



January 4, 2007

To our Shareholders:

I am pleased to inform you that President Bush has signed legislation that could accelerate the commercialization of our Hemopurifier™ treatment technology. The legislation, known as the Pandemic and All-Hazards Preparedness Act, establishes a new federal agency, the Biomedical Advanced Research and Development Authority (BARDA). While previous biodefense legislation focused on stockpiling approved therapeutics, BARDA has been provided with \$1 billion to fund the development and commercialization of qualified countermeasures able to diagnose, mitigate, prevent, or treat bioterror and pandemic influenza threats. BARDA will also direct advance payments against procurement purchase orders for treatment countermeasures not yet approved by the FDA. As recently reported in The Washington Post, the new law could benefit several companies, including Aethlon Medical. ([www.aethlonmedical.com/pdfs/WashingtonPost121306.pdf](http://www.aethlonmedical.com/pdfs/WashingtonPost121306.pdf))

Our potential to benefit is based on the unfortunate reality that most bioterror threats are not addressed with a corresponding drug or vaccine countermeasure. The additional threat of hybrid and genetically modified pathogens, purposely designed to be resistant to drugs and vaccines, magnifies the problem. A feature story in the latest issue of the Homeland Defense Journal, details how our Hemopurifier™, as a first-in-class medical device, is uniquely positioned to fill the void in treating such threats. ([www.aethlonmedical.com/pdfs/HDJ\\_December\\_06.pdf](http://www.aethlonmedical.com/pdfs/HDJ_December_06.pdf))

The Hemopurifier™ has been designed for the single-use removal of viral pathogens from circulation, with the treatment goal being the reduction of infectious virus and related toxins from circulation. Related to biodefense, it serves to augment the benefit of therapies when available, and fills the treatment void when drug and vaccine therapies do not exist. In other

words, the Hemopurifier™ offers a mechanism to address diseases previously deemed untreatable. Since it selectively captures a wide range of viral pathogens, the Hemopurifier™ may also prove useful in controlling the post-exposure spread of unidentified bioterror agents.

Another trend favorable to our biodefense effort is the transition towards treatments that have broad-spectrum applications. The term broad-spectrum references therapies, including the Hemopurifier™, that offer the ability to cross the boundaries of treating multiple strains of different pathogens. While hope exists for drug or vaccine countermeasures against material bioterror threats, the development of corresponding treatments for every possible agent is unrealistic. The probability that single-pathogen treatment stockpiles could be rendered useless by hybrid or genetically engineered pathogens is especially frightening. As such, the development of broad-spectrum therapies will be embraced as a complimentary strategy for treating bioterror agents and naturally evolving threats such as H5N1 influenza. In regards to our Hemopurifier™, we believe the benefits could extend to those infected with chronic conditions, such as HIV and Hepatitis-C.

In order to capitalize on present opportunities, we are actively preparing a regulatory submission that focuses on the bioterror threats addressed by BARDA and Project BioShield. We plan to submit a formal Investigational Device Exemption (IDE) to the Food and Drug Administration (FDA) by the end the first quarter this year. We have already submitted a preliminary IDE and recently met with FDA officials to present our clinical plan to initiate human studies required to commercialize our technology in the United States. Once approved by the FDA, an IDE allows for the initiation of clinical efforts required to support the Pre-Market Approval (PMA) of a medical device. Under BARDA and Project BioShield, the Hemopurifier™ will be positioned as a broad-spectrum countermeasure to assist in the treatment of bioterror threats. Initial indications of use may include Smallpox, Lassa, Ebola, and Marburg virus.

BARDA and Project BioShield provide several incentives that encourage us to pursue the treatment of bioterror threats and pandemic influenza. These include regulatory fast track and priority review provisions, opportunities for early commercialization under Emergency Use Authorization (EUA) programs, and purchase orders to stockpile treatment inventories prior to

regulatory approval. Our primary challenge in human studies will be the demonstration of treatment safety, as human efficacy studies of bioterror threats and pandemic influenza are not permissible. Based on observations of safety in human studies administered at the Apollo Hospital in India last year, we are optimistic in our abilities to meet the human safety challenge in U.S. studies. Our IDE submission will also detail other studies, including those that reinforce the ability of our Hemopurifier<sup>TM</sup> to capture viral pathogens from blood. In this regard, we are pursuing research collaborations with government and non-governmental organizations permitted to operate highly secure bio-safety labs. These labs allow the study of infectious agents that pose a high risk of life-threatening disease for which no vaccine or therapy is available.

In addition to progress on the biodefense front, we plan to continue initiatives to pursue commercialization opportunities overseas. In this regard, we have agreed to partner with the Government of India to begin testing of our Hemopurifier<sup>TM</sup> as a potential treatment for Dengue Hemorrhagic Fever (DHF). The research will be conducted at the National Institute of Virology (NIV), a leading infectious disease research center in India, which is also designated as a collaborating laboratory of the World Health Organization (WHO). Dengue virus and DHF represent an international health issue that remains untreatable with traditional antiviral drug and vaccine therapy. The global prevalence of Dengue has grown dramatically in recent decades. The disease is now endemic in more than 100 countries, and according to the World Health Organization, as many as 50 million cases of dengue infection occur each year. Beyond the treatment of Dengue, we are exploring opportunities to leverage the value of the relationship footprint we have established in India's emerging marketplace.

Our goal is to establish the market for therapeutic devices able to improve the treatment of infectious disease and cancer. Over past year, we made progress towards this goal, including the first use of our technology in man. Considering the stage of our development and the breadth of market applications, we remain disappointed in our present market valuation. Regardless, we have an executable path to market, which offers improved treatment outcomes for patients, and the promise of appropriate valuations for our shareholders. On behalf our team at Aethlon, I thank you for your continued support.

Very truly yours,

A handwritten signature in dark ink, consisting of stylized, overlapping loops and strokes that appear to read 'J. Joyce'.

James A. Joyce  
Chairman, CEO