this Agreement, in determining the percentage of outstanding Voting Shares with respect to which a Person is or is deemed to be the Beneficial Owner, all unissued Voting Shares of which such person is deemed to be the Beneficial Owner shall be deemed to be outstanding.

(b) For purposes of this Agreement, the percentage of Voting Shares Beneficially Owned by any Person shall be and be deemed to be the product (expressed as a percentage) determined by the formula:

$$100 \times A/B$$

where:

A = the number of votes for the election of all directors of the Company generally attaching to the Voting Shares Beneficially Owned by such Person; and

B = the number of votes for the election of all directors of the Company generally attaching to all outstanding Voting Shares.

The percentage of outstanding Voting Shares represented by any particular group of Voting Shares acquired or held by any Person shall be determined in like manner mutatis mutandis.

1.5 Acting Jointly or in Concert

For purposes of this Agreement a Person is acting jointly or in concert with every Person who is a party to an agreement, commitment, arrangement or understanding, whether formal or informal or written or unwritten, with the first Person to acquire or Offer to Acquire any Voting Shares or Convertible Securities (other than (x) customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a distribution of securities by the Company, (y) pledges of securities in the ordinary course of business, and (z) Permitted Lock-Up Agreements).

1.6 Generally Accepted Accounting Principles

Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be the recommendations at the relevant time of the Canadian Institute of Chartered Accountants, or any successor institute, applicable on a consolidated basis (unless otherwise specifically provided herein to be applicable on an unconsolidated basis) and which incorporates International Financial Reporting Standards as adopted by the Canadian Accounting Standards Board for periods beginning on or after January 1, 2011, as at the date on which a calculation is made or required to be made in accordance with generally accepted accounting principles. 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 such generally accepted accounting principles applied on a consistent basis.

ARTICLE 2

THE RIGHTS

2.1 Issue of Rights: Legend on Common Share Certificates

(a) One Right shall be issued on the Effective Date in respect of each Common Share outstanding at the Record Time and one Right shall be issued in respect of each Common Share issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time.

(b) Certificates representing Shares which are issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time, shall also evidence one Right for each Share represented thereby until the earlier of the Separation Time or the Expiration Time and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

Until the earlier of the Separation Time or the Expiration Time (as both terms are defined in the Shareholder Rights Agreement referred to below), this certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Shareholder Rights Plan Agreement dated as of January 9, 2014, as may be amended or supplemented from time to time (the "**Shareholder Rights Agreement**"), between Stellar Biotechnologies, Inc. (the "**Company**") and Computershare Investor Services Inc., as Rights Agent, the terms of which are incorporated herein by reference and a copy of which is on file at the principal executive offices of the Company. Under certain circumstances set out in the Shareholder Rights Agreement, the rights may be amended or redeemed, may expire or may become void (if, in certain cases they are "**Beneficially Owned**" by an "**Acquiring Person**" as such terms are defined in the Shareholder Rights Agreement, whether currently held by or on behalf of such Person or a subsequent holder) or may be evidenced by separate certificates and no longer evidenced by this certificate. The Company will mail or arrange for the mailing of a copy of the Shareholder Rights Agreement to the holder of this certificate without charge as soon as practicable after the receipt of a written request therefor.

Certificates representing Shares that are issued and outstanding at the Record Time shall also evidence one Right for each Share represented thereby notwithstanding the absence of the foregoing legend, until the earlier of the Separation Time and the Expiration Time.

2.2 Initial Exercise Price; Exercise of Rights; Detachment of Rights

(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 Share for the Exercise Price as at the Business Day immediately preceding the day of exercise of the Right (which Exercise Price and number of 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 evidenced by the certificate for the associated Voting Share 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 Voting Share.

(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 Voting Shares.

Promptly following the Separation Time, the Company will prepare or cause to be prepared and the Rights Agent will mail to each holder of record of Voting Shares as of the Separation Time and, in respect of each Convertible Security converted into Voting Shares after the Separation Time and prior to the Expiration Time, promptly after such conversion, the Company will prepare or cause to be prepared and the Rights Agent will mail to the holder so converting (other than in either case an Acquiring Person and any Transferee whose rights are or become null and void pursuant to Section 3.1(b) and, in respect of any Rights Beneficially Owned by such Acquiring Person or Transferee which are not held of record by such Acquiring Person or Transferee, 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):

(x) a Rights Certificate appropriately completed, representing the number of Rights held by such holder at the Separation Time or at the time of conversion, as applicable, 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 judicial or administrative order made pursuant thereto 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

(y) disclosure statement describing the Rights,

provided that a Nominee shall be sent the materials provided for in (x) and (y) only in respect of all Shares held of record by it which are not Beneficially Owned by an Acquiring Person. In order for the Company to determine whether any Person is holding Shares which are Beneficially Owned by another Person, the Company may require such first Person to furnish such information and documentation as the Company deems necessary.

(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 at its office in Vancouver, Canada or any other office of the Rights Agent in cities designated from time to time for that purpose by the Company with the approval of 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 duly executed by the holder or such holder's executors or administrators or other personal representatives or such holder's 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, money order or wire transfer payable to the order of the Rights Agent, 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 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 Clause 2.2(d)(ii), which does not indicate that such Right is null and void as provided by Subsection 3.1(b), and payment as set forth in Clause 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 as soon as practicable:

(i) requisition from the transfer agent certificates representing the number of such 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 Shares;

(iii) after receipt of the certificates referred to in Clause 2.2(e)(i), deliver the same to or upon 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 Clause 2.2(e)(ii) to or to the order of the registered holder of such Rights Certificate; and

(v) remit to the Company all payments received on the exercise of 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 Subsection 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 Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such 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 British Columbia Business Corporations Act, the Securities Act and the securities laws or comparable legislation of each of the provinces 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 Shares upon exercise of Rights;

(iii) use reasonable efforts to cause all Shares issued upon exercise of Rights to be listed on the stock exchanges and markets on which such Shares were traded immediately prior to the Separation Time;

(iv) pay when due and payable, if applicable, any and all federal, provincial 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 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 Shares in a name other than that of the holder of the Rights being transferred or exercised; and

(v) after the Separation Time, except as permitted by Sections 5.1 and 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.

2.3 Adjustments to Exercise Price; Number of Rights

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 Section 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 Shares payable in Shares or Convertible Securities in respect thereof other than pursuant to any Dividend Reinvestment Plan;

(ii) subdivide or change the then outstanding Shares into a greater number of Shares;

(iii) consolidate or change the then outstanding Shares into a smaller number of Shares; or

(iv) issue any Shares (or Convertible Securities in respect thereof) in respect of, in lieu of or in exchange for existing Shares except as otherwise provided in this Section 2.3,

then 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 the Exercise Price and number of Rights outstanding are to be adjusted:

(x) 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 Shares (or other capital stock) (the "**Expansion Factor**") that a holder of one Share immediately prior to such distribution, subdivision, change, consolidation or issuance would hold thereafter as a result thereof; and

(y) 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 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 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 of capital stock other than Shares in a transaction of a type described in Clause 2.3(a)(i) or (iv), such shares of capital stock shall be treated herein as nearly equivalent to 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 an event occurs which would require an adjustment under both this Section 2.3 and Section 3.1, the adjustment provided for in this Section 2.3 shall be in addition to, and shall be made prior to, any adjustment required under Section 3.1.

In the event the Company shall at any time after the Record Time and prior to the Separation Time issue any Shares otherwise than in a transaction referred to in this Subsection 2.3(a), each such Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such associated Share.

(b) In the event the Company shall at any time after the Record Time and prior to the Separation Time fix a record date for the issuance of rights, options or warrants to all holders of Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Shares (or Convertible Securities in respect of Shares) at a price per Share (or, in the case of a Convertible Security, having a conversion, exchange or exercise price per share, including the price required to be paid to purchase such Convertible Security) less than the Market Price per 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 Shares outstanding on such record date plus the number of Shares that the aggregate offering price of the total number of Shares so to be offered (and/or the aggregate initial conversion, exchange or exercise price of the Convertible Securities, including the price required to be paid to purchase such Convertible Securities) would purchase at such Market Price per Share; and

(ii) the denominator of which shall be the number of Shares outstanding on such record date plus the number of additional Shares to be offered for subscription or purchase (or into which the Convertible Securities 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 Shares (or securities convertible into, or exchangeable or exercisable for 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 Shares (whether from treasury or otherwise) pursuant to any Dividend Reinvestment Plan or any employee benefit plan, stock option plan or any similar plan shall be deemed not to constitute an issue of rights, options or warrants by the Company; provided, however, that, in the case of any Dividend Reinvestment Plan or share purchase plan, the right to purchase Shares is at a price per Share of not less than 90% of the current market price per share (determined as provided in such plans) of the Shares.

(c) In the event the Company shall at any time after the Record Time and prior to the Separation Time fix a record date for the making of a distribution to all holders of 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 paid in Common Shares, but including any dividend payable in securities other than Common Shares), assets or rights, options or warrants (excluding rights, options or warrants expiring within 45 calendar days after such record date) to purchase Shares or Convertible Securities in respect of Shares, the Exercise Price in effect after such record date shall be equal to the Exercise Price in effect immediately prior to such record date less the fair market value (as determined in good faith by the Board of Directors) of the portion of the evidences of indebtedness, cash, assets, rights, options or warrants so to be distributed applicable to the securities purchasable upon exercise of one Right.

(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 one per cent in the Exercise Price; provided, however, that any adjustments which by reason of this Subsection 2.3(d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under Section 2.3 shall be made to the nearest cent or to the nearest ten-thousandth of a Share. Any adjustment required by Section 2.3 shall be made as of:

(i) the payment or effective date for the applicable dividend, subdivision, change, combination or issuance, in the case of an adjustment made pursuant to Subsection 2.3(a); or

(ii) the record date for the applicable dividend or distribution, in the case of an adjustment made pursuant to Subsection 2.3(b) or (c), subject to readjustment to reverse the same if such dividend or distribution shall not be made.

(e) In the event the Company shall at any time after the Record Time and prior to the Separation Time issue any shares (other than Shares), or rights, options or warrants to subscribe for or purchase any such shares, or securities convertible into or exchangeable for any such shares, in a transaction referred to in Clause 2.3(a)(i) or (iv) or Subsections 2.3(b) or (c), if the Board of Directors acting in good faith determines that the adjustments contemplated by Subsections 2.3(a), (b) and (c) 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 Subsections 2.3(a), (b) and (c), such adjustments, rather than the adjustments contemplated by Subsections 2.3(a), (b) and (c), shall be made. Subject to Subsection 5.4(b) and (c), the Company and the Rights Agent may, with the prior approval of the holders of the Shares amend this Agreement as appropriate to provide for such adjustments.

(f) 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 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.

(g) Irrespective of any adjustment or change in the Exercise Price or the number of Shares issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Exercise Price per Share and the number of Shares which were expressed in the initial Rights Certificates issued hereunder.

(h) In any case in which this Section 2.3 shall require 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 Shares and other securities of the Company, if any, issuable upon such exercise over and above the number of 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.

(i) Notwithstanding anything contained in this Section 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 Section 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 Shares;

(ii) issuance (wholly or in part for cash) of Shares or securities that by their terms are convertible into or exchangeable for Shares;

(iii) stock dividends; or

(iv) issuance of rights, options or warrants referred to in this Section 2.3,

hereafter made by the Company to holders of its Shares, subject to applicable taxation laws, shall not be taxable to such shareholders or shall subject such shareholders to a lesser amount of tax.

(j) Whenever an adjustment to the Exercise Price is made pursuant to this Section 2.3, the Company shall:

(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 Shares a copy of such certificate and mail a brief summary thereof to each holder of Rights who requests a copy;

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 any such adjustment or change.

2.4 Date on Which Exercise Is Effective

Each Person in whose name any certificate for Shares or other securities, if applicable, is issued upon the exercise of Rights shall for all purposes be deemed to have become the absolute holder of record of the 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 Subsection 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 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 Share transfer books of the Company are open.

2.5 Execution, Authentication, Delivery and Dating of Rights Certificates

(a) The Rights Certificates shall be executed on behalf of the Company by any of its Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer. 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 Subsection 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.

2.6 Registration, Transfer and Exchange

(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, at its office in the City of Vancouver, 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 transfer or exchange of any Rights Certificate, and subject to the provisions of Subsection 2.6(c), the Company will execute, and the Rights Agent will countersign 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 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 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. As a condition to the issuance of any new Rights Certificate under this Section 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.

2.7 Mutilated, Destroyed, Lost and Stolen Rights Certificates

(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 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 and 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's 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 Section 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 Section 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.

2.8 Persons Deemed Owners of Rights

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 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 Right shall mean the registered holder of such Right (or, prior to the Separation Time, of the associated Share).

2.9 Delivery and Cancellation of Certificates

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 Section 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.

2.10 Agreement of Rights Holders

Every holder of Rights, by accepting the same, 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 Voting 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 Voting Share certificate) for registration of 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 Voting 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 Voting 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 Section 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 pursuant to and 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 or any other Person as a result of its inability to perform any of its obligations under this Agreement by reason of preliminary or permanent injunctions or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulations or executive order promulgated or enacted by any governmental authority prohibiting or otherwise restraining performance of such obligation.

2.11 Rights Certificate Holder Not Deemed a Shareholder

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 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 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 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 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

3.1 Flip-in Event

(a) Subject to Subsection 3.1(b) and Section 5.1, in the event that prior to the Expiration Time a Flip-in Event shall occur, each Right shall constitute, effective at the close of business on the tenth Trading Day after the Share Acquisition Date, the right to purchase from the Company, upon exercise thereof in accordance with the terms hereof, that number of Shares having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to twice 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 Section 2.3 in the event that after such consummation or occurrence, an event of a type analogous to any of the events described in Section 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 Share Acquisition Date by:

(i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any other Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of such other Person); or

(ii) a transferee or other successor in title, directly or indirectly, (a "**Transferee**") of Rights held by an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any other Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of such other 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 acting in good faith 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 other Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of such other Person), that has the purpose or effect of avoiding Clause 3.1(b)(i),

shall become null and void without any further action, and any holder of such Rights (including any Transferee) 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 Clause 3.1(b) shall be deemed to be an Acquiring Person for the purposes of this Clause 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 this Section 3.1, including without limitation, all such acts and things as may be required to satisfy the requirements of the British Columbia Business Corporations Act, the Securities Act and the securities laws or comparable legislation of each of the provinces of Canada in respect of the issue of 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 Clause 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 Agreement) or a Person who was acting jointly or in concert with an Acquiring Person or an Affiliate or Associate of such Person. This Rights Certificate and the Rights represented hereby are void or shall become void in the circumstances specified in Subsection 3.1(b) of the Shareholder Rights 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 and provided further that the fact that such legend does not appear on a certificate is not determinative of whether any Rights represented thereby are void under this Section.

ARTICLE 4

THE RIGHTS AGENT

4.1 General

(a) The Company hereby appoints the Rights Agent to act as agent for the Company 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. 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 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 other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder (including the fees and disbursements of any expert or advisor retained by the Rights Agent). The Company also agrees to indemnify the Rights Agent, and its officers, directors, employees and agents for, and to hold it and them harmless against, any loss, liability or expense, incurred without gross negligence, bad faith or wilful misconduct on the part of the Rights Agent or such persons, for anything done or omitted by the Rights Agent or such persons in connection with the acceptance and administration of this Agreement, including legal costs and expenses, which right to indemnification will survive the termination of this Agreement and the resignation or removal of the Rights Agent.

(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 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, 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.

(d) No provision contained in this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

4.2 Merger, Amalgamation or Consolidation or Change of Name of Rights Agent

(a) Any Company into which the Rights Agent may be merged or amalgamated or with which it may be consolidated, or any Company resulting from any merger, amalgamation, statutory arrangement or consolidation to which the Rights Agent is a party, or any Company 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 Company would be eligible for appointment as a successor Rights Agent under the provisions of Section 4.4 hereof. In case 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) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have 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 Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

4.3 Duties of Rights Agent

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 Shares and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) the Rights Agent may retain and consult with 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 and the Rights Agent may also consult with such other experts as the Rights Agent may reasonably consider necessary or appropriate to properly carry out the duties and obligations imposed under this Agreement (at the expense of the Company) and the Rights Agent shall be entitled to act and rely in good faith on the advice of any such expert;

(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, Chief Executive Officer or Chief Financial Officer 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) the Rights Agent will be liable hereunder only 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 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) Notwithstanding any other provision of this Agreement, and whether such losses or damages are foreseeable or unforeseeable, the Rights Agent shall not be liable under any circumstances whatsoever for any (a) breach by any other party of securities law or other rule of any securities regulatory authority, (b) lost profits or (c) special, indirect, incidental, consequential, exemplary, aggravated or punitive losses or damages;

(f) Notwithstanding any other provision of this Agreement, any liability of the Rights Agent shall be limited, in the aggregate, to the amount of fees paid by the Company to the Rights Agent under this Agreement in the twelve (12) months immediately prior to the Rights Agent receiving the first notice of the claim;

(g) 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 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 exercisability of the Rights (including the Rights becoming void pursuant to Subsection 3.1(b) hereof) or any adjustment required under the provisions of Section 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 Section 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 Shares to be issued pursuant to this Agreement or any Rights or as to whether any Shares will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and non-assessable;

(h) 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;

(i) 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, President, Chief Executive Officer or Chief Financial Officer 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. It is understood that instructions to the Rights Agent shall, except where circumstances make it impractical or the Rights Agent otherwise agrees, be given in writing and, where not in writing, such instructions shall be confirmed in writing as soon as practicable after the giving of such instructions;

(j) the Rights Agent and any shareholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Shares, Rights or other securities of the Company or become pecuniarily interested 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 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

(k) 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.

4.4 Change of Rights Agent

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 Shares by registered or certified mail and to the holders of Rights in accordance with Section 5.9. The Company may remove the Rights Agent upon 30 days notice in writing, mailed to the Rights Agent and to each transfer agent of the Shares by registered or certified mail and to the holders of Rights in accordance with Section 5.9. 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 30 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, at the Company's expense, 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 Company incorporated under the laws of Canada or a province thereof authorized to carry on the business of a trust company 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, upon payment in full of any outstanding amounts owing by the Company to the Rights Agent under this Agreement, 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 Shares, and mail a notice thereof in writing to the holders of the Rights in accordance with Section 5.9. Failure to give any notice provided for in this Section 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

5.1 Redemption and Waiver

(a) The Board of Directors acting in good faith may, with the prior approval of the holders of Voting Shares or of the holders of Rights given in accordance with Section 5.1(i) or (j), as the case may be, at any time prior to the occurrence of a Flip-in Event as to which the application of Section 3.1 has not been waived pursuant to the provisions of this Section 5.1, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of $0.00001 per Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that an event of the type analogous to any of the events described in Section 2.3 shall have occurred (such redemption price being herein referred to as the "**Redemption Price**").

(b) The Board of Directors acting in good faith may, with the prior approval of the holders of Voting Shares given in accordance with Section 5.1(i), determine, at any time prior to the occurrence of a Flip-in Event as to which the application of Section 3.1 has not been waived pursuant to this Section 5.1, if such Flip-in Event would occur by reason of an acquisition of Voting Shares otherwise than pursuant to a Take-over Bid made by means of a take-over bid circular to all holders of record of Voting Shares and otherwise than in the circumstances set forth in Subsection 5.1(d), to waive the application of Section 3.1 to such Flip-in Event. In the event that the Board of Directors proposes such a waiver, the Board of Directors shall extend the Separation Time to a date subsequent to and not more than ten Business Days following the meeting of shareholders called to approve such waiver.

(c) The Board of Directors acting in good faith may, until the occurrence of a Flip-in Event and upon prior written notice delivered to the Rights Agent, determine to waive the application of Section 3.1 to such particular Flip-in Event, provided that the Flip-in Event would occur by reason of a Take-over Bid made by way of take-over bid circular sent to all holders of Voting Shares (which for greater certainty shall not include the circumstances described in Subsection 5.1(d)); provided that if the Board of Directors waives the application of Section 3.1 to a particular Flip-in Event pursuant to this Subsection 5.1(c), the Board of Directors shall be deemed to have waived the application of Section 3.1 to any other Flip-in Event subsequently occurring by reason of any 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 in respect of which a waiver is, or is deemed to have been, granted under this Subsection 5.1(c).

(d) Notwithstanding the provisions of Subsections 5.1(b) and (c) hereof, the Board of Directors may waive the application of Section 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 in the event such waiver is granted by the Board of Directors, such Stock Acquisition Date shall be deemed not to have occurred. Any such waiver pursuant to this Subsection 5.1(d) must be on the condition that such Person, within 14 days after the foregoing determination by the Board of Directors or such earlier or later date as the Board of Directors may determine (the "**Disposition Date**"), has reduced its Beneficial Ownership of Voting Shares such that the Person is no longer an Acquiring Person. If the Person remains an Acquiring Person at the close of business on the Disposition Date, the Disposition Date shall be deemed to be the date of occurrence of a further Stock Acquisition Date and Section 3.1 shall apply thereto.

(e) The Board of Directors, shall, without further formality, be deemed to have elected to redeem the Rights at the Redemption Price on the date that a Person which has made a Permitted Bid, a Competing Permitted Bid or a Take-Over Bid in respect of which the Board of Directors has waived, or is deemed to have waived, pursuant to Subsection 5.1(c) the application of Section 3.1, takes up and pays for Voting Shares in connection with such Permitted Bid, Competing Permitted Bid or Take-over bid, as the case may be.

(f) 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. Upon the Rights being redeemed pursuant to this Subsection 5.1(f), 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 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.

(g) If the Board of Directors elects or is deemed to have elected to redeem the Rights, and, in circumstances in which Subsection 5.1(a) is applicable, such redemption is approved by the holders of Voting Shares or the holders of Rights in accordance with Subsection 5.1(i) or (j), as the case may be, 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.

(h) Within 10 Business Days after the Board of Directors elects or is deemed to elect, to redeem the Rights or if Subsection 5.1(a) is applicable within 10 Business Days after the holders of Shares of the holders of Rights have approved a redemption of Rights in accordance with Section 5.1(i) or (j), as the case may be, 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. The Company may not redeem, acquire or purchase for value any Rights at any time in any manner other than specifically set forth in this Section 5.1 or in connection with the purchase of Shares prior to the Separation Time.

(i) If a redemption of Rights pursuant to Subsection 5.1(a) or a waiver of a Flip-in Event pursuant to Section 5.1(b) is proposed at any time prior to the Separation Time, such redemption or waiver shall be submitted for approval to the holders of Voting Shares. Such approval shall be deemed to have been given if the redemption or waiver is approved by the affirmative vote of a majority of the votes cast by Independent Shareholders represented in person or by proxy at a meeting of such holders duly held in accordance with applicable laws.

(j) If a redemption of Rights pursuant to Subsection 5.1(a) is proposed at any time after the Separation Time, such redemption shall be submitted for approval to the holders of Rights. Such approval shall be deemed to have been given if the redemption is approved by holders of Rights by a majority of the votes cast by the holders of Rights represented in person or by proxy at and entitled to vote at a meeting of such holders. For the purposes hereof, each outstanding Right (other than Rights which are Beneficially Owned by any Person referred to in clauses (i) to (v) inclusive of the definition of Independent Shareholders) 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 by-laws and the British Columbia Business Corporations Act with respect to meetings of shareholders of the Company.

5.2 Expiration

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 Section 4.1 of this Agreement.

5.3 Issuance of New Rights Certificates

Notwithstanding any of the provisions of this Agreement or 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.

5.4 Supplements and Amendments

(a) The Company may make amendments to this Agreement to correct any clerical or typographical error or 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. The Company may, prior to the date of the shareholders' meeting to be held prior to the Meeting Deadline Date referred to in Section 5.15(b), supplement, amend, vary, rescind or delete any of the provisions of this Agreement and the Rights without the approval of any holders of Rights or Voting Shares in order to make any changes which the Board of Directors acting in good faith may deem necessary or desirable. Notwithstanding anything in this Section 5.4 to the contrary, no such supplement or 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 Subsection 5.4(a) and the prior approval of the Toronto Stock Exchange (if required), the Company may, with the prior approval of the holders of Voting Shares obtained as set forth below, at any time before the Separation Time, supplement, amend, vary, rescind or delete 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 the action requiring such approval is authorized by the affirmative vote of a majority of the votes cast by Independent Shareholders present or represented at and entitled to be voted at a meeting of the holders of Voting Shares duly called and held in compliance with applicable laws and the articles and by-laws of the Company.

(c) Subject to Subsection 5.4(a), the Company may, with the prior approval of the holders of Rights, at any time on or after the Separation Time, supplement, amend, vary, rescind or delete 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), provided that no such amendment, variation or deletion shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent thereto.

(d) Any 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 by-laws with respect to meetings of shareholders of the Company.

(e) Any amendments made by the Company to this Agreement pursuant to Subsection 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 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 Subsection 5.4(b), confirm or reject such amendment;

(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 Subsection 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 (or any adjournment of such 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.

5.5 Fractional Rights and Fractional Shares

(a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. After the Separation Time, in lieu of issuing fractional Rights, the Company shall pay to the holders of record of the Rights Certificates (provided the Rights represented by such Rights Certificates are not void pursuant to the provisions of Subsection 3.1(b), at the time such fractional Rights would otherwise be issuable), an amount in cash equal to the fraction of the Market Price of one whole Right that the fraction of a Right that would otherwise be issuable is of one whole Right.

(b) The Company shall not be required to issue fractions of Shares upon exercise of Rights or to distribute certificates which evidence fractional Shares. In lieu of issuing fractional Shares, the Company shall pay to the registered holders of Rights Certificates, at the time such Rights are exercised as herein provided, an amount in cash equal to the fraction of the Market Price of one Share that the fraction of a Share that would otherwise be issuable upon the exercise of such Right is of one whole Share at the date of such exercise.

5.6 Rights of Action

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 holders 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.

5.7 Regulatory Approvals

Any obligation of the Company or action or event contemplated by this Agreement shall be subject to the receipt of any requisite approval or consent from any governmental or regulatory authority, including without limiting the generality of the foregoing, any necessary approvals of The Toronto Stock Exchange, or any other applicable stock exchange or market.

5.8 Notice of Proposed Actions

In case the Company shall propose after the Separation Time and prior to the Expiration Time to effect the liquidation, dissolution or winding up of the Company or the sale of all or substantially all of the Company's assets, then, in each such case, the Company shall give to each holder of a Right, in accordance with Section 5.9 hereof, a notice of such proposed action, which shall specify the date on which such Flip-in Event, liquidation, dissolution, or winding up is to take place, and such notice shall be so given at least 20 Business Days prior to the date of taking of such proposed action by the Company.

5.9 Notices

(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 U.S.A.

Attention: President and CEO
Facsimile: (805) 488-2889

(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.
3rd Floor
510 Burrard Street
Vancouver, BC V6C 3B9

Attention: General Manager, Client Services
Facsimile: (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 first class 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 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 this Section 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 telegraphing, 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.

5.10 Costs of Enforcement

The Company agrees that if the Company fails to fulfil 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, on a solicitor and his own client basis, to enforce his rights pursuant to any Rights or this Agreement.

5.11 Successors

All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and enure to the benefit of their respective successors and assigns hereunder.

5.12 Benefits of this Agreement

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.

5.13 Governing Law

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.

5.14 Severability

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.

5.15 Effective Date

(a) Subject to Section 5.15(b), this Agreement:

(i) shall be effective and in full force and effect in accordance with its terms from and after the Effective Date, and shall constitute the entire agreement between the parties pertaining to the subject matter hereof, as of such time on the Effective Date; and

(ii) shall expire and be of no further force or effect from and after the earlier of (the "**Expiration Time**"): (i) the Termination Time, and (ii) the time at which the annual meeting of shareholders of the Company held in 2017 terminates.

(b) Notwithstanding Section 5.15(a), if this Agreement is not confirmed by a resolution passed by a majority of the votes cast by Independent Shareholders who vote in respect of approval of this Agreement and the Rights Plan at a meeting of shareholders to be held not later than the Meeting Deadline Date, then this Plan and all outstanding Rights shall terminate and be null and void and of no further force and effect from and after the Close of Business on the Meeting Deadline Date.

5.16 Determinations and Actions by the Board of Directors

All actions, calculations and determinations (including all omissions with respect to the foregoing) which are done or made or approved by the Board of Directors in connection herewith, 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.

5.17 Compliance With Money Laundering Legislation

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) that 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.

5.18 Privacy Provision

The parties acknowledge that federal and/or provincial legislation that addresses the protection of individual's personal information (collectively, "**Privacy Laws**") may apply 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 Laws. 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 applicable Privacy Laws.

5.19 Declaration as to Non-Canadian Holders

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 or the United States, 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 or the United States, in which such issue or delivery would be unlawful without registration of the relevant Persons or securities for such purposes.

5.20 Time of the Essence

Time shall be of the essence in this Agreement.

5.21 Force Majeure

No party shall be liable to the other, or held in breach of this Agreement, if prevented, hindered, or delayed in the performance or observance of any provision contained herein by reason of act of God, riots, terrorism, acts of war, epidemics, governmental action or judicial order, earthquakes, or any other similar causes (including, but not limited to, mechanical, electronic or communication interruptions, disruptions or failures). Performance times under this Agreement shall be extended for a period of time equivalent to the time lost because of delay that is excusable under this Section.

5.22 Execution in Counterparts

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.

[REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of January 9, 2014.

STELLAR BIOTECHNOLOGIES, INC.

Per: /s/ Frank R. Oakes
Frank R. Oakes, President/CEO

Per: /s/ Kathi Niffenegger
Kathi Niffenegger, Chief Financial Officer

COMPUTERSHARE INVESTOR SERVICES INC.

Per: 
Authorized Signatory

Per: 
Authorized Signatory

ATTACHMENT 1

STELLAR BIOTECHNOLOGIES, INC.

SHAREHOLDER RIGHTS AGREEMENT (as defined below)

[Form of Rights Certificate]

Certificate No. **Rights**

THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AND AMENDMENT OR TERMINATION ON THE TERMS SET FORTH IN THE SHAREHOLDER RIGHTS AGREEMENT (AS DEFINED BELOW). UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SUBSECTION 3.1(b) OF THE SHAREHOLDER RIGHTS AGREEMENT (AS DEFINED BELOW)), 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 January 9, 2014 as the same may be amended or supplemented from time to time (the "**Shareholder Rights Agreement**"), between Stellar Biotechnologies, Inc., a Company continued under the British Columbia Business Corporations Act, (the "**Company**") and Computershare Investor Services Inc., a trust company incorporated under the laws of Canada (the "**Rights Agent**") (which term shall include any successor Rights Agent under the Shareholder Rights Agreement), to purchase from the Company at any time after the Separation Time (as such term is defined in the Shareholder Rights Agreement) and prior to the Expiration Time (as such term is defined in the Shareholder Rights Agreement), one fully paid common share of the Company (a "**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 any of the cities of Vancouver and Toronto. Until adjustment thereof in certain events as provided in the Shareholder Rights Agreement, the Exercise Price shall be:

(a) until the Separation Time, an amount equal to three times the Market Price (as such term is defined in the Shareholder Rights Agreement), from time to time, per Share; and

(b) from and after the Separation Time, an amount equal to three times the Market Price, as at the Separation Time, per Share.

In certain circumstances described in the Shareholder Rights Agreement, each Right evidenced hereby may entitle the registered holder thereof to purchase or receive assets, debt securities or shares of the Company other than Shares, or more or less than one Share, all as provided in the Shareholder Rights Agreement.

This Rights Certificate is subject to all of the terms and provisions of the Shareholder Rights Agreement, which terms and provisions are incorporated herein by reference and made a part hereof and to which Shareholder Rights 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 Agreement are on file at the registered office of the Company and are available upon request.

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 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.

Subject to the provisions of the Shareholder Rights Agreement, the Rights evidenced by this Rights Certificate may be, and under certain circumstances are required to be, redeemed by the Company at a redemption price of $0.00001 per Right.

No fractional Shares will be issued upon the exercise of any Right or Rights evidenced hereby, but in lieu thereof a cash payment will be made, as provided in the Shareholder Rights Agreement.

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 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 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 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 Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officer of the Company and its corporate seal.

Date: _____

STELLAR BIOTECHNOLOGIES, INC.

Per: _____
Authorized Signatory

Per: _____
Authorized Signatory

Countersigned:

COMPUTERSHARE INVESTOR SERVICES INC.

Per: _____
Authorized Signatory

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires 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 the Company, with full power of substitution.

Dated: _____

_____
Signature

_____
(Please print name of Signatory)

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.)

Signature must be guaranteed by a Canadian chartered bank or trust company, a member firm of a recognized stock exchange in Canada, a registered national securities exchange in the United States, a member of the Investment Dealers Association of Canada or National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in Canada or the United States or a member of the Securities Transfer Association Medallion (Stamp) Program.

CERTIFICATE

(To be completed if true.)

The undersigned party transferring Rights hereunder, hereby represents, for the benefit of all holders of Rights and 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 any of the foregoing. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Agreement.

_____
Signature

_____
(Please print name of Signatory)

(To be attached to each Rights Certificate.)

FORM OF ELECTION TO EXERCISE

(To be executed by the registered holder if such holder desires to exercise the Rights Certificate.)

TO: _____

The undersigned hereby irrevocably elects to exercise _____ whole Rights represented by the attached Rights Certificate to purchase the 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.

Dated: _____ _____
Signature

_____
(Please print name of Signatory)

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

_____
(Please print name of Signatory)

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.)

Signature must be guaranteed by a Canadian chartered bank or trust company, a member firm of a recognized stock exchange in Canada a registered national securities exchange in the United States, a member of the Investment Dealers Association of Canada or National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in Canada or the United States or a member of the Securities Transfer Association Medallion (Stamp) Program.

CERTIFICATE

(To be completed if true.)

The undersigned party exercising Rights hereunder, hereby represents, for the benefit of all holders of Rights and 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 any of the foregoing. Capitalized terms shall have the meaning ascribed thereto in the Shareholder Rights Agreement.

Signature

(Please print name of Signatory)

(To be attached to each Rights Certificate.)

NOTICE

In the event the certification set forth above in the Forms of Assignment and Election to Exercise is not completed, the Company will deem the Beneficial Owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Shareholder Rights Agreement). 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.

STELLAR BIOTECHNOLOGIES, INC.
(the "Company")

ADVANCE NOTICE POLICY

(Initially adopted by the Board of Directors on October 31, 2013)

INTRODUCTION

The Company is committed to: (i) facilitating an orderly and efficient annual general or, where the need arises, special meeting, process; (ii) ensuring that all shareholders receive adequate notice of the director nominations and sufficient information with respect to all nominees; and (iii) allowing shareholders to register an informed vote.

The purpose of this Advance Notice Policy (the "**Policy**") is to provide shareholders, directors and management of the Company with direction on the nomination of directors. This Policy is the framework by which the Company seeks to fix a deadline by which holders of record of common shares of the Company must submit director nominations to the Company prior to any annual or special meeting of shareholders and sets forth the information that a shareholder must include in the notice to the Company for the notice to be in proper written form.

It is the position of the Company that this Policy is beneficial to shareholders and other stakeholders. This policy will be subject to an annual review, and will reflect changes as required by securities regulatory agencies or stock exchanges, or so as to meet industry standards.

NOMINATION OF DIRECTORS

1. Subject only to the *Business Corporations Act* (British Columbia) (the "**BCA**"), only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company. Nominations of persons for election to the board of directors of the Company (the "**Board**") may be made at any annual meeting of shareholders, or at any special meeting of shareholders (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting):

(a) by or at the direction of the Board or an authorized officer of the Company, including pursuant to a notice of meeting;

(b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the BCA or a requisition of the shareholders made in accordance with the provisions of the BCA; or

(c) by any person (a "**Nominating Shareholder**"):

(i) who, at the close of business on the date of the giving of the notice provided for below in this Policy and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and

(ii) who complies with the notice procedures set forth below in this Policy.

2. In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, such person must have given (i) timely notice thereof in proper written form to the Corporate Secretary of the Company at the principal executive offices of the Company in accordance with this Policy and (ii) the representation and agreement with respect to each candidate for nomination as required by, and within the time period specified in §5 of this Policy.

3. To be timely under §2(i) of this Policy, a Nominating Shareholder's notice to the Corporate Secretary of the Company must be made:

(a) in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is called for a date that is less than 40 days after the date (the "**Notice Date**") on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the tenth (10th) day following the Notice Date; and

(b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made.

Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in this §3.

4. To be in proper written form, a Nominating Shareholder's notice to the Corporate Secretary of the Company, under §2(i) of this Policy must set forth:

(a) as to each person whom the Nominating Shareholder proposes to nominate for election as a Director:

(i) the name, age, business address and residence address of the person;

(ii) the principal occupation or employment of the person;

(iii) the class or series and number of shares in the capital of the Company which are controlled or which are owned beneficially or of record by the person as of the record date for the Meeting of Shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice;

(iv) a statement as to whether such person would be "independent" of the Company (within the meaning of sections 1.4 and 1.5 of National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators, as such provisions may be amended from time to time) if elected as a Director at such meeting and the reasons and basis for such determination; and

(v) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the BCA and Applicable Securities Laws (as defined below); and

(b) as to the Nominating Shareholder giving the notice:

(i) any information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the BCA and Applicable Securities Laws, and

(ii) the class or series and number of shares in the capital of the Company which are controlled or which are owned beneficially or of record by the Nominating Shareholder as of the record date for the Meeting of Shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice.

5. To be eligible to be a candidate for election as a director of the Company and to be duly nominated, a candidate must be nominated in the manner prescribed in this Policy and the candidate for nomination, whether nominated by the Board or otherwise, must have previously delivered to the Corporate Secretary of the Company at the principal executive offices of the Company, not less than 5 days prior to the date of the Meeting of Shareholders, a written representation and agreement (in form provided by the Company) that such candidate for nomination, if elected as a director of the Company, will comply with all applicable corporate governance, conflict of interest, confidentiality, share ownership, majority voting and insider trading policies and other policies and guidelines of the Company applicable to directors and in effect during such person's term in office as a director (and, if requested by any candidate for nomination, the Corporate Secretary of the Company shall provide to such candidate for nomination all such policies and guidelines then in effect).

6. No person shall be eligible for election as a director of the Company unless nominated in accordance with the provisions of this Policy; provided, however, that nothing in this Policy shall be deemed to preclude discussion by a shareholder (as distinct from nominating directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the BCA. The chair of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

7. For purposes of this Policy:

(a) "**Affiliate**", when used to indicate a relationship with a 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 specified person;

(b) "**Applicable Securities Laws**" means the *Securities Act* (British Columbia) and the equivalent legislation in the other provinces and in the territories of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commissions and similar regulatory authorities of each of the applicable provinces and territories of Canada;

(c) "**Associate**", when used to indicate a relationship with a specified person, shall mean (A) any corporation or trust of which such person owns beneficially, directly or indirectly, voting securities carrying more than 10% of the voting rights attached to all voting securities of such corporation or trust for the time being outstanding, (B) any partner of that person, (C) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity, (D) a spouse of such specified person, (E) any person of either sex with whom such specified person is living in conjugal relationship outside marriage or (F) any relative of such specified person or of a person mentioned in clauses (D) or (E) of this definition if that relative has the same residence as the specified person;

(d) "**Derivatives Contract**" shall mean a contract between two parties (the "Receiving Party" and the "Counterparty") that is designed to expose the Receiving Party to economic benefits and risks that correspond substantially to the ownership by the Receiving Party of a number of shares in the capital of the Company or securities convertible into such shares specified or referenced in such contract (the number corresponding to such economic benefits and risks, the "Notional Securities"), regardless of whether obligations under such contract are required or permitted to be settled through the delivery of cash, shares in the capital of the Company or securities convertible into such shares or other property, without regard to any short position under the same or any other Derivatives Contract. For the avoidance of doubt, interests in broad-based index options, broad-based index futures and broad-based publicly traded market baskets of stocks approved for trading by the appropriate governmental authority shall not be deemed to be Derivatives Contracts;

(e) "**Meeting of Shareholders**" shall mean such annual shareholders meeting or special shareholders meeting, whether general or not, at which one or more persons are nominated for election to the Board by a Nominating Shareholder;

(f) "**owned beneficially**" or "**owns beneficially**" means, in connection with the ownership of shares in the capital of the Company by a person, (A) any such shares as to which such person or any of such person's Affiliates or Associates owns at law or in equity, or has the right to acquire or become the owner at law or in equity, where such right is exercisable immediately or after the passage of time and whether or not on condition or the happening of any contingency or the making of any payment, upon the exercise of any conversion right, exchange right or purchase right attaching to any securities, or pursuant to any agreement, arrangement, pledge or understanding whether or not in writing; (B) any such shares as to which such person or any of such person's Affiliates or Associates has the right to vote, or the right to direct the voting, where such right is exercisable immediately or after the passage of time and whether or not on condition or the happening of any contingency or the making of any payment, pursuant to any agreement, arrangement, pledge or understanding whether or not in writing; (C) any such shares which are beneficially owned, directly or indirectly, by a Counterparty (or any of such Counterparty's Affiliates or Associates) under any Derivatives Contract (without regard to any short or similar position under the same or any other Derivatives Contract) to which such person or any of such person's Affiliates or Associates is a Receiving Party; provided, however that the number of shares that a person owns beneficially pursuant to this clause (C) in connection with a particular Derivatives Contract shall not exceed the number of Notional Securities with respect to such Derivatives Contract; provided, further, that the number of securities owned beneficially by each Counterparty (including their respective Affiliates and Associates) under a Derivatives Contract shall for purposes of this clause be deemed to include all securities that are owned beneficially, directly or indirectly, by any other Counterparty (or any of such other Counterparty's Affiliates or Associates) under any Derivatives Contract to which such first Counterparty (or any of such first Counterparty's Affiliates or Associates) is a Receiving Party and this proviso shall be applied to successive Counterparties as appropriate; and (D) any such shares which are owned beneficially within the meaning of this definition by any other person with whom such person is acting jointly or in concert with respect to the Company or any of its securities;

(g) "**public announcement**" shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Company or its agents under its profile on the System of Electronic Document Analysis and Retrieval at www.sedar.com; and

(h) the symbol § followed by a number or some combination of numbers and letters refers to the section, paragraph or subparagraph of this Policy so designated.

8. Notwithstanding any other provision to this Policy, notice or any delivery given to the Corporate Secretary of the Company pursuant to this Policy may only be given by personal delivery, facsimile transmission or by email (provided that the Corporate Secretary of the Company has stipulated an email address for purposes of this notice, at such email address as stipulated from time to time), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the Corporate Secretary at the address of the principal executive offices of the Company; provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Vancouver time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

9. In no event shall any adjournment or postponement of a Meeting of Shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described in §3 of this Policy or the delivery of a representation and agreement as described in §5 of this Policy.

CURRENCY

This Policy was last revised and approved by the Board on October 31, 2013.

Exhibit 10.15

AMENDMENT ONE TO LEASE

THIS AMENDMENT ONE TO LEASE (this "**Amendment**") is entered into as of the 24th day of June, 2014, by and between 939 S. Serrano Ave., LLC DBA Beachport Center ("**Landlord**"), and Stellar Biotechnologies, ("**Tenant**").

R E C I T A L S

A. 939 S. Serrano Ave., LLC DBA Beachport Center, ("Landlord"), and Stellar Biotechnologies (" Lessee") entered into that certain Lease dated March 29, 2011, (collectively the "Lease"), whereby Landlord leased to Tenant and Tenant leased from Landlord the "Premises" more particularly described in the Lease as 332 E. Scott St., Port Hueneme Ca 93041.

B. Tenant desires to extend the lease term for the premises and Landlord is willing to modify the term of the lease upon the terms, covenants and conditions as set forth in the lease as modified and amended herein.

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

A G R E E M E N T

1. **Execution of Option Period:** Tenant has executed their only option period which hereby extends the Lease term by Two (2) Years, commencing on July 1, 2014 and Terminating on June 30, 2016

2. **Base Rent ("Base Rent"):** Commencing July 1, 2014 tenant shall pay Base Rent of Five Thousand Six Hundred One 76/100 Dollars ($5,601.76) per month plus Tenants Pro Rata Share of Common Area Operating Expenses, Insurance and Taxes ("Operating Expenses") as defined in the original lease for the Premises.

3. **Rent Escalation:** Beginning July 1, 2015 the rent shall increase by Three (3) percent.

4. **Counterparts:** This Amendment may be executed in one or more counterparts, each of which shall be deemed original, and all of which together shall constitute one and the same instrument.

5. **No Further Modifications:** Except as set forth in this Amendment, all of the terms and provisions of the Existing Lease shall apply and shall remain unmodified and in full force and effect.

6. **Capitalized Terms.** All capitalized terms used herein shall have the same meaning as is given such terms in the Existing Lease unless expressly superseded by the terms of this Amendment.

7. **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.

8. **Confidentiality:** Tenant agrees not to disclose any part of the contents of this Lease to anyone other than its attorneys, accountants or employees who may need to know of its contents in order to perform their duties for Tenant. Tenant further agrees that in the event that they disclose any part of this Amendment One to said persons that Tenant will diligently inform said person of this "Confidentiality" clause and the importance of maintaining the contents hereof confidential. It is agreed that any other disclosure of the contents of the Lease or Amendment One by Tenant shall be an Event of Default by Tenant under the terms of the Lease.

(Signatures on following page)

Except as amended herein, all other terms, conditions, covenants and agreements contained in the Lease are hereby ratified and affirmed and shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed as of the day and year first above written.

TENANT:

Stellar Biotechnologies

By: */s/ Kathi Niffenegger*

Name: Kathi Niffenegger

Its: CFO

LANDLORD:

939 S. Serrano Ave., LLC DBA Beachport Center

By: */s/ Steve Jacoby*
Steve Jacoby

Its: Partner

(The Balance of this document is left intentionally blank)

Exhibit 10.16

UNITS #4 AND #5
SUBLEASE AMENDMENT NO. 2

Amendment of Sublease

For the twelve month period of time commencing November 1, 2010, Lessee and Lessor hereby agree that the new Base Rent under the Sublease dated October 2, 2000, as amended on October 14, 2005, shall be $0.16 per square foot of land. Accordingly, Paragraph 60 of said Sublease is hereby amendment and replaced by the following:

60. Establishment of Base Rent During the Second Five Year Option Period.
Commencing November 1, 2010 and continuing through October 31, 2011, Lessee's Base Rent shall be $4,751.84 for Units #4 and #5. This rental rate takes into account the 1,000 square feet of Unit #4 that is associated with the common area pump house, and Lessee is not required to pay rent on said common area. On November 1, 2011, the Base Rent shall be adjusted on each anniversary date for the remainder of the Sublease term by any increase in the Consumer Price Index (for Ventura County, if available; otherwise for the Los Angeles/Long Beach metropolitan area) that occurred over the preceding 12 moth period (but not reduced).

Lessor hereby acknowledges and agrees to the last of two five year options to extend the Unit #4 and #5 Sublease for the period of November 1, 2010 through November 1, 2015 and Lessor and Lessee hereby consent to the foregoing Amendment of the Sublease. This Amendment does not release Lessee form liability for any obligations of the Sublease under the Sublease.

Dated : 11/13/14

Stellar Biotechnologies, Inc.

By: _____
Frank Oaks, CEO
Lessee

Dated : _____

Port Hueneme Surplus Property Authority

By: _____
David J. Norman, Manager
Lessor

Dated : 11-13-14

Port Hueneme Surplus Property Authority

By: _____
Cynthia Haas, Manager
Lessor

Exhibit 10.17

UNIT #7
SUBLEASE AMENDMENT NO. 1

Amendment of Sublease

For the twelve month period of time commencing November 1, 2010, Lessee and Lessor hereby agree that the new Base Rent under the Sublease dated August 1, 2005, shall be $0.16 per square foot of land. Accordingly, Paragraph 60 of said Sublease is hereby amendment and replaced by the following:

60. Establishment of Base Rent During the First Five Year Option Period.
Commencing November 1, 2010 and continuing through October 31, 2011, Lessee's Base Rent shall be $2,319.20 for Unit #7. On November 1, 2011, the Base Rent shall be adjusted on each anniversary date for the remainder of the Sublease term, by any increase in the Consumer Price Index (for Ventura County, if available; otherwise for the Los Angeles/Long Beach metropolitan area) that occurred over the preceding 12 moth period (but not reduced).

Lessor hereby acknowledges and agrees to the first of two five year options to extend the Unit #7 Sublease for the period of November 1, 2010 through November 1, 2015 and Lessor and Lessee hereby consent to the foregoing Amendment of the Sublease. This Amendment does not release Lessee form liability for any obligations of the Sublease under the Sublease.

Dated : 11/13/14

Stellar Biotechnologies, Inc.

By: _____
Frank Oaks, CEO
Lessee

Dated : _____

Port Hueneme Surplus Property Authority

By: _____
David J. Norman, Manager
Lessor

Dated : 11-13-14

Port Hueneme Surplus Property Authority

By: _____
Cynthia Haas, Manager
Lessor

Exhibit 21

STELLAR BIOTECHNOLOGIES, INC. AND SUBSIDIARIES

Entity	State of Incorporation/ Organization
Stellar Biotechnologies, Inc.	California

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

I, Frank R. Oakes, certify that:

1. I have reviewed this Annual Report on Form 10-K of Stellar Biotechnologies, Inc. for the year ended August 31, 2014;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

I, Kathi Niffenegger, certify that:

1. I have reviewed this Annual Report on Form 10-K of Stellar Biotechnologies, Inc. for the year ended August 31, 2014;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

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

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Stellar Biotechnologies, Inc. (the "Company") for the fiscal year ended August 31, 2014 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Frank R. Oakes, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2014

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

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of Stellar Biotechnologies, Inc. (the "Company") for the fiscal year ended August 31, 2014 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Kathi Niffenegger, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2014

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