

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AETHLON MEDICAL, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA
(State or Other Jurisdiction of
Incorporation or Organization)13-3632859
(I.R.S. Employer
Identification No.)3826
(Primary Standard Industrial
Classification Number)3030 BUNKER HILL STREET, SUITE 4000
SAN DIEGO, CALIFORNIA 92109
(858) 459-7800
(Address, Including Zip Code and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)JAMES A. JOYCE
3030 BUNKER HILL STREET, SUITE 4000
SAN DIEGO, CALIFORNIA 92109
(858) 459-7800
(Name, Address, Including Zip Code and Telephone Number,
Including Area Code, of Agent for Service)

WITH COPIES OF ALL CORRESPONDENCE TO:

JENNIFER A. POST, ESQ.
RICHARDSON & PATEL LLP
10900 WILSHIRE BLVD. SUITE 500
LOS ANGELES, CALIFORNIA 90024
(310) 208-1182APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to
time after the effective date of this registration statement.If any of the securities being registered on this form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act
of 1933, check the following box. ☒If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the
following box and list the Securities Act registration statement number of
the earlier effective registration statement for the same offering. ☐If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities
Act registration statement number of the earlier effective registration
statement for the same offering. ☐If this Form is a post-effective amendment filed pursuant to Rule 462(d)
under the Securities Act, check the following box and list the Securities
Act registration statement number of the earlier effective registration
statement for the same offering. ☐

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Per Share Offering Price	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock	8,000,000 (2)	\$0.57 (1)	\$4,560,000	\$179.21

Total	8,000,000	\$0.57	\$4,560,000	\$179.21
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- (1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) of Regulation C as of the close of the market on February 7, 2008, based on the average of the high and low prices for that date.
- (2) 8,000,000 common shares issued or issuable to Fusion Capital Fund II, LLC under a common stock purchase agreement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE: IN COMPLIANCE WITH THE RECENTLY PUBLISHED CHANGES TO THE SECURITIES AND EXCHANGE COMMISSION'S RULES AND REGULATIONS CONCERNING "SMALLER REPORTING COMPANIES" AND THE USE OF FORM S-1 FOR REGISTRATIONS UNDER THE SECURITIES ACT OF 1933, THE REGISTRANT HAS PREPARED THIS FORM S-1 UTILIZING THE SUBSTANTIVE DISCLOSURE REQUIREMENTS OF REGULATION SB AS NOW INCORPORATED UNDER REGULATION SK. THE REGISTRANT IS ALSO UTILIZING THE CURRENT FORM S-1 COVER PAGE FOR THIS FILING PENDING RELEASE OF FINAL UPDATES TO THE FORM.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED FEBRUARY 11, 2008

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

AETHLON MEDICAL, INC.

8,000,000 Shares of Common Stock

This prospectus relates to the sale of up to 8,000,000 shares of our common stock by Fusion Capital Fund II, LLC. Fusion Capital is sometimes referred to in this prospectus as the selling shareholder. The prices at which Fusion Capital may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive proceeds from the sale of our shares by Fusion Capital.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and quoted on the Over-The-Counter Bulletin Board under the symbol "AEMD.OB" On February 7, 2008, the last reported sale price for our common stock as reported on the Over-The-Counter Bulletin Board was \$0.57 per share.

Investing in our common stock involves certain risks. See "Risk Factors" beginning on page 2 for a discussion of these risks.

The selling shareholder is an "underwriter" within the meaning of the Securities Act of 1933, as amended.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is February 11, 2008.

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PROSPECTUS SUMMARY

This summary highlights important information about our company and business. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire prospectus and the financial statements and related notes included in this prospectus carefully, including the "Risk Factors" section. Unless the context requires otherwise, "WE," "US," "OUR," " " and the "COMPANY" and similar terms collectively refer to Aethlon Medical, Inc.

THE COMPANY

We are a development stage medical device company focused on expanding the applications of our Hemopurifier (R) platform technology, which is designed to rapidly reduce the presence of infectious viruses and other toxins from human blood. In this regard, our core focus is the development of therapeutic devices that treat acute viral conditions, chronic viral diseases and pathogens targeted as potential biological warfare agents. The Hemopurifier(R) combines the established scientific principles of affinity chromatography and hemodialysis as a means to mimic the immune system's response of clearing viruses and toxins from the blood before cell and organ infection can occur. The Hemopurifier(R) cannot cure viral conditions but can prevent virus and toxins from infecting unaffected tissues and cells. We have completed pre-clinical blood testing of the Hemopurifier(R) to treat HIV and Hepatitis-C, and have completed human safety trials on Hepatitis-C infected patients in India and are in the process of obtaining regulatory approval from the U.S. Food and Drug Administration ("FDA") to initiate clinical trials in the United States.

The commercialization of the Hemopurifier(R) will likely require the completion of human efficacy clinical trials. The approval of any application of the Hemopurifier(R) in the United States will necessitate the approval of the FDA to initiate human studies. Such studies could take years to demonstrate safety and effectiveness in humans and there is no assurance that the Hemopurifier(R) will be cleared by the FDA as a device we can market to the

medical community. We also expect to face similar regulatory challenges from foreign regulatory agencies, should we attempt to commercialize and market the Hemopurifier(R) outside of the United States. As a result, we have not generated revenues from the sale of any Hemopurifier(R) application. Additionally, there have been no independent validation studies of our Hemopurifiers(R) to treat infectious disease. We manufacture our products on a small scale for testing purposes but have yet to manufacture our products on a large scale for commercial purposes. All of our pre-clinical human blood studies have been conducted in our laboratories under the direction of Dr. Richard Tullis, our Chief Science Officer.

As of January 22, 2008, we had issued and outstanding 37,169,188 common shares, and common share purchase options and warrants entitling the holders to purchase up to 26,246,781 common shares. We are a Nevada corporation. Our principal executive offices are located at 3030 Bunker Hill Street, Suite 4000, San Diego, California 92109. Our telephone number is (858) 459-7800. The address of our website is www.aethlonmedical.com. Information on our website is not a part of this prospectus.

THE OFFERING

Fusion Capital, the selling shareholder under this prospectus, is offering for sale up to 8,000,000 shares of our common stock hereto. On March 21, 2007, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC, an Illinois limited liability company. On August 10, 2007, we entered into the first amendment to the common stock purchase agreement. Under the agreement as amended, Fusion Capital is obligated, under certain conditions, to purchase shares from us in an aggregate amount of \$8.4 million from time to time over a 25 month period. On March 27, 2007, we sold 1,333,333 shares of common stock to Fusion Capital under the agreement for total proceeds of \$400,000. Under the terms of the common stock purchase agreement, Fusion Capital has received a commitment fee consisting of 1,050,000 shares of our common stock. We have reserved up to an additional 8,000,000 shares of our common stock for sale to Fusion Capital under the agreement. As of January 22, 2008, there were 37,169,188 shares outstanding (36,356,244 shares held by non-affiliates) excluding the 8,000,000 shares offered by Fusion Capital pursuant to this prospectus which it has not yet purchased from us. If all of such 8,000,000 shares offered hereby were issued and outstanding as of the date hereof, the 8,000,000 shares would represent approximately 17.71% of the total common stock outstanding or approximately 18.03% of the non-affiliate shares outstanding as of January 22, 2008. The number of shares ultimately offered for sale by Fusion Capital is dependent upon the number of shares purchased by Fusion Capital under the agreement.

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We do not have the right to make any additional sales of our shares to Fusion Capital unless and until the US Securities & Exchange Commission has declared effective the registration statement of which this prospectus is a part. After the Securities & Exchange Commission has declared effective such registration statement, generally we will have the right, but not the obligation, from time to time to sell our shares to Fusion Capital in amounts between \$32,000 and \$1.0 million depending on certain conditions. We have the right to control the timing and amount of any sales of our shares to Fusion Capital. The purchase price of the shares will be determined based upon the market price of our shares without any fixed discount at the time of each sale. Fusion Capital shall not have the right nor the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below \$0.25. The agreement may be terminated by us at any time at our discretion without any cost to us.

SUMMARY FINANCIAL DATA

The following tables summarize the consolidated statements of operations and balance sheet data for our company.

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CONSOLIDATED STATEMENTS OF OPERATIONS DATA:		SIX MONTHS ENDED SEPTEMBER 30, (UNAUDITED)		YEARS ENDED MARCH 31,	
-----		-----		-----	
2006		2007	2006	2007	
-----		-----		-----	
	Revenue	\$	0	\$	0
0				\$	0
	Gross profit	\$	0	\$	0
0				\$	0
	Operating loss	\$	(1,561,301)	\$	(2,084,254)
(2,094,939)				\$	

Net loss	\$ (791,251)	\$ (1,246,810)	\$ (6,024,545)	\$
(2,920,183)				
Net loss attributed to common shareholders	\$ (791,251)	\$ (1,246,810)	\$ (6,024,545)	\$
(2,920,183)				
Loss per common share, basic and diluted	\$ (0.02)	\$ (0.05)	\$ (0.22)	\$
(0.15)				
Weighted average common shares outstanding, basic and diluted	32,489,949	25,779,241	26,937,727	
19,551,501				

CONSOLIDATED BALANCE SHEET DATA:

	September 30, 2007 (UNAUDITED)	MARCH 31, 2007
Current assets	\$ 188,425	\$ 444,676
Total assets	\$ 353,328	\$ 613,358
Total current liabilities	\$ 6,893,034	\$ 7,705,028
Accumulated deficit	\$(28,878,243)	\$(28,086,992)
Total stockholders' deficit	\$ (6,539,706)	\$ (7,091,670)
Total liabilities and stockholders' deficit	\$ 353,328	\$ 613,358

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RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. In such an event, the trading price for our common shares could decline substantially, and you could lose all or part of your investment. In order to attain an appreciation for these risks and uncertainties, you should read this prospectus in its entirety and consider all of the information and advisements contained in this prospectus, including the following risk factors and uncertainties.

RISKS RELATING TO OUR BUSINESS

WE HAVE INCURRED SIGNIFICANT LOSSES AND EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE.

We have yet to establish any history of profitable operations. We have not had any significant revenues from our principal operations. We have incurred annual operating losses of \$2,084,254, \$2,094,939 and \$2,183,377, for the fiscal years ended March 31, 2007, 2006, and 2005, respectively, and an operating loss of \$1,561,301 in the six months ended September 30, 2007. At March 31, 2007, we had an accumulated deficit of \$28,086,992. We have incurred net losses of \$6,024,545 and \$2,920,183 for the fiscal years ended March 31, 2007 and 2006 and \$791,251 for the six months ended September 30, 2007. We have not had revenues to date. We expect that our revenues, if any, will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful commercialization of our Hemopurifier(R) technology. No assurances can be given when or if this will occur or that we will ever generate revenues or be profitable.

WE HAVE RECEIVED AN EXPLANATORY PARAGRAPH FROM OUR AUDITORS REGARDING OUR ABILITY TO CONTINUE AS A GOING CONCERN

Our independent registered public accounting firm noted in their report accompanying our financial statements for our fiscal year ended March 31, 2007 that we had a significant deficit accumulated during the development stage, had a working capital deficit and that a significant amount of additional capital will be necessary to advance the development of our products to the point at which we may become commercially viable and stated that those conditions raised substantial doubt about our ability to continue as a going concern. Note 1 to our financial statements for the year ended March 31, 2007 addressed management's plans to address these matters. We cannot assure you that our business plans will be successful in addressing these issues. This explanatory paragraph about our ability to continue as a going concern could affect our ability to obtain additional financing at favorable terms, if at all, as it may cause investors to lose faith in our long term prospects. If we cannot successfully continue as a going concern, our shareholders may lose their entire investment in our common shares.

WE WILL REQUIRE ADDITIONAL FINANCING TO SUSTAIN OUR OPERATIONS AND WITHOUT IT WE WILL NOT BE ABLE TO CONTINUE OPERATIONS; OUR AGREEMENT WITH FUSION CAPITAL MAY NOT PROVIDE SUFFICIENT OPERATING CAPITAL FOR US.

We only have the right to receive \$32,000 every two business days under the agreement with Fusion Capital unless our stock price equals or exceeds \$0.30, in which case we can sell greater amounts to Fusion Capital as the price of our common stock increases. Fusion Capital shall not have the right nor the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than \$0.25. Since we are registering 8,000,000 shares that we may sell to Fusion Capital pursuant to this prospectus not including the commitment shares or the 1,333,333 shares already purchased by Fusion Capital, the selling price of our common stock to Fusion Capital will have to average approximately \$1.00 per share for us to receive the remaining proceeds of \$8,000,000. Assuming a purchase price of \$0.61 per share (the closing sale price of the common stock on January 25, 2008) and the purchase by Fusion Capital of the full 8,000,000 shares under the common stock purchase agreement, proceeds to us would be \$5,280,000 which includes the initial purchase of 1,333,333 shares for \$400,000.

The extent to which we rely on Fusion Capital as a source of funding will depend on a number of factors including, the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources, such as through the sale of our products. Specifically, Fusion Capital shall not have the right nor the obligation to purchase any shares of our common stock on any business days that the market price of our common stock is less than \$0.25. If obtaining sufficient financing from Fusion Capital were to prove unavailable or prohibitively dilutive and if we are unable to generate cash from the sale of enough of our products, we will need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the maximum of \$8,400,000 under the common stock purchase agreement with Fusion Capital, we may still need additional capital to fully implement our business, operating and development plans. Should the financing we require to sustain our working capital needs be unavailable to us on reasonable terms when we require it, the consequences could be a material adverse effect on our business, operating results, financial condition and prospects.

WE MAY FAIL TO OBTAIN GOVERNMENT CONTRACTS TO DEVELOP OUR HEMOPURIFIER(R) TECHNOLOGY FOR BIODEFENSE APPLICATIONS.

The U.S. Government has undertaken commitments to help secure improved countermeasures against bioterrorism. To date, we have been unsuccessful in obtaining grant income. As a result, future attempts to obtain grant income from the Federal Government will be sought through direct communication to government health and military agencies, and may include unsolicited proposals to provide the Hemopurifier(R) as a treatment countermeasure.

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At present, the Hemopurifier(R) has not been approved for use by any U.S. Government agency, nor have we received any contracts to purchase the Hemopurifier(R). Since inception, we have not generated revenues from the sale of any product based on our Hemopurifier(R) technology platform. The process of obtaining government contracts is lengthy with the uncertainty that we will be successful in obtaining announced grants or contracts for therapeutics as a medical device technology. Accordingly, we cannot be certain that we will be awarded any U.S. Government grants or contracts utilizing our Hemopurifier(R) platform technology.

IF THE U.S. GOVERNMENT FAILS TO PURCHASE SUFFICIENT QUANTITIES OF ANY FUTURE BIODEFENSE CANDIDATE UTILIZING OUR HEMOPURIFIER(R) PLATFORM TECHNOLOGY, WE MAY BE UNABLE TO GENERATE SUFFICIENT REVENUES TO CONTINUE OPERATIONS.

We cannot be certain of the timing or availability of any future funding from the U.S. Government, and substantial delays or cancellations of funding could result from protests or challenges from third parties once such funding is obtained. If we develop products utilizing our Hemopurifier(R) platform technology that are approved by the U.S. Food and Drug Administration (the "FDA"), but the U.S. Government does not place sufficient orders for these products, our future business will be harmed.

U.S. GOVERNMENT AGENCIES HAVE SPECIAL CONTRACTING REQUIREMENTS, WHICH CREATE ADDITIONAL RISKS.

Our business plan to provide biodefense product candidates may involve contracts with the U.S. Government. U.S. Government contracts typically contain unfavorable termination provisions and are subject to audit and modification by the government at its sole discretion, which subjects us to additional risks. These risks include the ability of the U.S. Government to unilaterally:

- o suspend or prevent us for a period of time from receiving new contracts or extending existing contracts based on violations or suspected violations of laws or regulations;
- o audit and object to our contract-related costs and fees, including allocated indirect costs;

- o control and potentially prohibit the export of our products;
and
- o change certain terms and conditions in our contracts.

If we were to become a U.S. Government contractor, we would be required to comply with applicable laws, regulations and standards relating to our accounting practices and would be subject to periodic audits and reviews. As part of any such audit or review, the U.S. Government may review the adequacy of, and our compliance with, our internal control systems and policies, including those relating to our purchasing, property, estimating, compensation and management information systems. Based on the results of its audits, the U.S. Government may adjust our contract-related costs and fees, including allocated indirect costs. In addition, if an audit or review uncovers any improper or illegal activity, we would possibly be subject to civil and criminal penalties and administrative sanctions, including termination of our contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. We could also suffer serious harm to our reputation if allegations of impropriety were made against us. Although adjustments arising from government audits and reviews have not seriously harmed our business in the past, future audits and reviews could cause adverse effects. In addition, under U.S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of our research and development costs, and some marketing expenses, would possibly not be reimbursable or allowed under such contracts. Further, as a U.S. Government contractor, we would be subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not.

WE WILL FACE INTENSE COMPETITION FROM COMPANIES THAT HAVE GREATER FINANCIAL, PERSONNEL AND RESEARCH AND DEVELOPMENT RESOURCES THAN OURS. THESE COMPETITIVE FORCES MAY IMPACT OUR PROJECTED GROWTH AND ABILITY TO GENERATE REVENUES AND PROFITS, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

Our competitors are developing vaccine candidates, which could compete with the Hemopurifier(R) medical device candidates we are developing. Our commercial opportunities will be reduced or eliminated if our competitors develop and market products for any of the diseases we target that:

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- o are more effective;
- o have fewer or less severe adverse side effects;
- o are better tolerated;
- o are more adaptable to various modes of dosing;
- o are easier to administer; or
- o are less expensive than the products or product candidates we are developing.

Even if we are successful in developing effective Hemopurifier(R) products, and obtain FDA and other regulatory approvals necessary for commercializing them, our products may not compete effectively with other successful products. Researchers are continually learning more about diseases, which may lead to new technologies for treatment. Our competitors may succeed in developing and marketing products that are either more effective than those that we may develop, alone or with our collaborators, or that are marketed before any products we develop are marketed.

The Congress' passage of the Project BioShield Bill, a comprehensive effort to develop and make available modern, effective drugs and vaccines to protect against attack by biological and chemical weapons or other dangerous pathogens, may encourage competitors to develop their own product candidates. We cannot predict the decisions that will be made in the future by the various government agencies as a result of such legislation.

Our competitors include fully integrated pharmaceutical companies and biotechnology companies as well as universities and public and private research institutions. Many of the organizations competing with us, have substantially greater capital resources, larger research and development staffs and facilities, greater experience in product development and in obtaining regulatory approvals, and greater marketing capabilities than we do.

The market for medical devices is intensely competitive. Many of our potential competitors have longer operating histories, greater name recognition, more employees, and significantly greater financial, technical, marketing,

public relations, and distribution resources than we have. This intense competitive environment may require us to make changes in our products, pricing, licensing, services or marketing to develop, maintain and extend our current technology. Price concessions or the emergence of other pricing or distribution strategies of competitors may diminish our revenues (if any), adversely impact our margins or lead to a reduction in our market share (if any), any of which may harm our business.

WE HAVE LIMITED MANUFACTURING EXPERIENCE.

To achieve the levels of production necessary to commercialize our Hemopurifier(R) products, we will need to secure manufacturing agreements with contract manufacturers which comply with good manufacturing practice standards and other standards prescribed by various federal, state and local regulatory agencies in the U.S. and any other country of use.

We have limited experience manufacturing products for testing purposes and no experience manufacturing products for large scale commercial purposes. We will likely outsource the manufacture of our Hemopurifier(R) products to third parties operating FDA-certified facilities. To date, we have manufactured devices on a small scale for testing purposes. There can be no assurance that manufacturing and control problems will not arise as we attempt to commercialize our products or that such manufacturing can be completed in a timely manner or at a commercially reasonable cost. Any failure to address such problems could delay or prevent commercialization of our products and would have a material adverse effect on us.

OUR HEMOPURIFIER(R) TECHNOLOGY MAY BECOME OBSOLETE.

Our Hemopurifier(R) products may be made unmarketable by new scientific or technological developments where new treatment modalities are introduced that are more efficacious and/or more economical than our Hemopurifier(R) products. The Homeland Security industry is growing rapidly with many competitors trying to develop products or vaccines to protect against infectious disease. Any one of our competitors could develop a more effective product which would render our technology obsolete.

OUR USE OF HAZARDOUS MATERIALS, CHEMICALS AND VIRUSES REQUIRE US TO COMPLY WITH REGULATORY REQUIREMENTS AND EXPOSES US TO POTENTIAL LIABILITIES.

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Our research and development involves the controlled use of hazardous materials, chemicals and viruses. The primary hazardous materials include chemicals needed to construct the Hemopurifier(R) cartridges and the infected plasma samples used in preclinical testing of the Hemopurifier(R). All other chemicals are fully inventoried and reported to the appropriate authorities, such as the fire department, who inspect the facility on a regular basis. We are subject to federal, state, local and foreign laws governing the use, manufacture, storage, handling and disposal of such materials. Although we believe that our safety procedures for the use, manufacture, storage, handling and disposal of such materials comply with the standards prescribed by federal, state, local and foreign regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. We have had no incidents or problems involving hazardous chemicals or biological samples. In the event of such an accident, we could be held liable for significant damages or fines. We currently carry a limited amount of insurance to protect us from these damages. In addition, we may be required to incur significant costs to comply with regulatory requirements in the future.

WE ARE DEPENDENT FOR OUR SUCCESS ON A FEW KEY EXECUTIVE OFFICERS. OUR INABILITY TO RETAIN THOSE OFFICERS WOULD IMPEDE OUR BUSINESS PLAN AND GROWTH STRATEGIES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce and our Chief Science Officer, Richard H. Tullis. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. The loss of Dr. Tullis would harm the clinical development of our products due to his unique experience with the Hemopurifier(R) technology. The loss of Dr. Tullis and/or Mr. Joyce would be detrimental to our growth as they possess unique knowledge of our business model and infectious disease which would be difficult to replace within the biotechnology field. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. Although Mr. Joyce and Mr. Tullis have signed employment agreements providing for their continued service to our company, these agreements will not preclude them from leaving our company. We do not currently carry key man life insurance policies on any of our key executive officers which would assist us in recouping our costs in the event of the loss of those officers.

OUR INABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL COULD IMPEDE OUR ABILITY TO GENERATE REVENUES AND PROFITS AND TO OTHERWISE IMPLEMENT OUR BUSINESS PLAN AND GROWTH STRATEGIES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND COULD ADVERSELY AFFECT THE VALUE OF YOUR INVESTMENT.

We currently have an extremely small staff comprised of five full time employees consisting of our Chief Executive Officer, our President, our Chief Science Officer, a research scientist, a research associate and other personnel employed on a contract basis. We also employ a Senior Vice President - Finance on a part time, contract basis. Although we believe that these employees and consultants, will be able to handle most of our additional administrative, research and development and business development in the near term, we will nevertheless be required over the longer-term to hire highly skilled managerial, scientific and administrative personnel to fully implement our business plan and growth strategies. Due to the specialized scientific nature of our business, we are highly dependent upon our ability to attract and retain qualified scientific, technical and managerial personnel. Competition for these individuals, especially in San Diego where many biotechnology companies are located, is intense and we may not be able to attract, assimilate or retain additional highly qualified personnel in the future. We cannot assure you that we will be able to engage the services of such qualified personnel at competitive prices or at all, particularly given the risks of employment attributable to our limited financial resources and lack of an established track record.

WE PLAN TO GROW RAPIDLY, WHICH WILL PLACE STRAINS ON OUR MANAGEMENT TEAM AND OTHER COMPANY RESOURCES TO BOTH IMPLEMENT MORE SOPHISTICATED MANAGERIAL, OPERATIONAL AND FINANCIAL SYSTEMS, PROCEDURES AND CONTROLS AND TO TRAIN AND MANAGE THE PERSONNEL NECESSARY TO IMPLEMENT THOSE FUNCTIONS. OUR INABILITY TO MANAGE OUR GROWTH COULD IMPEDE OUR ABILITY TO GENERATE REVENUES AND PROFITS AND TO OTHERWISE IMPLEMENT OUR BUSINESS PLAN AND GROWTH STRATEGIES, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

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We will need to significantly expand our operations to implement our longer-term business plan and growth strategies. We will also be required to manage multiple relationships with various strategic partners, technology licensors, customers, manufacturers and suppliers, consultants and other third parties. This expansion and these expanded relationships will require us to significantly improve or replace our existing managerial, operational and financial systems, procedures and controls; to improve the coordination between our various corporate functions; and to manage, train, motivate and maintain a growing employee base. The time and costs to effectuate these steps may place a significant strain on our management personnel, systems and resources, particularly given the limited amount of financial resources and skilled employees that may be available at the time. We cannot assure you that we will institute, in a timely manner or at all, the improvements to our managerial, operational and financial systems, procedures and controls necessary to support our anticipated increased levels of operations and to coordinate our various corporate functions, or that we will be able to properly manage, train, motivate and retain our anticipated increased employee base.

WE MAY HAVE DIFFICULTY IN ATTRACTING AND RETAINING MANAGEMENT AND OUTSIDE INDEPENDENT MEMBERS TO OUR BOARD OF DIRECTORS AS A RESULT OF THEIR CONCERNS RELATING TO THEIR INCREASED PERSONAL EXPOSURE TO LAWSUITS AND SHAREHOLDER CLAIMS BY VIRTUE OF HOLDING THESE POSITIONS IN A PUBLICLY-HELD COMPANY.

The directors and management of publicly traded corporations are increasingly concerned with the extent of their personal exposure to lawsuits and shareholder claims, as well as governmental and creditor claims which may be made against them, particularly in view of recent changes in securities laws imposing additional duties, obligations and liabilities on management and directors. Due to these perceived risks, directors and management are also becoming increasingly concerned with the availability of directors and officers liability insurance to pay on a timely basis the costs incurred in defending such claims. We currently do carry limited directors and officers liability insurance. Directors and officers liability insurance is expensive and difficult to obtain. If we are unable to continue or provide directors and officers liability insurance at affordable rates or at all, it may become increasingly more difficult to attract and retain qualified outside directors to serve on our board of directors. We may lose potential independent board members and management candidates to other companies in the biotechnology field that have greater directors and officers liability insurance to insure them from liability or to biotechnology companies that have revenues or have received greater funding to date which can offer greater compensation packages. The fees of directors are also rising in response to their increased duties, obligations and liabilities as well as increased exposure to such risks. As a company with a limited operating history and limited resources, we will have a more difficult time attracting and retaining management and outside independent directors than

a more established company due to these enhanced duties, obligations and liabilities.

OUR INABILITY TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, INCLUDING OUR U.S. AND INTERNATIONAL PATENTS COULD NEGATIVELY IMPACT OUR PROJECTED GROWTH AND ABILITY TO GENERATE REVENUES AND PROFITS, WHICH WOULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS AND THE VALUE OF YOUR INVESTMENT.

We rely on a combination of patents, patents pending, copyrights, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties.

In the case of patents, we cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign countries, those patents may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial. We believe that certain patent applications filed and/or other patents issued more recently will help to protect the proprietary nature of the Hemopurifier(R) treatment technology.

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The Hemopurifier(R) and related treatment approaches are protected by three issued U.S. patents and four issued international patents. We have also applied for three additional U.S. patents and eight additional international patents.

We also rely on proprietary designs, technologies, processes and know-how not eligible for patent protection. We cannot give you any assurance that our competitors will not independently develop the same or superior designs, technologies, processes and know-how.

While we have and will continue to enter into proprietary rights agreements with our employees and third parties giving us proprietary rights to certain technology developed by those employees or parties while engaged by our company, we can give you no assurance that courts of competent jurisdiction will enforce those agreements.

IF WE FAIL TO COMPLY WITH EXTENSIVE REGULATIONS OF DOMESTIC AND FOREIGN REGULATORY AUTHORITIES, THE COMMERCIALIZATION OF OUR PRODUCT CANDIDATES COULD BE PREVENTED OR DELAYED.

Our pathogen filtration devices, or Hemopurifier(R) products, are subject to extensive government regulations related to development, testing, manufacturing and commercialization in the U.S. and other countries. The determination of when and whether a product is ready for large scale purchase and potential use will be made by the U.S. government through consultation with a number of governmental agencies, including the FDA, the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security. Our product candidates are in the pre-clinical and clinical stages of development and have not received required regulatory approval from the FDA to be commercially marketed and sold. The process of obtaining and complying with FDA and other governmental regulatory approvals and regulations is costly, time consuming, uncertain and subject to unanticipated delays. Such regulatory approval (if any) and product development requires several years. Despite the time and expense exerted, regulatory approval is never guaranteed. We also are subject to the following risks and obligations, among others.

- o The FDA may refuse to approve an application if they believe that applicable regulatory criteria are not satisfied.
- o The FDA may require additional testing for safety and effectiveness.
- o The FDA may interpret data from pre-clinical testing and clinical trials in different ways than we interpret them.
- o If regulatory approval of a product is granted, the approval may be limited to specific indications or limited with respect to its distribution.

- o The FDA may change their approval policies and/or adopt new regulations.

Failure to comply with these or other regulatory requirements of the FDA may subject us to administrative or judicially imposed sanctions, including:

- o warning letters;
- o civil penalties;
- o criminal penalties;
- o injunctions;
- o product seizure or detention;
- o product recalls; and
- o total or partial suspension of productions.

DELAYS IN SUCCESSFULLY COMPLETING OUR CLINICAL TRIALS COULD JEOPARDIZE OUR ABILITY TO OBTAIN REGULATORY APPROVAL OR MARKET OUR HEMOPURIFIER(R) PRODUCT CANDIDATES ON A TIMELY BASIS.

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Our business prospects will depend on our ability to complete clinical trials, obtain satisfactory results, obtain required regulatory approvals and successfully commercialize our Hemopurifier(R) product candidates. Completion of our clinical trials, announcement of results of the trials and our ability to obtain regulatory approvals could be delayed for a variety of reasons, including:

- o serious adverse events related to our medical device candidates;
- o unsatisfactory results of any clinical trial;
- o the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; and/or
- o different interpretations of our pre-clinical and clinical data, which could initially lead to inconclusive results.

Our development costs will increase if we have material delays in any clinical trial or if we need to perform more or larger clinical trials than planned. If the delays are significant, or if any of our Hemopurifier(R) product candidates do not prove to be safe or effective or do not receive required regulatory approvals, our financial results and the commercial prospects for our product candidates will be harmed. Furthermore, our inability to complete our clinical trials in a timely manner could jeopardize our ability to obtain regulatory approval.

THE INDEPENDENT CLINICAL INVESTIGATORS THAT WE RELY UPON TO CONDUCT OUR CLINICAL TRIALS MAY NOT BE DILIGENT, CAREFUL OR TIMELY, AND MAY MAKE MISTAKES, IN THE CONDUCT OF OUR CLINICAL TRIALS.

We depend on independent clinical investigators to conduct our clinical trials. The investigators are not our employees, and we cannot control the amount or timing of resources that they devote to our product development programs. If independent investigators fail to devote sufficient time and resources to our product development programs, or if their performance is substandard, it may delay FDA approval of our medical device candidates. These independent investigators may also have relationships with other commercial entities, some of which may compete with us. If these independent investigators assist our competitors at our expense, it could harm our competitive position.

THE APPROVAL REQUIREMENTS FOR MEDICAL PRODUCTS USED TO FIGHT BIOTERRORISM ARE STILL EVOLVING, AND WE CANNOT BE CERTAIN THAT ANY PRODUCTS WE DEVELOP, IF EFFECTIVE, WOULD MEET THESE REQUIREMENTS.

We are developing product candidates based upon current governmental policies regulating these medical countermeasure treatments. For instance, we intend to pursue FDA approval of our proprietary pathogen filtration devices to treat infectious agents under requirements published by the FDA that allow the FDA to approve certain medical devices used to reduce or prevent the toxicity of chemical, biological, radiological or nuclear substances based on human clinical data to demonstrate safety and immune response, and evidence of effectiveness derived from appropriate animal studies and any additional supporting data. Our business is subject to substantial risk because these policies may change suddenly and unpredictably and in ways that could impair our ability to obtain

regulatory approval of these products, and we cannot guarantee that the FDA will approve our proprietary pathogen filtration devices.

OUR PRODUCT DEVELOPMENT EFFORTS MAY NOT YIELD MARKETABLE PRODUCTS DUE TO RESULTS OF STUDIES OR TRIALS, FAILURE TO ACHIEVE REGULATORY APPROVALS OR MARKET ACCEPTANCE, PROPRIETARY RIGHTS OF OTHERS OR MANUFACTURING ISSUES.

Our success depends on our ability to successfully develop and obtain regulatory approval to market new filtration devices. We expect that a significant portion of the research that we will conduct will involve new and unproven technologies. Development of a product requires substantial technical, financial and human resources even if the product is not successfully completed.

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Our previously planned products have not become marketable products due in part to our transition in 2001 from a focus on utilizing our Hemopurifier(R) technology on treating harmful metals to treating infectious diseases prior to our having completed the FDA approval process. Our transition was made in order to focus on larger markets with an urgent need for new treatment and to take advantage of the greater sense of urgency surrounding acute and chronic infectious diseases. Prior to initiating the development of infectious disease Hemopurifiers(R), we successfully completed an FDA approved Phase I human safety trial of a Hemopurifier(R) to treat aluminum and iron intoxication. Since changing the focus to infectious disease research, we have not initiated an FDA approved human clinical trial as the development of the technology is still continuing and will require both significant capital and scientific resources. Our pending products face similar challenges of obtaining successful clinical trials in route to gaining FDA approval prior to commercialization. Additionally, our limited financial resources hinder the speed of our product development due to personnel constraints.

Our potential products may appear to be promising at various stages of development yet fail to reach the market for a number of reasons, including the:

- o lack of adequate quality or sufficient prevention benefit, or unacceptable safety during pre-clinical studies or clinical trials;
- o failure to receive necessary regulatory approvals;
- o existence of proprietary rights of third parties; and/or
- o inability to develop manufacturing methods that are efficient, cost-effective and capable of meeting stringent regulatory standards.

THE PATENTS WE OWN COMPRISE A MAJORITY OF OUR ASSETS WHICH COULD LIMIT OUR FINANCIAL VIABILITY.

The Hemopurifier(R) is protected by five issued patents, four of which we own and one which we have an exclusive license. Our exclusive license expires March 2020 and is subject to termination if the inventors have not received a minimum of \$15,000 in any year during the term beginning in the second year after the Food & Drug Administration approves the Hemopurifier(R). These patents comprise a majority of our assets. At September 30, 2007, our intellectual property assets comprise 85.9% of our non-current assets, and 40.1% of total assets. If our existing patents are invalidated or if they fail to provide significant commercial benefits, it will severely hurt our financial condition as a majority of our assets would lose their value. Further, since the financial value of our patents is written down for accounting purposes over the course of their term until they expire, our assets comprised of patents will continually be written down until they lose value altogether.

LEGISLATIVE ACTIONS AND POTENTIAL NEW ACCOUNTING PRONOUNCEMENTS ARE LIKELY TO IMPACT OUR FUTURE FINANCIAL POSITION AND RESULTS OF OPERATIONS.

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may potentially be new accounting pronouncements or additional regulatory rulings which will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes as well as proposed legislative initiatives following the Enron bankruptcy have increased our general and administrative costs as we have incurred increased legal and accounting fees to comply with such rule changes. Further, proposed initiatives are expected to result in changes in certain accounting rules, including legislative and other proposals to account for financial instruments at fair value. These and other potential changes could materially increase the expenses we report under accounting principles generally accepted in the United States of America, and adversely affect our operating results.

OUR PRODUCTS MAY BE SUBJECT TO RECALL OR PRODUCT LIABILITY CLAIMS.

Our Hemopurifier(R) products may be used in connection with medical

procedures in which it is important that those products function with precision and accuracy. If our products do not function as designed, or are designed improperly, we may be forced by regulatory agencies to withdraw such products from the market. In addition, if medical personnel or their patients suffer injury as a result of any failure of our products to function as designed, or our products are designed inappropriately, we may be subject to lawsuits seeking significant compensatory and punitive damages. The risk of product liability claims, product recalls and associated adverse publicity is inherent in the

testing, manufacturing, marketing and sale of medical products. We do not have general clinical trial liability insurance coverage. There can be no assurance that future insurance coverage will be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any product recall or lawsuit seeking significant monetary damages may have a material affect on our business and financial condition. Any liability for mandatory damages could exceed the amount of our coverage. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

POLITICAL OR SOCIAL FACTORS MAY DELAY OR IMPAIR OUR ABILITY TO MARKET OUR PRODUCTS.

Products developed to treat diseases caused by or to combat the threat of bioterrorism will be subject to changing political and social environments. The political and social responses to bioterrorism have been highly charged and unpredictable. Political or social pressures may delay or cause resistance to bringing our products to market or limit pricing of our products, which would harm our business. Bioterrorism has become the focus of political debates both in terms of how to approach bioterrorism and the amount of funding the government should provide for any programs involving homeland protection. Government funding for products on bioterrorism could be reduced which would hinder our ability to obtain governmental grants.

RISKS RELATING TO AN INVESTMENT IN OUR SECURITIES

TO DATE, WE HAVE NOT PAID ANY CASH DIVIDENDS AND NO CASH DIVIDENDS WILL BE PAID IN THE FORESEEABLE FUTURE.

We do not anticipate paying cash dividends on our common shares in the foreseeable future, and we cannot assure an investor that funds will be legally available to pay dividends, or that even if the funds are legally available, that the dividends will be paid.

THE APPLICATION OF THE "PENNY STOCK" RULES COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON SHARES AND INCREASE YOUR TRANSACTION COSTS TO SELL THOSE SHARES.

As long as the trading price of our common shares is below \$5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

THE SALE OF OUR COMMON STOCK TO FUSION CAPITAL MAY CAUSE DILUTION AND THE SALE OF THE SHARES OF COMMON STOCK ACQUIRED BY FUSION CAPITAL COULD CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

In connection with entering into the common stock purchase agreement with Fusion Capital, we authorized the issuance of up to 10,383,333 shares of our common stock, including 2,383,333 shares which have already been issued, of which 8,000,000 shares are being registered pursuant to this prospectus. The number of shares ultimately offered for sale by Fusion Capital under this

prospectus is dependent upon the number of shares purchased by Fusion Capital under the agreement. The purchase price for the common stock to be sold to Fusion Capital pursuant to the common stock purchase agreement will fluctuate

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based on the price of our common stock. All 8,000,000 shares registered in this offering are expected to be freely tradable. It is anticipated that shares registered in this offering will be sold over a period of up to 25 months from the date of this prospectus. Depending upon market liquidity at the time, a sale of shares under this offering at any given time could cause the trading price of our common stock to decline. Fusion Capital may ultimately purchase all, some or none of the 8,000,000 shares of common stock not yet issued but registered in this offering. After it has acquired such shares, it may sell all, some or none of such shares. Therefore, sales to Fusion Capital by us under the agreement may result in substantial dilution to the interests of other holders of our common stock. The sale of a substantial number of shares of our common stock under this offering, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales. However, we have the right to control the timing and amount of any sales of our shares to Fusion Capital and the agreement may be terminated by us at any time at our discretion without any cost to us.

OUR COMMON SHARES ARE THINLY TRADED, SO YOU MAY BE UNABLE TO SELL AT OR NEAR ASK PRICES OR AT ALL IF YOU NEED TO SELL YOUR SHARES TO RAISE MONEY OR OTHERWISE DESIRE TO LIQUIDATE YOUR SHARES.

Our common shares have historically been sporadically or "thinly-traded" on the OTCBB, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

THE MARKET PRICE FOR OUR COMMON SHARES IS PARTICULARLY VOLATILE GIVEN OUR STATUS AS A RELATIVELY UNKNOWN COMPANY WITH A SMALL AND THINLY-TRADED PUBLIC FLOAT, LIMITED OPERATING HISTORY AND LACK OF REVENUE WHICH COULD LEAD TO WIDE FLUCTUATIONS IN OUR SHARE PRICE. THE PRICE AT WHICH YOU PURCHASE OUR COMMON SHARES MAY NOT BE INDICATIVE OF THE PRICE THAT WILL PREVAIL IN THE TRADING MARKET. YOU MAY BE UNABLE TO SELL YOUR COMMON SHARES AT OR ABOVE YOUR PURCHASE PRICE, WHICH MAY RESULT IN SUBSTANTIAL LOSSES TO YOU.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In fact, during the 52-week period ended December 31, 2007, the high and low sale prices of a share of our common stock were \$0.88 and \$0.25, respectively. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of revenue or profit to date, and the uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our proprietary technology as a viable method of augmenting the immune response of clearing viruses and toxins from human blood; government regulations, announcements of significant acquisitions,

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strategic partnerships or joint ventures; our capital commitments and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

VOLATILITY IN OUR COMMON SHARE PRICE MAY SUBJECT US TO SECURITIES LITIGATION.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

OUR OFFICERS AND DIRECTORS BENEFICIALLY OWN OR CONTROL APPROXIMATELY 22.31% OF OUR OUTSTANDING COMMON SHARES AS OF JANUARY 22, 2008, WHICH MAY LIMIT THE ABILITY OF YOURSELF OR OTHER SHAREHOLDERS, WHETHER ACTING INDIVIDUALLY OR TOGETHER, TO PROPOSE OR DIRECT THE MANAGEMENT OR OVERALL DIRECTION OF OUR COMPANY. ADDITIONALLY, THIS CONCENTRATION OF OWNERSHIP COULD DISCOURAGE OR PREVENT A POTENTIAL TAKEOVER OF OUR COMPANY THAT MIGHT OTHERWISE RESULT IN YOU RECEIVING A PREMIUM OVER THE MARKET PRICE FOR YOUR COMMON SHARES.

As of January 22, 2008, our officers and directors beneficially own or control approximately 22.31% of our outstanding common shares (assuming the exercise of all outstanding options and warrants held by our officers and directors). These persons will have the ability to substantially influence all matters submitted to our shareholders for approval and to control our management and affairs, including extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

A LARGE NUMBER OF COMMON SHARES ARE ISSUABLE UPON EXERCISE OF OUTSTANDING COMMON SHARE PURCHASE OPTIONS, WARRANTS AND CONVERTIBLE PROMISSORY NOTES. THE EXERCISE OR CONVERSION OF THESE SECURITIES COULD RESULT IN THE SUBSTANTIAL DILUTION OF YOUR INVESTMENT IN TERMS OF YOUR PERCENTAGE OWNERSHIP IN THE COMPANY AS WELL AS THE BOOK VALUE OF YOUR COMMON SHARES. THE SALE OF A LARGE AMOUNT OF COMMON SHARES RECEIVED UPON EXERCISE OF THESE OPTIONS OR WARRANTS ON THE PUBLIC MARKET TO FINANCE THE EXERCISE PRICE OR TO PAY ASSOCIATED INCOME TAXES, OR THE PERCEPTION THAT SUCH SALES COULD OCCUR, COULD SUBSTANTIALLY DEPRESS THE PREVAILING MARKET PRICES FOR OUR SHARES.

As of January 22, 2008, there are outstanding purchase options and warrants entitling the holders to purchase 26,246,781 common shares at a weighted average exercise price of \$0.36 per share. There are 4,914,118 shares underlying promissory notes convertible into common stock at a weighted average exercise price of \$0.21. The exercise price for all of the aforesaid warrants, may be less than your cost to acquire our common shares. In the event of the exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their exercise of the options or warrants.

OUR ISSUANCE OF ADDITIONAL COMMON SHARES, OR OPTIONS OR WARRANTS TO PURCHASE THOSE SHARES, WOULD DILUTE YOUR PROPORTIONATE OWNERSHIP AND VOTING RIGHTS.

We are entitled under our certificate of incorporation to issue up to 100,000,000 shares of common stock. After taking into consideration our outstanding common stock at January 22, 2008, our convertible notes, outstanding options and outstanding warrants we will be entitled to issue up to 31,669,913 additional common shares. Our board may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

OUR ISSUANCE OF ADDITIONAL COMMON SHARES IN EXCHANGE FOR SERVICES OR TO REPAY DEBT, WOULD DILUTE YOUR PROPORTIONATE OWNERSHIP AND VOTING RIGHTS AND COULD HAVE A NEGATIVE IMPACT ON THE MARKET PRICE OF OUR COMMON STOCK.

Our board may generally issue shares of common stock to pay for debt or services, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. For the past three years and for the six months ended September 30, 2007, we issued a total of 2,728,578 shares for debt to reduce our obligations. The average price discount of common stock issued for debt in this period, weighted by the number of shares issued for debt in such period was 69.41% and 31.67% for the years ended March 31, 2006 and 2007. We issued no shares for debt in the six months ended September 30, 2007.

For the past three fiscal years and the six month period ended September 30, 2007 we issued a total of 6,165,233 shares in payment for services. The average price discount of common stock issued for services during this period, weighted by the number of shares issued was 36.0%, 14.86% and 4.54% for the years ended March 31, 2005, 2006 and 2007, respectively. For the six months ended September 30, 2007, we issued 356,294 shares for services. It is likely that we will issue additional securities to pay for services and reduce debt in the future. We cannot give you any assurance that we will not issue additional shares of common stock under circumstances we may deem appropriate at the time.

THE ELIMINATION OF MONETARY LIABILITY AGAINST OUR DIRECTORS, OFFICERS AND EMPLOYEES UNDER OUR CERTIFICATE OF INCORPORATION AND THE EXISTENCE OF INDEMNIFICATION RIGHTS TO OUR DIRECTORS, OFFICERS AND EMPLOYEES MAY RESULT IN SUBSTANTIAL EXPENDITURES BY OUR COMPANY AND MAY DISCOURAGE LAWSUITS AGAINST OUR DIRECTORS, OFFICERS AND EMPLOYEES.

Our certificate of incorporation contains provisions which eliminate the liability of our directors for monetary damages to our company and shareholders. Our bylaws also require us to indemnify our officers and directors. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and shareholders.

ANTI-TAKEOVER PROVISIONS MAY IMPEDE THE ACQUISITION OF OUR COMPANY.

Certain provisions of the Nevada General Corporation Law have anti-takeover effects and may inhibit a non-negotiated merger or other business combination. These provisions are intended to encourage any person interested in acquiring us to negotiate with, and to obtain the approval of, our Board of Directors in connection with such a transaction. However, certain of these provisions may discourage a future acquisition of us, including an acquisition in which the shareholders might otherwise receive a premium for their shares. As a result, shareholders who might desire to participate in such a transaction may not have the opportunity to do so.

"Risk Factors" and other sections, contains certain statements that constitute "forward-looking statements". These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as "SEEK", "ANTICIPATE", "BELIEVE", "ESTIMATE", "EXPECT", "INTEND", "PLAN", "BUDGET", "PROJECT", "MAY BE", "MAY CONTINUE", "MAY LIKELY RESULT", and similar expressions. When reading any forward looking statement you should remain mindful that all forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of our company, and that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, including those relating to:

- o whether or not markets for our products develop and, if they do develop, the pace at which they develop;
- o our ability to attract and retain the qualified personnel to implement our growth strategies,
- o our ability to obtain approval from the Food and Drug Administration for our products;
- o our ability to protect the patents on our proprietary technology;
- o our ability to fund our short-term and long-term financing needs;
- o changes in our business plan and corporate strategies; and
- o other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned "RISK FACTORS" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS".

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus as well as other public reports filed with the United States Securities and Exchange Commission (the "SEC"). You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling shareholder. We will receive no proceeds from the sale of shares of common stock in this offering. However, we may receive up to \$8.4 Million in proceeds from the sale of our common stock to Fusion Capital under the common stock purchase agreement. Any proceeds from Fusion Capital we receive under the common stock purchase agreement will be used for working capital and general corporate purposes.

THE FUSION TRANSACTION

General

On March 21, 2007, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC, an Illinois limited liability company. On August 10, 2007, we entered into the first amendment to the common stock purchase agreement. Under the amended agreement, Fusion Capital is obligated, under certain conditions, to purchase shares from us in an aggregate amount of \$8.4 million from time to time over a 25 month period. Under the agreement, we have sold to Fusion Capital 1,333,333 shares of our common stock for total proceeds to us of \$400,000. On the date we sold those shares to Fusion Capital, the market price of our common stock was \$0.75. Fusion Capital has received a commitment fee consisting of 1,050,000 shares of our common stock. As of January 22, 2008, there were 37,169,188 shares outstanding (36,368,271 shares held by non-affiliates) excluding the 8,000,000 shares offered by Fusion Capital pursuant to this prospectus which it has not yet purchased from us. If all of such 8,000,000 shares offered hereby were issued and outstanding as of the date hereof, the 8,000,000 shares would represent approximately 17.71% of the total common stock outstanding or approximately 18.03% of the non-affiliate shares outstanding as of January 22, 2008. The number of shares ultimately offered for

sale by Fusion Capital is dependent upon the number of shares purchased by Fusion Capital under the agreement.

We do not have the right to commence any additional sales of our shares to Fusion Capital under the agreement until the Securities & Exchange Commission has declared effective the registration statement of which this prospectus is a part of. After the Securities & Exchange Commission has declared effective such registration statement, generally we have the right but not the obligation from time to time to sell our shares to Fusion Capital in amounts between \$32,000 and \$1.0 million depending on certain conditions. We have the right to control the timing and amount of any sales of our shares to Fusion Capital. The purchase price of the shares will be determined based upon the market price of our shares without any fixed discount at the time of each sale. Fusion Capital shall not have the right or the obligation to purchase any shares of our common stock on any business day that the price of our common stock is below \$0.25. The agreement may be terminated by us at any time at our discretion without any cost to us.

Purchase Of Shares Under The Common Stock Purchase Agreement

Under the common stock purchase agreement, on any business day selected by us, we may direct Fusion Capital to purchase up to \$32,000 of our common stock. The purchase price per share is equal to the lesser of:

- o the lowest sale price of our common stock on the purchase date; or
- o the average of the three (3) lowest closing sale prices of our common stock during the twelve (12) consecutive business days prior to the date of a purchase by Fusion Capital.

The purchase price will be equitably adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the business days used to compute the purchase price. We may direct Fusion Capital to make multiple purchases from time to time in our sole discretion; no sooner than every two (2) business days.

Our Right To Increase the Amount to be Purchased

In addition to purchases of up to \$32,000 from time to time, we may also from time to time elect on any single business day selected by us to require Fusion Capital to purchase our shares in an amount up to \$50,000 provided that our share price is not below \$0.30 during the three (3) business days prior to and on the purchase date. We may increase this amount to up to \$100,000 if our share price is not below \$0.40 during the three (3) business days prior to and on the purchase date. This amount may also be increased to up to \$200,000 if our share price is not below \$0.55 during the three (3) business days prior to and on the purchase date. This amount may also be increased to up

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to \$400,000 if our share price is not below \$0.70 during the three (3) business days prior to and on the purchase date. This amount may also be increased to up to \$1.0 million if our share price is not below \$1.50 during the three (3) business days prior to and on the purchase date. We may direct Fusion Capital to make multiple large purchases from time to time in our sole discretion; however, at least two (2) business days must have passed since the most recent large purchase was completed. The price at which our common stock would be purchased in this type of larger purchase will be the lesser of (i) the lowest sale price of our common stock on the purchase date and (ii) the lowest purchase price (as described above) during the previous seven (7) business days prior to the purchase date.

Minimum Purchase Price

Under the common stock purchase agreement, we have set a minimum purchase price ("floor price") of \$0.25. However, Fusion Capital shall not have the right or the obligation to purchase any shares of our common stock in the event that the purchase price would be less than the floor price. Specifically, Fusion Capital shall not have the right or the obligation to purchase shares of our common stock on any business day that the market price of our common stock is below \$0.25.

Events of Default

Generally, Fusion Capital may terminate the common stock purchase agreement without any liability or payment to the Company upon the occurrence of any of the following events of default:

- o the effectiveness of the registration statement of which this prospectus is a part lapses for any reason (including, without limitation, the issuance of a stop order) or is unavailable to

Fusion Capital for sale of our common stock offered hereby and such lapse or unavailability continues for a period of ten (10) consecutive business days or for more than an aggregate of thirty (30) business days in any 365-day period;

- o suspension by our principal market of our common stock from trading for a period of three (3) consecutive business days;
- o the de-listing of our common stock from our principal market provided our common stock is not immediately thereafter trading on the Nasdaq Global Market, the Nasdaq Capital Market, the New York Stock Exchange or the American Stock Exchange;
- o the transfer agent's failure for five (5) business days to issue to Fusion Capital shares of our common stock which Fusion Capital has purchased under the common stock purchase agreement;
- o any material breach of the representations or warranties or covenants contained in the common stock purchase agreement or any related agreements which has or which could have a material adverse effect on us subject to a cure period of five (5) business days; or
- o any participation or threatened participation in insolvency or bankruptcy proceedings by or against us.

Our Termination Rights

We have the unconditional right at any time for any reason to give notice to Fusion Capital terminating the common stock purchase agreement without any cost to us.

No Short-Selling or Hedging by Fusion Capital

Fusion Capital has agreed that neither it nor any of its affiliates shall engage in any direct or indirect short-selling or hedging of our common stock during any time prior to the termination of the common stock purchase agreement.

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Commitment Shares Issued to Fusion Capital

Under the terms of the common stock purchase agreement, Fusion Capital has received a commitment fee consisting of 1,050,000 shares of our common stock.

Effect of Performance of the Common Stock Purchase Agreement on Our Stockholders

All 8,000,000 shares registered in this offering are expected to be freely tradable. It is anticipated that shares registered in this offering will be sold over a period of up to 25 months from the date of this prospectus. The sale by Fusion Capital of a significant amount of shares registered in this offering at any given time could cause the market price of our common stock to decline and to be highly volatile. Fusion Capital may ultimately purchase all, some or none of the 8,000,000 shares of common stock not yet issued but registered in this offering. After it has acquired such shares, it may sell all, some or none of such shares. Therefore, sales to Fusion Capital by us under the agreement may result in substantial dilution to the interests of other holders of our common stock. However, we have the right to control the timing and amount of any sales of our shares to Fusion Capital and the agreement may be terminated by us at any time at our discretion without any cost to us.

We have authorized the sale to Fusion Capital of up to 8,000,000 shares of our common stock. The number of shares ultimately offered for sale by Fusion Capital under this prospectus is dependent upon the number of shares purchased by Fusion Capital under the agreement. The following table sets forth the amount of proceeds we would receive from Fusion Capital from the sale of shares at varying purchase prices including the \$400,000 we have already received:

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Assumed Average Purchase Price	Number of Shares to be Issued if Full Purchase	Percentage of Outstanding Shares After Giving Effect to the Issuance to Fusion Capital(1)	Proceeds from the Sale of Shares to Fusion Capital Under the Common Stock Purchase Agreement
\$0.25	8,000,000	17.71%	\$ 2,000,000
\$0.35	8,000,000	17.71%	\$ 2,800,000
\$0.50	8,000,000	17.71%	\$ 4,000,000
\$0.61(2)	8,000,000	17.71%	\$ 4,880,000

\$1.00	8,000,000	17.71%	\$ 8,000,000
\$1.33	6,015,038	13.93%	\$ 8,000,000

</TABLE>

- (1) Based on 37,169,188 shares outstanding as of January 22, 2008. Includes the 2,383,333 shares already acquired by Fusion Capital under the agreement and the number of shares issuable under the agreement at the corresponding assumed purchase price set forth in the adjacent column.
- (2) Closing sale price of our shares on January 25, 2008.

Background of Relationship Between Fusion and the Company

On May 20, 2004, we entered into a common stock purchase agreement with Fusion Capital for the purchase of up to \$6,250,000 of our common stock over a 30 month period. Under the agreement we sold 8,000,000 of our common shares to Fusion Capital over an approximately 30 month period for proceeds of \$2,591,745. That agreement is concluded pursuant to its terms and we cannot sell any additional shares to Fusion Capital under that agreement.

DESCRIPTION OF BUSINESS

GENERAL

Aethlon Medical, Inc. ("Aethlon Medical", "We" or the "Company"), formerly Bishop Equities, Inc. ("Bishop"), was incorporated in Nevada in April 1991 to provide a public vehicle for participation in a business transaction through a merger with or acquisition of a private company. In March 1993, we successfully offered our common stock at \$6.00 per share through an initial public offering. In March 1999, Bishop began doing business as "Aethlon Medical, Inc." In March 2000, the Company's Articles of Incorporation were amended to formally change the name of the Company from "Bishop Equities, Inc." to "Aethlon Medical, Inc."

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BUSINESS DEVELOPMENT/ACQUISITIONS

On March 10, 1999, (1) Aethlon, Inc., a California corporation ("Aethlon"), (2) Hemex, Inc., a Delaware corporation ("Hemex"), the accounting predecessor to the Company, and (3) Bishop, a publicly traded "shell" company, completed an Agreement and Plan of Reorganization (the "Plan") structured to result in Bishop's acquisition of all of the outstanding common shares of Aethlon and Hemex (the "Reorganization"). The Reorganization was intended to qualify as a tax-free transaction under Section 368 (a)(1)(B) of the 1986 Internal Revenue Code, as amended. Under the Plan's terms, Bishop issued 733,500 and 1,350,000 shares of its common stock to the common stock shareholders of Aethlon and Hemex, respectively, such that Bishop then owned 100% of each company.

On January 10, 2000, we acquired all the outstanding common stock of Syngen Research, Inc. ("Syngen") in exchange for 65,000 shares of our restricted common stock in order to establish research facilities in San Diego, California, as well as employ Dr. Richard Tullis, the founder of Syngen. Dr. Tullis is a recognized research scientist in the area of DNA synthesis and antisense. Syngen had no significant assets, liabilities, or operations, and primarily served as the entity through which Dr. Tullis performed research consulting services. As such, the acquisition has been accounted for as an acquisition of assets in the form of an employment contract with Dr. Tullis and not as a business combination. Dr. Tullis was appointed to the Board of Directors of Aethlon Medical and was elected its Vice President for Business Development. Effective June 1, 2001, Dr. Tullis was appointed Chief Science Officer of Aethlon Medical, replacing Dr. Clara Ambrus, who retired from the Company.

On April 6, 2000, we completed the acquisition of Cell Activation, Inc. ("Cell"). In accordance with the purchase agreement, we issued 99,152 shares of restricted common stock and issued 50,148 options to purchase common stock in exchange for all of the outstanding common shares and options to purchase common stock of Cell. After the transaction, Cell became our wholly-owned subsidiary. The acquisition was accounted for as a purchase. At March 31, 2001, management determined that goodwill recognized in the purchase of Cell was impaired due to the permanent suspension of operations by Cell, and, accordingly, treated the related goodwill as fully impaired.

BUSINESS OF ISSUER

We are a developmental stage medical device company focused on expanding the applications of our Hemopurifier (R) platform technology which is designed to rapidly reduce the presence of infectious viruses and other toxins from human blood. As such, we focus on developing therapeutic devices to treat acute viral conditions brought on by pathogens targeted as potential biological

warfare agents and chronic viral conditions including HIV/AIDS and Hepatitis-C. The Hemopurifier (R) combines the established scientific technologies of hemodialysis and affinity chromatography as a means to mimic the immune system's response of clearing viruses and toxins from the blood before cell and organ infection can occur. The Hemopurifier (R) cannot cure these afflictions but can lower viral loads and allow compromised immune systems to overcome otherwise serious or fatal medical conditions.

The Hemopurifier(R)

The Hemopurifier(R) is an broad spectrum platform technology that combines the established scientific methods of hemodialysis (artificial kidneys) and affinity chromatography (a method that allows the selective capture of viruses and related toxins) as a means to augment the natural immune response of clearing infectious virus and toxins from the blood. The therapeutic goal of each Hemopurifier (R) application is to improve patient survival rates by reducing viral load and preserving the immune function. We believe that the Hemopurifier (R) will enhance and prolong the benefit of current infectious disease drug therapies and fill the void for patients who inevitably become resistant to such therapies. The Hemopurifier (R) is also positioned to treat those infected by biological agents for which there are no effective drug or vaccine treatments. The Hemopurifier (R) is not a substitute for antiviral drug or vaccine therapies, as it is solely positioned to treat drug and vaccine resistant pathogens.

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Traditionally, hemodialysis (kidney dialysis) has been used to remove urea and other small metabolic toxins that accumulate in the blood of people with acute or chronic kidney failure (also called renal failure). Acute renal failure is generally treated in hospital intensive care units using a continuous filtration therapy. Chronic renal failure is treated through intermittent, thrice-weekly kidney dialysis in a specialized clinic setting. A catheter is most often the method used to gain access to the blood which is then pumped through thousands of hollow micro-fibers running the length of the kidney dialysis cartridge. Within the cartridge, toxins, urea and excess water pass through small pores in the walls of the micro-fibers and are removed by a separately circulating dialysis fluid outside of the fibers. Blood cells and molecules that are too large to pass through the pores are retained and the cleansed blood is returned back to circulation.

The Hemopurifier (R) modifies this process in several ways to provide an efficient method to selectively remove targeted viruses and toxins. First, the pores of the micro-fibers within the Hemopurifier (R) are large enough to allow circulating infectious viruses and toxins to separate from the blood and diffuse through the walls of the fibers. Second, within the cartridge but outside of the fibers the Hemopurifier (R) contains a unique material (the "affinity agent") which selectively binds to the viruses or toxins. Because of the affinity agent's ability to bind to viruses and toxins, there is no need for a separate circulation of a dialysis solution within the Hemopurifier (R). This provides the flexibility to use the Hemopurifier (R) either on kidney dialysis machines (global infrastructure), by employing a simple pump mechanism or by using a patient's own blood pressure (in field or military applications) to drive circulation.

Infectious Disease

The current treatment for viral illnesses include vaccines and antiviral drugs. Vaccines have been the most successful in curing viral diseases (e.g. polio and smallpox). Unfortunately, newly emerging pathogens (e.g. SARS), highly mutable RNA viruses (e.g., HIV and Hepatitis C) and exotic viruses that might be used in terrorist attacks often do not have vaccine treatments. Similarly, antiviral drugs are often useful in controlling viral infections. However, there do not seem to be any general, broad-spectrum antiviral agents similar to penicillin for bacteria and viruses capable of rapidly developing drug resistant mutations. In addition, it generally takes years and millions of dollars to develop vaccine and drug candidates that may or may not be approved by the FDA.

Our Hemopurifier(R) technology represents a new approach to treating viral diseases. The application is designed to work with current treatments to remove infectious virus, toxic viral proteins and injurious immunological mediators directly from the blood of the patient. By removing circulating virus and toxins the Hemopurifier(R) cartridge prevents virus and toxins from infecting tissues and cells. The device cannot cure HIV and Hepatitis-C but appears to augment the immune response of clearing viruses and toxins from the blood before infection can occur. Scientifically, this action is known as "Fusion Inhibition" since the ability of the virus to enter or fuse with host cells or organs is inhibited.

The Hemopurifier(R) is positioned as a therapeutic medical device that can be quickly deployed to treat genetically engineered and drug and vaccine resistant biowarfare agents. For example, we demonstrated the ability to rapidly

build and test new antibody cartridges upon receipt of an antibody against HIV which was previously untested for its utility as an agent to be immobilized within the Hemopurifier(R) treatment cartridge. The process included the attachment of the antibody to agarose beads to create an affinity or binding solution that was immobilized within the hollow-fiber treatment cartridge as means to capture HIV as it diffused through the fibers. Human blood infected with HIV was then circulated through the cartridge to measure the ability of the Hemopurifier(R) to capture HIV over a range of time periods. Human blood infected with HIV was also circulated through a control cartridge without immobilized antibodies as a means to document an improved ability to capture infectious virus when the immobilized antibody was utilized in the treatment cartridge. Upon completion of the circulation of infected blood, diagnostic studies were conducted to verify the viral capture rate of the Hemopurifier(R) with and without the immobilized antibody. The data was then provided in a confidential report to the antibody manufacturer within ten days of the original receipt of the antibody in our labs.

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Biological Weapons

We are developing treatments to combat infectious agents that may be used in biological warfare and terrorism. We are working to design Hemopurifiers(R) that can be rapidly deployed by armed forces as wearable post-exposure treatments on the battlefield, as well as dialysis-based treatments for civilian populations. We are focusing our bio-defense strategy on treating "Category A" agents, which are considered by the Centers for Disease Control ("CDC") to be the worst bioterrorism threats. These agents include the viruses that cause Smallpox, hemorrhagic fevers such as Ebola and Marburg, the Anthrax toxin, and Botulinum toxin. We have not yet published any data related to the treatment of any "Category A" agent. In March 2007, we submitted an Investigational Device Exemption ("IDE") with the FDA the goal of which is to obtain approval to conduct human safety and, if applicable, animal efficacy trials targeted to a specific bioterror viral agent. We are presently in the process of conducting in-vitro trials to determine the most appropriate "Category A" application.

Manufacturing

We plan to manufacture a small number of cartridges sufficient to complete clinical trials in our current facilities. Ultimately, we will outsource cartridge manufacturing to a GMP/ISO9001 compliant contract manufacturer. Hemopurifiers(R) to treat pathogens that are bioweapons candidates will be sold directly to the U.S. military and the federal government. Sale of Hemopurifiers(R) to treat chronic viral conditions will be directed through organizations with established distribution channels.

Research and Development

In fiscal year 2001, we realigned our research and development activities from developing Hemopurifiers(R) to treat harmful metals to developing Hemopurifiers(R) for the treatment of chronic viral conditions. As a result of this strategic realignment, we initiated the consolidation of all scientific and administrative functions into our San Diego facilities during the fourth quarter of fiscal year 2001. This consolidation was completed during the first quarter of fiscal year 2002 and our facilities in Buffalo, N.Y. were closed. In 2004, we expanded our research effort to include the development of Hemopurifiers(R) to treat acute viral diseases as well as countermeasures against biological weapons. The cost of research and development, all of which has been charged to operations, amounted to approximately 1,429,059 over the last two fiscal years.

Patents

We currently own or have license rights to a number of U.S. and foreign patents and patent applications and endeavor to continually improve our intellectual property position. We consider the protection of our technology, whether owned or licensed, to the exclusion of use by others, to be vital to our business. While we intend to focus primarily on patented or patentable technology, we may also rely on trade secrets, unpatented property, know-how, regulatory exclusivity, patent extensions and continuing technological innovation to develop our competitive position.

In certain countries, medical devices are not patentable or only recently have become patentable, and enforcement of intellectual property rights in some countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many countries can be expected to be problematic or unpredictable. We cannot guarantee that any patents issued or licensed to us will provide us with competitive advantages or will not be challenged by others. Furthermore, we cannot be certain that others will not independently develop similar products or will not design around patents issued or licensed to us. We cannot guarantee that patents that are issued will not be challenged, invalidated or infringed upon or designed around by others, or that

the claims contained in such patents will not infringe the patent claims of others, or provide us with significant protection against competitive products, or otherwise be commercially valuable. We may need to acquire licenses under patents belonging to others for technology potentially useful or necessary to us. If any such licenses are required, we cannot be certain that they will be available on terms acceptable to us, if at all. To the extent that we are unable to obtain patent protection for our products or technology, our business may be materially adversely affected by competitors who develop substantially equivalent technology.

INDUSTRY

The industry for treating infectious disease is extremely competitive, and companies developing new treatment procedures are faced with severe regulatory challenges. In this regard, only a very small percentage of companies that are developing new treatments will actually obtain approval from the FDA to market their treatments in the United States. Currently, the market for treating chronic and acute viral diseases is comprised of drugs designed to reduce viral load by inhibiting viral replication or by inhibiting viruses from infecting healthy cells. Unfortunately, these drugs are generally toxic, are expensive to develop, and inevitably infected patients will develop viral strains that become resistant to drug treatment. As a result, patients are ultimately left without treatment options.

COMPETITION

We are advancing our Hemopurifier(R) technology as a treatment to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. The Hemopurifier(R) is also designed to prolong life for infected patients who have become drug resistant and have no other treatment options. Therefore, we do not believe that the Hemopurifier(R) competes with the current drug therapy treatment standard. However, if the industry considered the Hemopurifier(R) to be a potential replacement for drug therapy, then the marketplace for the Hemopurifier(R) would be extremely competitive. We are also pursuing the development of Hemopurifiers(R) to be utilized as treatment countermeasures against biological weapons. In this regard, we are targeting the treatment of pathogens, which are microbial organisms that cause disease, in which current treatments are either limited or do not exist. We believe that we are the sole developer of viral filtration systems (Hemopurifiers(R)) to treat chronic viral conditions, acute viral conditions and biological weapons. However, we face competition from the producers of the following alternative treatment options for all market applications.

Antiviral Drugs

For viral infections, specific antiviral drugs can be effective, but there are none that are effective against a broad-spectrum of infectious virus. At present, only a few antiviral drugs are available to treat the multitude of viruses that could be used as biological weapons. For example, Ribavirin is the treatment of choice for certain viral hemorrhagic fever infections, but has no current application to Ebola and Marburg infections. Newer antiviral drugs have shown some promise in animal models, and limited case reports in humans are encouraging. The lack of broad-spectrum antivirals takes on added significance in light of the ability of many viruses to rapidly develop resistance.

Current efforts to define the genetic details of normal and pathogenic agents on a molecular level promise the hope of new points of attack. Genomic analysis of viral pathogens and animal models of responses to infection provide valuable information enabling the potential development of novel treatment and prevention strategies. However, even the rapid elucidation of the genetic structure of a specific pathogen does not provide sufficient information to quickly design an effective cure.

Another approach in drug development is combinatorial chemistry, which provides the ability to rapidly synthesize large libraries of related compounds, many of which are completely new. However, there is still a need to laboriously screen each new compound for efficacy in fighting a particular disease. In that sense, combinatorial drugs confront the same problem as the traditional method of screening of plant and animal extracts for active compounds that block viral or bacterial replication.

Vaccines

Historically, the most effective tools in controlling infections have been vaccines. Polio, measles, mumps and many other viral illnesses are now controllable and smallpox has been eradicated from nature. Licensed vaccines for hemorrhagic fever viruses are limited to yellow fever (though others are in the trial phase of approval). Promising vaccines are being tested for some of the other diseases, but research is hampered by the need to conduct the studies in secure laboratories.

There are other problems with relying on vaccines as our primary protection against a biological weapons attack. While vaccination may be an effective treatment in a military setting, it would be problematic for civilian populations for several reasons:

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- o The infectious virus would have to be known prior to vaccine deployment. With the exception of smallpox, post-exposure vaccination is ineffective.
- o If everyone in the United States could be vaccinated, it would be impossible to vaccinate people against every viral threat.
- o Vaccines are only useful if the viral target has not mutated or been genetically altered.

Vaccines that are effective and safe are difficult to develop. History has shown that such development can be a slow process and may not even be possible for highly mutable pathogens like HIV and Hepatitis C. Moreover, current vaccine strategies often carry significant risk for complications. For example, the smallpox vaccine, which uses attenuated strains of a live virus, can occasionally cause illness or death by infection from the very organism that usually provides protection.

GOVERNMENT REGULATION

The Hemopurifier(R) is a medical device subject to extensive and rigorous regulation by FDA, as well as other federal and state regulatory bodies in the United States and comparable authorities in other countries. Therefore, we cannot assure that our technology will successfully complete any regulatory clinical trial for any of our proposed applications.

One of the problems facing the FDA is the need to ensure public safety while at the same time preventing unsafe treatments from reaching the public. The balance between these competing pressures has resulted in a long and deliberate process for approving new treatments, which is not responsive to the urgent need for new treatments presented in the era of bioterrorism. For most drugs, the principal research and development phases take several years prior to a drug being submitted to the FDA for testing. A clinical research program takes two to ten years, depending on the agent and clinical indication, after which the marketing application review period requires an average of one year. Once a product is approved for market, long-term post-marketing surveillance, inspections, and product testing must be performed to ensure the quality, safety, and efficacy of the product, as well as appropriate product labeling.

FDA'S PREMARKET CLEARANCE AND APPROVAL REQUIREMENTS. Each medical device we wish to commercialize in the United States will require the filing of a Premarket Approval ("PMA") from FDA. Medical devices are classified into one of three classes--Class I, Class II, or Class III--depending on the degree or risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risks are placed in either Class I or II, which requires the manufacturer to submit to FDA a premarket notification requesting permission to commercially distribute the device. Our Hemopurifier(R) has been categorized as a Class III device, requiring premarket approval.

CLINICAL TRIALS. Clinical trials are almost always required to support an FDA premarket application. In the United States, these trials generally require submission of an application for an Investigational Device Exemption, or IDE, to FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by FDA for a specific number of patients unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements. Clinical trials for significant risk devices may not begin until the IDE application is approved by FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites. Our clinical trials must be conducted under the oversight of an IRB at the relevant clinical trial sites and in accordance with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain patients' informed consent that complies with both FDA requirements and state and federal privacy regulations. We, FDA or the IRB at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may not be equivocal or may otherwise not be sufficient to obtain approval of the product. Similarly, in Europe the clinical study must be approved by the local ethics committee and in some cases, including studies with high-risk devices, by the Ministry of Health in the applicable country.

In March 2007 we submitted an Investigational Device Exemption ("IDE") with the FDA the goal of which is to obtain approval to conduct human safety and, if applicable, animal efficacy trials targeted to a specific bioterror viral agent. We are presently in the process of conducting in-vitro trials to determine the most appropriate "Category A" bioterror application. Upon successful completion of the IDE clinical trials, we would anticipate submitting a PMA (see below).

PREMARKET APPROVAL PATHWAY. A PMA application must be supported by extensive data, including but not limited to technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to FDA's satisfaction the safety and effectiveness of the device.

After a PMA application is submitted and FDA determines that the application is sufficiently complete to permit a substantive review, FDA will accept the application for review. FDA has 180 days to review an "accepted" PMA application, although the review of an application generally occurs over a significantly longer period of time and can take up to several years. During this review period, FDA may request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside FDA may be convened to review and evaluate the application and provide recommendations to FDA as to the approvability of the device. In addition, FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with quality system regulations. New PMA applications or PMA application supplements are required for significant modification to the manufacturing process, labeling and design of a device that is approved through the premarket approval process. Premarket approval supplements often require submission of the same type of information as a premarket approval application, except that the supplement is limited to information needed to support any changes from the device covered by the original premarket approval application and may not require as extensive clinical data or the convening of an advisory panel.

PERVASIVE AND CONTINUING REGULATION. After a device is placed on the market, numerous regulatory requirements continue to apply. These include:

- o FDA's Quality System Regulation, or QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- o labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses;
- o clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;
- o medical device reporting, or MDR, regulations, which require that manufacturers report to FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur; and
- o post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

After a device receives a PMA, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new clearance or approval. FDA requires each manufacturer to make this determination initially, but FDA can review any such decision and can disagree with a manufacturer's determination.

The regulations also require that we report to FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury.

FRAUD AND ABUSE. We may also directly or indirectly be subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting,

offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General, or OIG, has issued a series of regulations, known as the "safe harbors." These safe harbors set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable element of a safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG.

INTERNATIONAL. International sales of medical devices are subject to foreign governmental regulations, which vary substantially from country to country. The time required to obtain clearance or approval by a foreign country may be longer or shorter than that required for FDA clearance or approval, and the requirements may be different.

The primary regulatory environment in Europe is that of the European Union, which has adopted numerous directives and has promulgated voluntary standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking, indicating that the device conforms with the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the member states of the European Union, and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a notified body, an independent and neutral institution appointed by a country to conduct the conformity assessment. This third-party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's device. Such an assessment is required in order for a manufacturer to commercially distribute the product throughout these countries. ISO 9001 and ISO 13845 certifications are voluntary harmonized standards. Compliance establishes the presumption of conformity with the essential requirements for a CE Marking.

We have completed preclinical studies that demonstrate the removal of HIV and Hepatitis C virus from infected human blood. We have also completed initial animal safety studies, limited human safety studies and are presently engaged in the in-vitro testing and clinical planning required to support our IDE submission as outlined in the "Timelines" table below.

The outline and table below describe suggested timelines for the generation and testing of our current targets. The timelines presuppose the development of a working relationship with government or private agencies capable of handling biowarfare agents and refer to calendar year dates.

US Clinical Trials - IDE:

- o Human safety study site selection - Q2 2007
- o IDE filing and FDA review: Q1 - Q3 2007
- o In-vitro studies at BSL4 Facility to determine appropriate bioweapon agent target (i.e. Ebola, Marburg, Lassa): Q2 - Q3 2007
- o FDA approval of human safety study/protocol - Q3 2008
- o Human Safety Study: Q3 2008 through Q4 2008
- o PMA - Q3 2008

Note that the Hemopurifier(R) technology is applicable to a range of "Class A" Bio-weapons candidates and that the safety studies noted above begin the process of determining those which have the largest market potential or strategic importance. We have estimated the direct costs for performing the proposed submissions and clinical tests on the above timetable will require at least \$4.1 million through the end of calendar 2008.

Franklyn S. Barry, Jr.	Director	67
Edward G. Broenniman	Director	71

(1) Effective June 1, 2001, Mr. Joyce was appointed our President and Chief Executive Officer, replacing Mr. Barry, who continues as a member of the board of directors.

(2) Effective July 18, 2006, Dr. Handley was appointed President.

(3) Effective June 1, 2001, Dr. Tullis was appointed as our Chief Science Officer.

Certain additional information concerning the individuals named above is set forth below. This information is based on information furnished us by each individual noted.

EXECUTIVE OFFICERS

James A. Joyce, Chairman and CEO

Mr. Joyce is the founder of Aethlon Medical, and has been the Chairman of the Board and Secretary since March 1999. On June 1, 2001, our Board of Directors appointed Mr. Joyce with the additional role of CEO. In 1992, Mr. Joyce founded and was the sole shareholder of James Joyce & Associates, an organization that provided management consulting and corporate finance advisory services to CEOs and CFOs of publicly traded companies. Previously, from 1989 to 1991, Mr. Joyce was Chairman and Chief Executive Officer of Mission Labs, Inc. Prior to that Mr. Joyce was a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate of the University of Maryland.

Harold H. Handley, Ph.D., President

Mr. Harold H. Handley has been President of the Company since July 2006. Mr. Handley brings over 20 years experience in management and research in immunology, biotechnology and medical devices. Mr. Handley has authored or co-authored over 20 publications and helped developed 15 patents. Prior to joining Aethlon, Mr. Handley was Executive Vice President and Chief Scientific Officer for Transvivo, Inc., a privately-held company, from 2000 to 2006. From 1996 to 2000, Mr. Handley was Vaccine Program Director for Maxim Pharmaceuticals, Inc. Mr. Handley was a co-founder of Idec Limited Partners, Inc., today known as Biogen Idec, Inc., operating with a market value exceeding \$14 billion. (NasdaqGS:BIIB). Mr. Handley holds a Ph.D in Anatomy and Cell Biology from University of Virginia and a B.A. in Zoology from the University of California, Los Angeles.

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Richard H. Tullis, Ph.D., Vice President, Chief Science Officer

Dr. Tullis has been Vice President and a director of the Company since January 2000 and Chief Science Officer since June 2001. Dr. Tullis has extensive biotechnology management and research experience, and is the founder of Syngen Research, a wholly-owned subsidiary of Aethlon Medical, Inc. Previously, Dr. Tullis co-founded Molecular Biosystems, Inc., a former NYSE company. At Molecular Biosystems, Dr. Tullis was Director of Oligonucleotide Hybridization, Senior Research Scientist and Member of the Board of Directors. In research, Dr. Tullis developed and patented the first application of oligonucleotides to antisense antibiotics and developed new methods for the chemical synthesis of DNA via methoxy-phosphorochloridites. Dr. Tullis also co-developed the first applications of covalently coupled DNA-enzyme conjugates using synthetic oligonucleotides during his tenure at Molecular Biosystems. In 1985, Dr. Tullis founded, and served as President and CEO of Synthetic Genetics, Inc., a pioneer in custom DNA synthesis, which was sold to Molecular Biology Resources in 1991. Dr. Tullis also served as interim-CEO of Genetic Vectors, Inc., which completed its IPO under his management, and was co-founder of DNA Sciences, Inc., a company that was eventually acquired by Genetic Vectors. Dr. Tullis received his Ph.D. in Biochemistry and Cell Biology from the University of California at San Diego, and has done extensive post-doctoral work at UCSD, USC, and the University of Hawaii.

Franklyn S. Barry, Jr.

Mr. Barry has over 30 years of experience in managing and building companies. He was President and Chief Executive Officer of Hemex from April 1997 through May 31, 2001 and our President and CEO from March 10, 1999 to May 31, 2001. He became a director of Aethlon Medical on March 10, 1999. From 1994 to April 1997, Mr. Barry was a private consultant. Included among his prior experiences are tenures as President of Fisher-Price and as co-founder and CEO of Software Distribution Services, which today operates as Ingram Micro, an international distributor of personal computer products. Mr. Barry serves on the Board of Directors of Merchants Mutual Insurance Company.

Edward G. Broenniman

Mr. Broenniman became a director of Aethlon Medical on March 10, 1999. Mr. Broenniman has 35 years of management and executive experience with high-tech, privately-held growth firms where he has served as a CEO, COO, or corporate advisor, using his expertise to focus management on increasing profitability and stockholder value. He is the Managing Director of The Piedmont Group, LLC, a venture advisory firm. Mr. Broenniman served on the Board of Directors of publicly-traded QuesTech (acquired by CACI International), and currently serves on the Boards of four privately-held firms. His nonprofit Boards are the Dingman Center for Entrepreneurship's Board of Advisors at the University of Maryland, the National Association of Corporate Directors, National Capital Chapter and the Board of the Association for Corporate Growth, National Capital Chapter.

Our Board of Directors has the responsibility for establishing broad corporate policies and for overseeing our overall performance. Members of the Board are kept informed of our business activities through discussions with the CEO and other officers, by reviewing analyses and reports sent to them, and by participating in Board and committee meetings. Our bylaws provide that each of the directors serves for a term that extends to the next Annual Meeting of Shareholders of the Company.

AUDIT COMMITTEE

The Audit Committee is responsible for recommending to the Board of Directors the selection of independent public accountants to audit the Company's books and records annually, to discuss with the independent auditors and internal auditors the scope and results of any audit, to review and approve any nonaudit services performed by the Company's independent auditing firm, and to review certain related party transactions. The members of the Audit Committee are Franklyn Barry and Edward Broenniman who are independent directors as defined under Nasdaq Rule 4200(a)(14). Mr. Barry is the Chairman of the Audit Committee. The Audit Committee met four times in the 2007 fiscal year. The Audit Committee oversees our financial reporting process on behalf of the Board of Directors. The Board has determined that the Audit Committee does not have a designated financial expert serving on the Committee but the Board believes that its current members have the sufficient knowledge and experience necessary to fulfill the duties and obligations.

FAMILY RELATIONSHIPS

There are no family relationships between or among the directors, executive officers or persons nominated or charged by us to become directors or executive officers.

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There are no arrangements or understandings between any two or more of our directors or executive officers. There is no arrangement or understanding between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current board of directors. There are also no arrangements, agreements or understanding between non-management shareholders that may directly or indirectly participate in or influence the management of our affairs.

INVOLVEMENT IN LEGAL PROCEEDINGS

To the best of our knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

CODE OF ETHICS

On February 23, 2005, the Board of Directors approved a "Code of Business Conduct and Ethics."

EXECUTIVE COMPENSATION

The following table sets forth compensation information for services rendered to us by our executive officers (collectively, the Company's "Named Executive Officers") in all capacities, other than as directors, during each of the prior two fiscal years. The following table summarizes all compensation for the two fiscal years ending March 31, 2006 and 2007, received by our Chief Executive Officer, Chief Science Officer, Chief Financial Officer and President. The following information includes the dollar value of base salaries, bonus awards, stock awards granted and certain other compensation, if any, whether paid or deferred.

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SUMMARY COMPENSATION TABLE

NAMED EXECUTIVE OFFICER TOTAL AND PRINCIPAL POSITION (\$)	YEAR	SALARY (\$)	BONUS (\$)	STOCK AWARDS (\$)	OPTION AWARDS (\$)	NON-EQUITY INCENTIVE PLAN COMPENSATION (\$)	NONQUALIFIED DEFERRED ALL COMPENSATION EARNINGS (\$)	OTHER COMP. (\$)
James A. Joyce (1)	2007	\$ 240,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
-- \$ 240,000								
CHIEF EXECUTIVE OFFICER	2006	\$ 224,712	\$ --	\$ --	\$ 300,000 (4)	\$ --	\$ --	\$ --
-- \$ 524,712								
Richard H. Tullis, Ph.D (2)	2007	\$ 180,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
-- \$ 180,000								
VICE PRESIDENT AND CHIEF	2006	\$ 165,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
-- \$ 165,000								
SCIENCE OFFICER								
James W. Dorst (3)	2007	\$ 150,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
-- \$ 150,000								
CHIEF FINANCIAL OFFICER	2006	\$ 93,750	\$ --	\$ --	\$ 57,000 (5)	\$ --	\$ --	\$ --
-- \$ 150,750								

</TABLE>

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(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2007 is 0 and 5,088,243. On June 13, 2007, Mr. Joyce was granted a stock option award to purchase 2,500,000 shares of Common stock at an exercise price of \$0.36 per share.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2007 is 0 and 2,014,350.

(3) The aggregate number of stock awards and stock option awards issued to Mr. Dorst and outstanding as of March 31, 2006 is 0 and 500,000.

(4) The value of the option award was calculated using the binomial lattice option pricing model based on the following assumptions: weighted average life of five years; risk-free interest rate of 4%; volatility rate of 72%; and fair market value of \$0.122 per share at the date of grant.

(5) The value of the option award was calculated using the binomial lattice option pricing model based on the following assumptions: weighted average life of three years; risk-free interest rate of 3.96%; volatility rate of 88%; and fair market value of \$0.114 per share at the date of grant.

The following table sets forth certain information concerning unexercised options, stock that has not vested, and equity incentive plan awards for each of our named executive officers outstanding as of March 31, 2007.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	OPTION AWARDS	STOCK AWARDS

incentive

plan

awards:

unearned

shares,

Name	Exercisable	Unexercisable	Unearned options (#)	Price (\$)	Expiration date	Unvested (#)	Unvested (\$)	Unvested (#)	Unvested (\$)
James A. Joyce	1,115,550	--		\$0.38	2/23/10				
	557,775	--		\$0.38	12/31/10				
	557,775	--		\$0.38	12/31/11				
	2,857,143	--		\$0.21	09/09/15				
Richard H. Tullis	867,175	--		\$0.38	2/23/10				
	433,588	--		\$0.38	12/31/10				
	433,587	--		\$0.38	12/31/11				
	30,000	--		\$2.56	12/31/10				
	250,000	--		\$1.90	3/12/12				
James Dorst	165,000	335,000 (1)		\$0.23	08/01/08				
Harold Handley	--	500,000		\$0.27	10/02/16				

(1) 166,667 options vest each year on August 1 starting August 1, 2006. Mr. Dorst resigned from the Company on December 10, 2007. At that time, he had 333,333 options vested, which will expire on March 10, 2008.

Option Grants to Executive Officers in 2007

There were 500,000 stock options granted to our President, Harold H. Handley. No options were granted to our Chief Executive Officer, Chief Scientific Officer or Chief Financial Officer in fiscal year 2007.

Director Compensation

The following director compensation disclosure reflects all compensation awarded to, earned by or paid to the directors below for the fiscal year ended March 31, 2007.

<TABLE>
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Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
James A. Joyce (1)	--	--	--	--	--	--	--
Richard Tullis (2)	--	--	--	--	--	--	--
Franklyn Barry (3)	--	--	--	--	--	--	--
Edward Broenniman (4)	--	--	--	--	--	--	--

<C>

</TABLE>

(1) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 5,088,243.

(2) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 2,014,350.

(3) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 516,417.

(4) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2007 are 0 and 520,050.

EMPLOYMENT AGREEMENTS

We entered into an employment agreement with Mr. Joyce effective April 1, 1999. Effective June 1, 2001, Mr. Joyce was appointed President and Chief Executive Officer and his base annual salary was increased from \$120,000 to \$180,000. Effective January 1, 2005, Mr. Joyce's salary was increased from \$180,000 to \$205,000 per year. Effective April 1, 2006, Mr. Joyce's salary was increased from \$205,000 to \$240,000 per year. Under the terms of the agreement, his employment continues at a salary of \$240,000 per year for successive one year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement.

We entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed our Chief Science Officer of the Company. His compensation under the agreement was modified in June 2001 from \$80,000 to \$150,000 per year. Effective January 1, 2005, Dr. Tullis' salary was increased from \$150,000 to \$165,000 per year. Effective April 1, 2006, Dr. Tullis' salary was increased from \$165,000 to \$180,000 per year. Under the terms of the agreement, his employment continues at a salary of \$180,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement.

Both Mr. Joyce's and Dr. Tullis' agreements provide for health insurance and disability benefits, one year of severance pay if their employment is terminated by us without cause or due to change in our control before the expiration of their agreements, and allow for bonus compensation and stock option grants as determined by our Board of Directors. Both agreements also contain restrictive covenants preventing competition with us and the use of confidential business information, except in connection with the performance of their duties for the Company, for a period of two years following the termination of their employment with us.

Effective August 1, 2005, Mr. Dorst was appointed our Chief Financial Officer. Mr. Dorst was paid an annual salary of \$150,000. He was also granted five-year options to purchase 500,000 shares of common stock at \$0.23 per share, vesting over three years. Mr. Dorst resigned his employment with us on December 10, 2007. At the time of his resignation 331,667 options were vested and must be exercised on or prior to March 10, 2008 or they will terminate.

Effective July 18, 2006, Dr. Handley was appointed our President. Dr. Handley is paid an annual salary of \$180,000. He was also granted ten-year options to purchase 500,000 shares of common stock at \$0.27 per share, vesting over three years.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth selected information, computed as of January 22, 2008, about the amount of shares of common stock beneficially owned by: each of our "EXECUTIVE OFFICERS" (defined as our President, Secretary, Chief Financial Officer or Treasurer, any vice-president in charge of a principal business function, such as sales, administration or finance, or any other person who performs similar policy making functions for our company); each of our directors; each person known to us to own beneficially more than 5% of any class of our securities; and the group comprised of our current directors and executive officers.

Except as otherwise noted in the footnotes below, the entity, individual Director or Executive Officer has sole voting and investment power over such securities.

NAME AND ADDRESS OF BENEFICIAL OWNERS (1) (2)	AMOUNT	COMMON (VOTING) %(3)
Ellen R. Weiner Family Revocable Trust (4) (7) 10645 N. Tatum Blvd. Suite 200-166	10,880,818	9.9%

Phoenix, Arizona 85028

James A. Joyce (5) (6) (7) (8)	6,688,243	15.46%
Estate of Allan S. Bird (4) (7) PO Box 371179 Las Vegas, Nevada 89137	3,206,840	8.03%
Richard H. Tullis (5) (6) (7) (9)	2,072,350	5.29%
Phillip A. Ward (15) P.O. Box 3322 Rancho Santa Fe, CA 92067 (7)	3,292,077	8.71%
Calvin M. Leung (10) (7) P.O. Box 2366 Costa Mesa, CA 92628	1,985,859	5.34%
Fusion Capital Fund II, LLC (11) 222 Merchandise Mart Plaza, Suite 9-112 Chicago, IL 60654	2,258,333	6.08%
Edward G. Broenniman (6) (12)	655,924	1.73%
Franklyn S. Barry, Jr. (6) (13)	523,010	1.38%
Harold H. Handley (5) (14)	500,000	0.13%
Directors and executive officers, as a group (5 members)	10,439,527	22.31%

(1) Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act and is generally determined by voting power and/or investment power with respect to securities. Except as indicated by footnote and subject to community property laws where applicable, the Company believes the persons named in the table above have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Unless otherwise indicated, the address of each shareholder is 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109.

(2) A person is deemed to be the beneficial owners of securities that can be acquired by such person within 60 days from January 22, 2008 upon the exercise of warrants or options. Each beneficial owner's percentage ownership is determined by assuming that options and warrants that are held by such person (but not those held by any other person) and that are exercisable within 60 days from January 22, 2008 have been exercised.

(3) Assumes 37,169,188 shares of Common Stock outstanding at January 22, 2008.

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(4) Includes shares issuable upon conversion of convertible notes and associated warrants which would be issued in the event and at such time as such notes are converted into restricted shares of common stock. Includes convertible notes held by both the Ellen R. Weiner Family Revocable Trust and the Estate of Allan S. Bird as follows: (i) Ellen R. Weiner Family Revocable Trust owns a convertible promissory note in the principal amount of \$660,000 convertible at \$0.20 per share, a Class A Interest Warrant for 1,128,188 shares exercisable at \$0.20 per share, a Class A-1 Damages Warrant for 511,621 shares exercisable at \$0.40 per share, a Class A Principal Warrant for 3,800,000 shares exercisable at \$0.20 per share; and (ii) Estate of Allan S. Bird owns a convertible promissory note in the principal amount of \$225,000 convertible at \$0.20 per share, a Class A Interest Warrant for 326,799 shares exercisable at \$0.20 per share, a Class A-1 Damages Warrant for 151,621 shares exercisable at \$0.40 per share, a Class A Principal Warrant for 1,125,000 shares exercisable at \$0.20 per share. Mr. Bird was Ms. Weiner's father-in-law. Neither the Trust nor the Estate is entitled to convert Convertible Promissory Notes or associated Warrants to the extent that such conversion or exercise would cause the aggregate number of shares of common stock beneficially owned by either of them to exceed 9.9% of the outstanding shares of the common stock following such exercise. The Ellen R. Weiner Family Trust disclaims any beneficial ownership of Mr. Bird's notes, associated warrants and underlying common stock. The Estate of Mr. Bird disclaims any beneficial ownership of such Trust's notes and associated warrants.

(5) Executive officer.

- (6) Director.
- (7) More-than-5% shareholder.
- (8) Includes options to purchase 2,231,100 restricted common shares at \$0.38 and options to purchase 2,857,143 restricted common shares at \$0.21. Also includes 1,000,000 options to purchase restricted common shares at \$0.36. Mr. Joyce also owns options to purchase 1,500,000 restricted common shares at \$0.36 which are not yet vested.
- (9) Includes 250,000 stock options exercisable at \$1.90 per share, 30,000 stock options exercisable at \$2.56 per share and 1,734,350 stock options with an exercise price of \$0.38 per share.
- (10) Includes all shares owned by members of Mr. Leung's family and related entities.
- (11) Steven G. Martin and Joshua B. Scheinfeld, the principals of Fusion Capital, are deemed to be beneficial owners of all of the shares of common stock owned by Fusion Capital. Messrs. Martin and Scheinfeld have shared voting and disposition power over the shares being offered under this prospectus.
- (12) Includes 53,885 common shares owned by Mr. Broenniman's wife and options to purchase 2,500 shares at an exercise price of \$3.00, 3,000 shares at an exercise price of \$1.78 and 514,550 shares at an exercise price of \$0.38.
- (13) Includes 1,867 stock options with an exercise price of \$1.84 and 514,550 stock options with an exercise price of \$0.38.
- (14) Includes 500,000 stock options with an exercise price of \$0.27.
- (15) Includes warrants to purchase 100,000 shares of common stock at an exercise price of \$0.50; warrants to purchase 55,555 shares of common stock at an exercise price of \$0.90; warrants to purchase 90,000 shares of common stock at an exercise price of \$0.34; warrants to purchase 100,000 shares of common stock at an exercise price of \$0.17; warrants to purchase 55,555 shares of common stock at an exercise price of \$0.18; warrants to purchase 55,555 shares of common stock at an exercise price of \$0.18; and 130,000 shares of common stock underlying a convertible promissory note in the principal amount of \$65,000 and convertible at \$0.50 per share.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Described below are certain transactions or series of transactions between us and our executive officers, directors and the beneficial owners of 5% or more of our common stock, on an as converted basis, and certain persons affiliated with or related to these persons, including family members, in which they had or will have a direct or indirect material interest in amounts that exceed \$60,000 for the last two completed fiscal years, other than compensation arrangements that are otherwise required to be described under "Executive Compensation."

On September 9, 2005, as previously disclosed on Form 8-K, we issued a stock option to acquire 2,857,143 common shares to our CEO and Chairman, James A. Joyce, in satisfaction of \$300,000 in previously accrued payroll expense.

On November 14, 2006, in exchange for \$100,000, the Company issued to the Phillip A Ward Trust 555,556 restricted shares of common stock. In addition, the Company issued an initial five-year non-cashless warrant to purchase 555,556 restricted shares of common stock at an exercise price of \$0.18. In the event that the initial warrant is exercised, the holder will receive an additional five-year non-cashless warrant to purchase 555,556 restricted shares of common stock at an exercise price of \$0.18.

On December 15, 2006, the Company issued a \$33,000 10% Convertible Note, due March 15, 2007 to the Phillip A Ward Trust. The note is presently in default and since March 15, 2007 has accrued interest at 15%. The face value of the note is convertible into 194,118 restricted shares of common stock. In addition, the Company issued an initial five-year non-cashless warrant to purchase 194,118 restricted shares of common stock at an exercise price of \$0.17. In the event that the initial warrant is exercised, the holder will receive an additional five-year non-cashless warrant to purchase 194,118 restricted shares of common stock at an exercise price of \$0.17.

On July 13, 2007, in exchange for \$60,000, the Company issued the Phillip A Ward Trust a 12% Convertible Note, with accrued interest due at

Maturity on July 13, 2008. The face value of the note is convertible at a \$0.50 conversion price into 120,000 restricted shares of common stock.

From July 11, 2005 through December 15, 2005, the Company received \$760,000 From the Ellen R. Weiner Family Revocable Trust and \$225,000 from Allan S. Bird (the "Noteholders") as a portion of a \$1.0 Promissory Note (the "Notes") funding. The Promissory Notes accrued interest at the rate of 10% per annum and originally matured on January 2, 2007. Effective March 22, 2007, the Company entered into Allonges with the Noteholders and amended and restated the Notes to extend the maturity date until January 2, 2008. The Notes were convertible into Units at any time prior to the maturity date at the conversion price of \$0.20 per Unit. Each Unit was comprised of one share of the Company's common stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A Warrant expired on January 2, 2011 and was exercisable to purchase one share of Common Stock at a price of \$0.20 per share (the "Exercise Price"). If the Holder exercised Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant" and with the Class A Warrant, collectively, the "Warrants") for every two Class A Warrants exercised. Each Class B Warrant had a three-year term and was exercisable to purchase one share of Common Stock at a price equal to the greater of \$0.20 per share or 75% of the average of the closing bid prices of the Common Stock for the five trading days immediately preceding the date of the notice of conversion.

On November 29, 2007, the Company entered into Amended and Restated 10% Series A Convertible Promissory Notes (the "Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital, LLC and Christian J. Hoffman III (the "Holders"). The Notes were issued in exchange for the promissory notes previously issued by the Company (described above) to the Holders (the "Prior Notes"), and all amendments to the Prior Notes, including certain allonges entered into between the Company and the Holders on March 5, 2007 (the "Allonges").

The Notes bear an aggregate principal amount of \$1,000,000 and are convertible into an aggregate of 5,000,000 shares of the Company's Common Stock and mature on February 15, 2009. The Notes provide for the payment of accrued and default interest through December 31, 2007 in the aggregate amount of \$295,248 to be paid in units ("Units") at the rate of \$0.20 per Unit, each Unit consisting of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant") to purchase one share of the Company's Common Stock at an exercise price of \$0.20 per share. If the Holders exercise the Class A Warrants on or before February 15, 2010, the Company will issue them one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. The Class B Warrants will have an exercise price of \$0.60 per share.

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The Notes also provide for the payment of liquidated damages through November 29, 2007 in the aggregate amount \$269,336 to be paid in units ("Damages Units") at the rate of \$0.40 per Damages Unit, each Damages Unit consisting of one share of the Company's Common Stock and one Class A-1 Common Stock Purchase Warrant (the "Class A-1 Warrant") to purchase one share of the Company's Common Stock at an exercise price of \$0.40 per share. If the Holders exercise the Class A-1 Warrants on or before February 15, 2010, the Company will issue them one Class B-1 Common Stock Purchase Warrant (the "Class B-1 Warrant") for every two Class A-1 Warrants exercised. The Class B-1 Warrants will have an exercise price of \$0.40 per share.

In addition, the Notes provide for the issuance of Class A Principal Common Stock Purchase Warrants (the "Class A Principal Warrant") to purchase an aggregate of 5,000,000 shares of the Company's Common Stock on the same terms as the Class A Warrants.

The following table summarizes the number of shares of the Company's Common Stock issued and issuable upon the conversion of the Notes or the exercise of the various warrants issued or issuable pursuant to the Notes.

Note Conversion	5,000,000
Accrued Interest	1,476,242
Liquidated Damages	673,340
Class A Warrants	1,476,242
Class A-1 Warrants	673,340
Class A Principal Warrants	5,000,000
Class B Warrants	738,121
Class B-1 Warrants	336,670

Total	15,373,955
	=====

The shares underlying the Class A Warrants, the Class A-1 Warrants and the Class A Principal Warrants shall be registered with the SEC by March 31, 2008, and the shares underlying the Class B Warrants and the Class B-1 Warrants shall be registered with the SEC by the 30th day following the issuance date of

such warrants.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OR PLAN OF OPERATION

The following discussion of our consolidated financial condition and results of operations should be read in conjunction with our consolidated financial statements and their explanatory notes appearing elsewhere in this prospectus.

Certain statements contained herein that are not related to historical results, including, without limitation, statements regarding the Company's business strategy and objectives, future financial position, expectations about pending litigation and estimated cost savings, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") and involve risks and uncertainties. Although we believe that the assumptions on which these forward-looking statements are based are reasonable, there can be no assurance that such assumptions will prove to be accurate and actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, and market and general economic factors. All forward-looking statements contained in this prospectus are qualified in their entirety by this statement.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE THREE MONTHS ENDED
SEPTEMBER 30, 2006

Operating Expenses

Consolidated operating expenses for the three months ended September 30, 2007 were approximately \$690,000 in comparison with approximately \$535,000 for the comparable quarter a year ago. The increase of approximately \$155,000, or 29% was comprised of increases in Payroll & Related and Professional expenses of approximately \$94,000 and \$87,000, respectively, offset by a decrease in overall General and Administrative expense of approximately \$26,000.

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Payroll & Related expenses increased by approximately \$94,000 or 45% from the prior period one year ago. The primary reason for this was the recognition of increased stock option related expense. Professional expenses increased approximately \$88,000 or 53% due to increases in legal expense of approximately \$79,000, increases in patent related legal expense of approximately \$7,000 and net increases in other administrative expenses of approximately \$2,000. General and administrative expenses decreased approximately \$26,000 or 29% as compared to the prior quarter one year ago. This decrease was comprised of approximate decreases in financial conference expense of \$19,000, travel expense of \$13,000 and all other administrative expense of \$8,000, offset by an increase in lab supplies of approximately \$14,000.

Other Expense

Other expenses decreased by approximately \$527,000 or 569% as compared to the prior quarter one year ago. This decrease was comprised of a non-cash reduction in the fair value of warrant liability of approximately \$492,000, an approximate \$17,000 reduction in interest expense and a decrease of approximately \$18,000 in other expenses. Interest expense was reduced because the BCF associated with the Company's 10% Series A Convertible Promissory Notes ("Notes") was fully amortized to interest expense prior to the current fiscal quarter. The warrant liability is also related to the Notes and it is required to be revalued at the end of each reporting period until effective registration of the shares underlying the Notes and related Warrants becomes effective (See Note 3 to the condensed consolidated financial statements).

Net Loss

The Company recorded a consolidated net loss of approximately \$255,000 and \$628,000 for the quarters ended September 30, 2007 and 2006, respectively. The decreased net loss of approximately 59% was primarily attributable to the change in the fair value of the warrant liability offset by increased operating expenses.

Basic and diluted loss per common share were (\$0.01) for the three month period ended September 30, 2007 compared to (\$0.02) for the same period ended September 30, 2006. This reduction in loss per share was primarily a result of the greater number of common shares outstanding during the three month period ended September 30, 2007, as compared to the three month period ended September 30, 2006 and the significant benefit recognized attributable to the

change in fair value of the warrant liability.

SIX MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE SIX MONTHS ENDED
SEPTEMBER 30, 2006

Operating Expenses

Consolidated operating expenses were approximately \$1,561,000 for the six months ended September 30, 2007, versus approximately \$1,039,000 for the comparable period ended September 30, 2006. The increase of approximately \$522,000, or 50%, is a result of approximate increases in Professional expenses of \$74,000, Payroll expenses of \$431,000 and General and Administrative expenses \$17,000.

For the comparable six-month periods, Professional Fees increased approximately \$74,000 or 20%, Payroll expenses increased approximately \$431,000 or 110% and General and Administrative expenses increase approximately \$17,000 or 6%.

The Professional expense increase is comprised of an increase in legal fees of approximately \$137,000, offset by approximate decreases of \$29,000 in scientific consulting fees, \$26,000 in investor relations expenses, \$6,000 in directors' fees and \$2,000 in accounting services as compared to the prior period.

The General and Administrative expense increase is comprised of approximate increases in lab supplies of \$53,000, insurance expense of \$14,000 and utilities expense of \$12,000 offset by decreases in financial conference expense of approximately \$38,000, travel expense of \$18,000 and a reduction in all other general expenses of approximately \$6,000.

The Payroll and related expense increase is comprised of approximately \$77,000 of increases in payroll expense primarily a result of our having a full-time President hired in the middle of the previous period and an approximate increase in stock option compensation expense of \$354,000.

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Other Expense

Other expenses decreased by approximately \$977,000 or 471% as compared to the prior period one year ago. This decrease was comprised of a non-cash reduction in the fair value of warrant liability of \$914,000, an approximate \$81,000 reduction in interest expense and an increase of approximately \$18,000 in other expenses. Interest expense was reduced because the BCF associated with the Company's 10% Series A Convertible Promissory Notes ("Notes") was fully amortized to interest expense prior to the current fiscal period. The warrant liability is also related to the Notes and it is required to be revalued at the end of each reporting period until effective registration of the shares underlying the Notes and related Warrants becomes effective (See Note 3 to the condensed consolidated financial statements).

Net Loss

We recorded a consolidated net loss of \$791,568 and \$1,246,810 for the six-month periods ended September 30, 2007 and 2006, respectively. The decrease in net loss was primarily attributable to a net decrease the change in valuation of the warrant liability.

Basic and diluted loss per common share were (\$0.02) for the six month period ended September 30, 2007 compared to (\$0.05) for the same period ended September 30, 2006. This reduction in loss per share was attributable to both the greater number of common shares outstanding during the six month period ended September 30, 2007, as compared to the six-month period ended September 30, 2006, and by the decreased net loss for the six-month period ended September 30, 2007, as compared to the equivalent period one year ago.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has funded its capital requirements for the current operations from net funds received from the public and private sale of debt and equity securities, as well as from the issuance of common stock in exchange for services. The Company's cash position at September 30, 2007 was approximately \$180,000 compared to approximately \$440,000, at March 31, 2006, representing a decrease of approximately \$260,000.

The Company's cash position at December 31, 2007 was approximately \$333,000. During the three month period ended December 31, 2007, the Company raised approximately \$450,000 through the issuance of notes and \$165,000 through the issuance of common stock units. Additionally, through January 22, 2008, the Company raised \$100,000 through the issuance of common stock units and approximately \$200,000 through the issuance of notes.

During the six months ended September 30, 2007, operating activities used net cash of approximately \$1,067,000 while the Company received approximately \$818,000 from the issuance of common stock and convertible notes and purchased approximately \$4,000 of new equipment.

During the six month period ended September 30, 2007, net cash used in operating activities primarily consisted of a change in the estimated fair value of warrant liability of approximately \$914,000 and approximate net loss of \$792,000. These were offset principally by the fair market value of common stock of approximately \$194,000 issued in payment for services and approximately \$353,000 in stock-based compensation and changes in other current balance sheet accounts of approximately \$85,000.

An increase in working capital during the six months ended September 30, 2007 in the amount of approximately \$555,000 increased the Company's negative working capital position to approximately (\$6,705,000) at September 30, 2007 as compared to a negative working capital of approximately (\$7,260,000) at March 31, 2007.

The Company's current deficit in working capital requires us to obtain funds in the short-term to be able to continue in business, and in the longer term to fund research and development on products not yet ready for market.

The Company's operations to date have consumed substantial capital without generating revenues, and will continue to require substantial capital funds to conduct necessary research and development and pre-clinical and clinical testing of Hemopurifier(R) products, and to market any of those products that receive regulatory approval. The Company does not expect to generate revenue from operations for the foreseeable future, and its ability to meet its cash obligations as they become due and payable is expected to depend for at least the next several years on its ability to sell securities, borrow funds or a combination thereof. The Company's future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, and management's ability to establish collaborative arrangements, effect successful commercialization strategies, marketing activities and other arrangements. The Company expects to continue to incur increasing negative cash flows and net losses for the foreseeable future, and presently requires a minimum of \$125,000 per month to sustain operations.

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Management does not believe that inflation has had or is likely to have any material impact on the Company's limited operations.

At the date of this filing, we do not have plans to purchase significant amounts of equipment or hire significant numbers of employees prior to successfully raising additional capital.

PLAN OF OPERATION

The Company's current plan of operation is to fund our anticipated increased research and development activities and operations for the near future through the common stock purchase agreement in place with Fusion Capital, whereby Fusion Capital has committed to buy up to an additional \$8,400,000 of our common stock over a 25-month period that will commence initially upon the filing of and, in the future, upon the declared effectiveness of this registration statement. No assurance can be given that we will receive funds under our agreement with Fusion Capital. Based on our projections of additional resources required for operations and to complete research, development and testing associated with our Hemopurifier(R) products, we anticipate that these funds will satisfy our cash requirements, including this anticipated increase in operations, in excess of the next twelve months. However, due to market conditions and to assure availability of funding for operations in the long term, we plan to arrange for additional funding, subject to acceptable terms, during the next twelve months.

The Company is a development stage medical device company that has not yet engaged in significant commercial activities. The primary focus of our resources is the advancement of our proprietary Hemopurifier(R) platform treatment technology, which is designed to rapidly reduce the presence of infectious viruses and toxins in human blood. Our focus is to prepare our Hemopurifier(R) to treat chronic viral conditions, acute viral conditions and viral-based bioterror threats in human clinical trials.

The Company plans to continue research and development activities related to our Hemopurifier(R) platform technology, with particular emphasis on the advancement of our treatment for "Category A" pathogens as defined by the Federal Government under Project Bioshield and the All Hazards Preparedness Act of 2006. The Company has filed an Investigational Device Exemption ("IDE") with

the FDA in order to proceed with Human safety studies of the Hemopurifier(R). Such studies, complemented by planned in-vivo and appropriate animal in-vitro studies should allow the Company to proceed to Premarket Approval ("PMA") process. The PMA process is the last major FDA hurdle in determining the safety and effectiveness of Class III medical Devices (of which the Hemopurifier(R) is one).

Management anticipates continuing to increase spending on research and development over the next 12 months. Additionally, associated with the Company's anticipated increase in research and development expenditures, we anticipate purchasing additional amounts of equipment during this period to support our laboratory and testing operations. Operations to date have consumed substantial capital without generating revenues, and will continue to require substantial and increasing capital funds to conduct necessary research and development and pre-clinical and clinical testing of our Hemopurifier(R) products, as well as market any of those products that receive regulatory approval. The Company does not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable is expected to depend for at least the next several years on our ability to sell securities, borrow funds or a combination thereof. Based on our projections of additional resources required for operations and to complete research, development and testing associated with our Hemopurifier(R) products, we anticipate that these funds will satisfy our cash requirements, including this anticipated increase in operations, in excess of the next twelve months. However, due to market conditions and to assure availability of funding for operations in the long term, we plan to arrange for additional funding, subject to acceptable terms, during the next twelve months. Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as management's ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. The Company expects to continue to incur increasing negative cash flows and net losses for the foreseeable future.

OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

LEGAL PROCEEDINGS

We may be involved from time to time in various claims, lawsuits, disputes with third parties or breach of contract actions incidental to the normal course of business operations. We are not aware of any material pending legal proceedings involving our Company.

DESCRIPTION OF SECURITIES

GENERAL

Our authorized capital consists of 100,000,000 shares of common stock, par value \$.001 per share (these shares are referred to in this prospectus as "Common Shares"). As of January 22, 2008, there were issued and outstanding 37,169,188 common shares.

COMMON SHARES

Our common shareholders are entitled to one vote per share on all matters to be voted upon by those shareholders. Upon the liquidation, dissolution, or winding up of our Company, our common shareholders will be entitled to share ratably in all of the assets which are legally available for distribution, after payment of all debts and other liabilities. Our common shareholders have no preemptive, subscription, redemption or conversion rights. All of our currently outstanding common shares are, and all of our common shares offered for sale under this prospectus will be, validly issued, fully paid and non-assessable.

OPTIONS AND WARRANTS CONVERTIBLE INTO COMMON SHARES

As of January 22, 2008, there were outstanding common share purchase options entitling the holders to purchase 14,542,721 common shares at a weighted average exercise price of \$0.38 per share and warrants entitling the holders to purchase up to 11,704,060 common shares at a weighted average exercise price of \$0.34 per share.

DEBT CONVERTIBLE INTO COMMON SHARES

As of January 22, 2008, there were outstanding convertible debt instruments entitling the holders to convert their debt into 4,914,118 common shares at a weighted conversion price of \$0.21 per share.

EQUITY COMPENSATION PLANS

SUMMARY EQUITY COMPENSATION PLAN DATA

The following table sets forth information compiled on an aggregate basis as of January 22, 2008 with respect to the various equity compensation plans, including stand-alone compensation arrangements, under which we have granted or are authorized to issue equity securities to employees or non-employees in exchange for consideration in the form of goods or services:

<TABLE>

<CAPTION>

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS OR RIGHTS (1) (2)	WEIGHTED- AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS EXCLUDING SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS) (3)
<S>	<C>	<C>	<C>
Equity compensation plans approved by shareholders:	32,500	\$2.65	467,500
Equity compensation plans not approved by shareholders(1):	11,704,060	\$0.36	N/A
Total	11,736,560	\$0.36	467,500

</TABLE>

- (1) The description of the material terms of non-plan issuances of equity instruments is discussed in Notes 4, 5 and 6 of the accompanying consolidated financial statements for the fiscal year ended March 31, 2007.
- (2) Net of equity instruments forfeited, exercised or expired.
- (3) This column does not include 1,807,003 shares of common stock that remain to be issued under the 2003 Consultant Stock Plan.

2000 STOCK OPTION PLAN

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
	(a)	(b)	(c)
Equity compensation plans approved by security holders	32,500	\$ 2.65	467,500
Equity compensation plans not approved by security holders	--	--	--
Total	32,500	\$ 2.65	467,500

Our 2000 Stock Option Plan (the "Plan"), adopted by us in August 2000, provides for the grant of incentive stock options (ISOs) to our full-time employees (who may also be Directors) and nonstatutory stock options ("NSOs") to non-employee Directors, consultants, customers, vendors or providers of

significant services. The exercise price of any ISO may not be less than the fair market value of the Common Stock on the date of grant or, in the case of an optionee who owns more than 10% of the total combined voting power of all classes of our outstanding stock, not be less than 110% of the fair market value on the date of grant. The exercise price, in the case of any NSO, must not be less than 75% of the fair market value of the Common Stock on the date of grant. The amount reserved under the Plan is 500,000 options. At January 22, 2008, we had granted 32,500 options under the 2000 Stock Option Plan, with 467,500 available for future issuance.

2003 CONSULTANT STOCK PLAN

Plan Category	Number of shares of common stock available for issuance under the plan	Weighted average price of shares issued under the plan	Number of common shares remaining available for future issuance
	(a)	(b)	(c)
Equity compensation plans approved by security holders	--	--	--
Equity compensation plans not approved by security holders	5,000,000	\$ 0.31	2,015,994
Total	5,000,000	\$ 0.31	2,015,994

Our 2003 Consultant Stock Plan (the "Stock Plan"), adopted by us in August 2003, advances our interests by helping us obtain and retain the services of persons providing consulting services upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of our capital stock. Consultants or advisors are eligible to receive grants under the plan program only if they are natural persons providing bona fide consulting services to us, with the exception of any services they may render in connection with the offer and sale of our securities in a capital-raising transaction, or which may directly or indirectly promote or maintain a market for our securities. We initially reserved a total of 1,000,000 common shares for issuance under the Stock Plan and increased this to 3,000,000 on August 29, 2005 and 5,000,000 on August 9, 2007. The Stock Plan provides for the grants of common stock. No awards may be issued after the ten year anniversary of the date we adopted the Stock Plan, the termination date for the plan.

On March 29, 2004, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

On August 29, 2005, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 2,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

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On August 9, 2007, we filed with the SEC a registration statement on Form S-8 for the purpose of registering 2,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933.

STAND-ALONE GRANTS

From time to time our board of directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are individually negotiated.

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

DESCRIPTION OF MARKET

Our common shares are currently quoted on the OTCBB under the symbol "AEEMD." Our Common Stock has had a limited and sporadic trading history. The following table sets forth the quarterly high and low bid prices for our common shares on the OTCBB for the periods indicated. The prices set forth below represent inter-dealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

PERIOD	BID PRICE	
	HIGH	LOW
2007:		
Fourth Quarter	\$0.75	\$0.49
Third Quarter	0.88	0.57
Second Quarter	0.76	0.55
First Quarter	0.84	0.25
2006:		
Fourth Quarter	0.84	0.25
Third Quarter	0.34	0.19
Second Quarter	0.84	0.32
First Quarter	0.98	0.26
2005:		
Fourth Quarter	0.77	0.21
Third Quarter	0.25	0.18
Second Quarter	0.33	0.22
First Quarter	0.52	0.25

There are approximately 143 record holders of our Common Stock at January 21, 2008. The number of registered shareholders includes an estimate of the number of beneficial owners of common shares held in street name. The transfer agent and registrar for our common stock is Computershare Trust Company, located in Denver, Colorado.

DIVIDEND POLICY

We have never paid any cash dividends on our common shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion and development of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors as our board may deem relevant at that time.

THE SELLING SHAREHOLDER

The following table presents information regarding the selling shareholder. Neither the selling shareholder nor any of its affiliates has held a position or office, or had any other material relationship, with us.

On May 20, 2004, we entered into a common stock purchase agreement with Fusion Capital for the purchase of up to \$6,250,000 of our common stock over a 30 month period. Under the agreement we sold 8,000,000 of our common shares to Fusion Capital over an approximately 30 month period for proceeds of \$2,591,745. That agreement is concluded pursuant to its terms and we cannot sell any additional shares to Fusion Capital under that agreement.

<TABLE>				
Selling Shareholder	Shares Beneficially Owned Before Offering	Percentage of Outstanding Shares Beneficially Owned Before Offering (1)	Shares to be Sold in the Offering	Percentage of Outstanding Shares Beneficially Owned After Offering
<S>	<C>	<C>	<C>	<C>
Fusion Capital Fund II, LLC (1) (2)	2,258,333	6.1%	8,000,000	*
</TABLE>				

* Less than 1%.

(1) 2,258,333 shares of our common stock have been acquired by Fusion Capital under the common stock purchase agreement. Fusion Capital may acquire up to an additional 8,000,000 shares under the common stock purchase agreement which are being offered pursuant to this prospectus. Percentage of outstanding shares is based on 37,169,188 shares of common stock outstanding as of January 22, 2008.

(2) Steven G. Martin and Joshua B. Scheinfeld, the principals of Fusion Capital, are deemed to be beneficial owners of all of the shares of

common stock owned by Fusion Capital. Messrs. Martin and Scheinfeld have shared voting and disposition power over the shares being offered under this prospectus.

PLAN OF DISTRIBUTION

The common stock offered by this prospectus is being offered by Fusion Capital Fund II, LLC, the selling shareholder. The common stock may be sold or distributed from time to time by the selling shareholder directly to one or more purchasers or through brokers, dealers, or underwriters who may act solely as agents at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. The sale of the common stock offered by this Prospectus may be effected in one or more of the following methods:

- o ordinary brokers' transactions;
- o transactions involving cross or block trades;
- o through brokers, dealers, or underwriters who may act solely as agents
- o "at the market" into an existing market for the common stock;
- o in other ways not involving market makers or established business markets, including direct sales to purchasers or sales effected through agents;
- o in privately negotiated transactions; or
- o any combination of the foregoing.

In order to comply with the securities laws of certain states, if applicable, the shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the state or an exemption from the registration or qualification requirement is available and complied with.

Brokers, dealers, underwriters, or agents participating in the distribution of the shares as agents may receive compensation in the form of commissions, discounts, or concessions from the selling shareholder and/or purchasers of the common stock for whom the broker-dealers may act as agent. The compensation paid to a particular broker-dealer may be less than or in excess of customary commissions.

Fusion Capital is an "underwriter" within the meaning of the Securities Act.

Neither we nor Fusion Capital can presently estimate the amount of compensation that any agent will receive. We know of no existing arrangements between Fusion Capital, any other shareholder, broker, dealer, underwriter, or agent relating to the sale or distribution of the shares offered by this Prospectus. At the time a particular offer of shares is made, a prospectus supplement, if required, will be distributed that will set forth the names of any agents, underwriters, or dealers and any compensation from the selling shareholder, and any other required information.

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We will pay all of the expenses incident to the registration, offering, and sale of the shares to the public other than commissions or discounts of underwriters, broker-dealers, or agents. We have also agreed to indemnify Fusion Capital and related persons against specified liabilities, including liabilities under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers, and controlling persons, we have been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is therefore, unenforceable.

Fusion Capital and its affiliates have agreed not to engage in any direct or indirect short selling or hedging of our common stock during the term of the common stock purchase agreement.

We have advised Fusion Capital that while it is engaged in a distribution of the shares included in this Prospectus it is required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling shareholder, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered hereby this Prospectus.

This offering will terminate on the date that all shares offered by this Prospectus have been sold by Fusion Capital.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The report of Squar, Milner, Peterson, Miranda & Williamson, LLP on our financial statements as of and for the years ended March 31, 2007, 2006 and 2005 did not contain an adverse opinion, or a disclaimer of opinion.

TRANSFER AGENT

The transfer agent for our common shares is Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401. We act as our own transfer agent with regard to our outstanding common share purchase options and warrants.

LEGAL MATTERS

The validity of the issuance of the common shares to be sold by the selling shareholder under this prospectus was passed upon for our company by Richardson & Patel LLP. As of January 25, 2008, Richardson & Patel LLP owns a warrant to purchase 225,000 shares with an exercise price of \$0.76. Partner of Richardson & Patel LLP own collectively warrants to purchase 509,275 shares of common Stock at exercises prices of \$0.25 (for 418,365 shares) and \$0.76 (for 90,910 shares). The warrants were issued to Richardson & Patel LLP as payment for services rendered in connection with the representation of the Company in our financings and this registration statement. Additionally, Erick E. Richardson and Nimish Patel, the principals of Richardson & Patel LLP own a warrant to purchase 113,636 shares with an exercise price of \$0.76 through RP Capital, LLP.

EXPERTS

Squar, Milner, Peterson, Miranda & Williamson, LLP, a registered independent public accounting firm, have audited the accompanying consolidated balance sheet as of March 31, 2007 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2007 to the extent set forth in their report, and such financial statements have been included in this prospectus in reliance upon the report of such Firm given upon their authority as experts in auditing and accounting.

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DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our Articles of Incorporation permit us to limit the liability of our directors to the fullest extent permitted under Section 78.037 of the Nevada General Corporation Law. As permitted by Section 78.037 of the Nevada General Corporation Law, our Bylaws and Articles of Incorporation also include provisions that eliminate the personal liability of each of its officers and directors for any obligations arising out of any acts or conduct of such officer or director performed for or on behalf of the Company. To the fullest extent allowed by Section 78.751 of the Nevada General Corporation Law, we will defend, indemnify and hold harmless its directors or officers from and against any and all claims, judgments and liabilities to which each director or officer becomes subject to in connection with the performance of his or her duties and will reimburse each such director or officer for all legal and other expenses reasonably incurred in connection with any such claim of liability. However, we will not indemnify any officer or director against, or reimburse for, any expense incurred in connection with any claim or liability arising out of the officer's or director's own negligence or misconduct in the performance of duty.

The provisions of our Bylaws and Articles of Incorporation regarding indemnification are not exclusive of any other right we have to indemnify or reimburse our officers or directors in any proper case, even if not specifically provided for in our Articles of Incorporation or Bylaws.

We believe that the indemnity provisions contained in our bylaws and the limitation of liability provisions contained in our certificate of incorporation are necessary to attract and retain qualified persons for these positions. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

REPORTS TO SECURITY HOLDERS

We file annual and quarterly reports with the SEC. In addition, we file additional reports for matters such as material developments or changes. Our executive officers, directors and beneficial owners of 10% or more of our common shares also file reports relative to the acquisition or disposition of our common shares or acquisition, disposition or exercise of our common share purchase options or warrants. These filings are a matter of public record and any person may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. We are not required to deliver an annual report with this prospectus, nor will we do so. However, you may obtain a copy of our annual report, or any of our other public filings, by contacting the Company or from the SEC as mentioned above.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act and must file reports, proxy statements and other information with the SEC. The reports, information statements and other information we file with the Commission can be inspected and copied at the Commission Public Reference Room, 100 F Street, N.E. Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The Commission also maintains a Web site (<http://www.sec.gov>) that contains reports, proxy, and information statements and other information regarding registrants, like us, which file electronically with the Commission. Our headquarters are located at 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109. Our phone number at that address is (858) 459-7800. Our Web site is maintained at <http://www.aethlonmedical.com>.

This prospectus constitutes a part of a registration statement on Form S-1 filed by us with the Commission under the Securities Act of 1933. As permitted by the rules and regulations of the Commission, this prospectus omits certain information that is contained in the registration statement. We refer you to the registration statement and related exhibits for further information with respect to us and the securities offered. Statements contained in the prospectus concerning the content of any documents filed as an exhibit to the registration statement (or otherwise filed with the Commission) are not necessarily complete. In each instance you may refer to the copy of the filed document. Each statement is qualified in its entirety by such reference.

No person is authorized to give you any information or make any representation other than those contained or incorporated by reference in this prospectus. Any such information or representation must not be relied upon as having been authorized. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of the prospectus.

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
INDEX TO FINANCIAL STATEMENTS

Year Ended March 31, 2007

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Quarter Ended September 30, 2007 (UNAUDITED)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Aethlon Medical, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Aethlon Medical, Inc. and Subsidiaries (the "Company"), a development stage company, as of March 31, 2007 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2007. 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 audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aethlon Medical, Inc. and Subsidiaries as of March 31, 2007 and the consolidated results of their operations and their cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered continuing losses from operations, is in default on certain debt, has negative working capital of approximately \$7,260,000 and a deficit accumulated during the development stage of approximately \$28,087,000 at March 31, 2007. As discussed in Note 1 to the consolidated financial statements, a significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the consolidated financial statements, effective April 1, 2006, the Company changed its method of accounting for stock-based compensation to conform to Financial Accounting Standards Board No. 123-R, Share Based Payment.

/S/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

JULY 12, 2007

NEWPORT BEACH, CALIFORNIA

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<TABLE>
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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
MARCH 31, 2007

ASSETS

CURRENT ASSETS

Cash	\$	440,106
Prepaid expenses		4,570

TOTAL CURRENT ASSETS	444,676
NON-CURRENT ASSETS	
Property and equipment, net	13,662
Patents, net	141,820
Deposits	13,200

TOTAL ASSETS	\$ 613,358
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,374,079
Due to related parties	1,088,999
Notes payable	502,500
Convertible notes payable, net of discounts	50,000
Warrant obligation	4,689,450

TOTAL CURRENT LIABILITIES	7,705,028

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT	
Common stock, par value of \$0.001, 100,000,000 shares authorized; 31,912,153 issued and outstanding	31,912
Additional paid-in capital	20,963,410
Deficit accumulated during the development stage	(28,086,992)

TOTAL STOCKHOLDERS' DEFICIT	(7,091,670)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 613,358
	=====

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC. (A Development Stage Company) CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007			
	2007	2006	JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007
	-----	-----	-----
Grant income	\$ --	\$ --	\$ 1,424,012
Subcontract income	--	--	73,746
Sale of research and development	--	--	35,810
	-----	-----	-----
	--	--	1,533,568
OPERATING EXPENSES			
Professional fees	700,092	851,594	5,938,227
Payroll and related	889,192	675,171	8,135,197
General and administrative	494,970	486,452	4,927,001
Impairment	--	81,722	1,313,253
	-----	-----	-----
	2,084,254	2,094,939	20,313,678
	-----	-----	-----
OPERATING LOSS	(2,084,254)	(2,094,939)	(18,780,110)
OTHER (INCOME) EXPENSE			
Loss on extinguishment of debt	1,216,748	--	1,216,748
Change in fair value of warrant liability	2,112,575	360,125	2,472,700
Interest expense	390,968	450,297	5,262,420
Interest income	--	--	(17,415)

Other	220,000	14,822	372,429
	-----	-----	-----
	3,940,291	825,244	9,306,882
	-----	-----	-----
NET LOSS	\$ (6,024,545)	\$ (2,920,183)	\$ (28,086,992)
	=====	=====	=====
Basic and diluted net loss per share attributable to common stockholders	\$ (0.22)	\$ (0.15)	
	=====	=====	
Weighted average number of common shares outstanding	26,937,727	19,551,501	
	=====	=====	

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

							DEFICIT
ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED		DURING
STOCKHOLDERS'		-----		PAID IN	CONSULTING		
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES		STAGE
(DEFICIT)		-----	-----	-----	-----		-----
--	-----						
Balance, January 31, 1984 (Inception)		--	\$	--	\$	--	\$
- \$	--						-
Common stock issued for cash at \$1 per share		22,000		22	26,502	--	-
- 26,524							
Common stock issued for cash at \$23 per share		1,100		1	24,999	--	-
- 25,000							
Common stock issued for cash at \$86 per share		700		1	59,999	--	-
- 60,000							
Common stock issued for cash at \$94 per share		160		1	14,999	--	-
- 15,000							
Common stock issued for cash at \$74 per share		540		1	39,999	--	-
- 40,000							
Common stock issued for cash at \$250 per share		4,678		5	1,169,495	--	-
- 1,169,500							
Capital contributions		--		--	521,439	--	-
- 521,439							
Common stock issued for compensation at \$103 per share		2,600		3	267,403	--	-
- 267,406							
Conversion of due to related parties to common stock at \$101 per share		1,120		1	113,574	--	--
113,575							

Conversion of due to related parties to common stock at \$250 per share 435,094	1,741	2	435,092	--	--
Effect of reorganization --	2,560,361	2,558	(2,558)	--	--
Common stock issued in connection with employment contract at \$8 per share 520,000	65,000	65	519,935	--	--
Common stock issued in connection with the acquisition of patents at \$8 per share 100,000	12,500	13	99,987	--	--
Warrants issued to note holders in connection with notes payable - 734,826	--	--	734,826	--	-
Warrants issued for services - 5,000	--	--	5,000	--	-
Net loss (4,746,416) (4,746,416)	--	--	--	--	--
-----	-----	-----	-----	-----	-----
BALANCE, MARCH 31, 2000 (4,746,416) (713,052)	2,672,500	2,673	4,030,691	--	--
Common stock and options issued in connection with acquisition of Cell Activation, Inc. at \$7.20 per share - 1,067,867	99,152	99	1,067,768	--	-
Warrants issued to note holders in connection with notes payable - 218,779	--	--	218,779	--	-
Warrants issued to promoter in connection with notes payable - 298,319	--	--	298,319	--	-
Beneficial conversion feature of convertible notes payable - 150,000	--	--	150,000	--	-
Warrants issued to promoter in connection with convertible notes payable - 299,106	--	--	299,106	--	-
Options issued to directors for services as board members - 14,163	--	--	14,163	--	-

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.						
(A Development Stage Company)						
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)						
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND						
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007						

						DEFICIT
ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	CONSULTING	
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES	STAGE
(DEFICIT)						

--	-----	-----	-----	-----	-----
Options and warrants issued for services 505,400	--	--	505,400	--	--
Common stock issued for services at \$3 per share - 16,500	5,500	5	16,495	--	-
Common stock issued for cash at \$1 per share - 100,000	100,000	100	99,900	--	-
Net loss (4,423,073) (4,423,073)	--	--	--	--	--
--	-----	-----	-----	-----	-----
BALANCE, MARCH 31, 2001 (9,169,489) \$ (2,465,991)	2,877,152	\$ 2,877	\$ 6,700,621	\$ --	\$
Common stock, warrants and options issued for accounts payable and accrued liabilities - 243,375	21,750	22	243,353	--	-
Common stock issued for services at \$2.65 per share - 16,000	6,038	6	15,994	--	-
Common stock issued for cash at \$1.00 per share, net of issuance costs of \$41,540 paid to a related party 689,264	730,804	731	688,533	--	--
Common stock issued for services at \$2.75 per share - 27,500	10,000	10	27,490	--	-
Common stock issued in connection with license agreement at \$3.00 per share 18,000	6,000	6	17,994	--	--
Common stock issued to holder of convertible notes payable at \$3.00 per share - 211,758	70,586	71	211,687	--	-
Options issued to directors for services as board members - 7,459	--	--	7,459	--	-
Common stock issued for cash at \$1.50 per share, net of issuance costs of \$2,500 - 22,500	16,667	17	22,483	--	-
Beneficial conversion feature of convertible notes payable - 185,000	--	--	185,000	--	-
Common stock issued for conversion of convertible notes payable and accrued interest at an average price of \$1.24 per share - 166,486	134,165	134	166,352	--	-
Common stock issued for services at \$2.72 per share - 26,250	9,651	10	26,240	--	-
Options issued to consultant for services - 562,000	--	--	562,000	--	-
Common stock and warrants for services at \$1.95 per share - 161,537	62,327	62	161,475	--	-
Common stock issued for services at \$1.90 per share - 17,500	9,198	9	17,491	--	-
Stock options exercised for cash	400,000	400	199,600	--	--

200,000

Warrants issued to note holders for 90-day forbearance	--	--	118,000	--	-
- 118,000					
Common stock and warrants issued to note holders and vendors in the debt-to-equity conversion program at \$1.25 per share	816,359	816	1,623,635	--	-
- 1,624,451					

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

		DEFICIT			
ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED
STOCKHOLDERS'		-----		PAID IN	CONSULTING
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES
(DEFICIT)		-----	-----	-----	-----
Other warrant transactions		--	--	(32,715)	--
- (32,715)					
Net loss		--	--	--	--
(3,995,910)	(3,995,910)				
		-----	-----	-----	-----
BALANCE - MARCH 31, 2002		5,170,697	\$ 5,171	\$ 10,962,692	\$ --
\$ (13,165,399)	\$ (2,197,536)				
Proceeds from the issuance of common stock at \$0.50 per share in connection with the exercise of options 100,000		200,000	200	99,800	--
Interest expense related to beneficial conversion feature		--	--	150,000	--
- 150,000					
Pro-rata value assigned to warrants issued in connection with conversion of accounts payable		--	--	71,000	--
- 71,000					
Pro-rata value assigned to warrants issued in connection with note payable 30,000		--	--	30,000	--
Issuance of common stock at \$1.25 per share in connection with the conversion of accounts payable 187,655		150,124	150	187,505	--
Issuance of common stock at \$1.25 per share in connection with the conversion of notes payable		420,000	420	104,580	--
- 105,000					
Estimated fair market value of options issued for services		--	--	114,000	--
- 114,000					
Issuance of common stock at \$0.25 per share for cash		461,600	462	114,938	--

-	115,400					
Issuance of common stock at \$0.26 per share for cash	19,230	19	4,981	--	-	
- 5,000						
Issuance of common stock at \$1.25 per share for cash	8,000	8	9,992	--	-	
- 10,000						
Issuance of common stock at \$0.65 per share for services	69,231	69	44,931	--	-	
- 45,000						
Issuance of common stock at \$0.51 per share for services	196,078	196	99,804	--	-	
- 100,000						
Adjustment booked 100,000	--	--	(100,000)	--		
Net loss (2,461,116)	--	--	--	--		
(2,461,116)						
---	---	---	---	---	---	---
BALANCE - MARCH 31, 2003	6,694,960	\$	6,695	\$	11,894,223	\$
\$(15,526,515)	\$(3,625,597)					

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

		DEFICIT				
ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	CONSULTING	
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES	STAGE
(DEFICIT)		-----	-----	-----	-----	-----
---	---					
BALANCE - MARCH 31, 2003		6,694,960	\$	6,695	\$	11,894,223
\$(15,526,515)	\$(3,625,597)					
Proceeds from the issuance of common stock at \$0.25 per share in connection with the exercise of warrants 135,000		540,000		540	134,460	--
Issuance of common stock at \$0.25 per share in connection with the conversion of notes payable, including interest of \$15,099 75,099		300,397		300	74,799	--
Issuance of common stock at \$0.35 per share in connection with the conversion of notes payable, including interest of \$59,827 284,827		813,790		814	284,013	--
Issuance of common stock at \$0.50 per share in connection with the conversion of notes payable, including interest of \$509 5,509		11,017		11	5,498	--

Issuance of common stock at \$0.42 per share in connection with the conversion of notes payable, including interest of \$696 5,696	13,725	14	5,682	--	--
Issuance of common stock at \$0.65 per share in connection with the conversion of notes payable, including interest of \$5,088 17,588	27,059	27	17,561	--	--
Issuance of common stock at \$0.25 per share in connection with the conversion of notes payable, including interest of \$15,416 115,416	461,667	462	114,954	--	--
Issuance of common stock at \$0.25 per share for cash - 306,500	1,226,000	1,226	305,274	--	-
Issuance of common stock at \$0.30 per share for cash - 54,000	180,000	180	53,820	--	-
Issuance of common stock at \$0.525 per share for cash - 21,000	40,000	40	20,960	--	-
Issuance of common stock at \$1.125 per share for cash - 5,625	5,000	5	5,620	--	-
Issuance of common stock at \$0.25 per share for services - 2,500	10,000	10	2,490	--	-
Issuance of common stock at \$0.34 per share for services - 25,000	73,529	73	24,927	--	-
Issuance of common stock at \$0.40 per share for services - 24,825	62,000	62	24,763	--	-
Issuance of common stock at \$0.45 per share for services - 83,333	185,185	185	83,148	--	-
Issuance of common stock at \$0.50 per share for services - 2,500	5,000	5	2,495	--	-
Interest expense related to beneficial conversion feature - 324,800	--	--	324,800	--	-
Net loss (1,518,798) (1,518,798)	--	--	--	--	--
	-----	-----	-----	-----	-----
BALANCE - MARCH 31, 2004	10,649,329	\$ 10,649	\$ 13,379,487	\$ --	
\$ (17,045,313) \$ (3,655,177)					

continued..... SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

DEFICIT

ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	CONSULTING	
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES	STAGE
(DEFICIT)		-----	-----	-----	-----	-----
--	-----					
BALANCE - MARCH 31, 2004		10,649,329	\$ 10,649	\$ 13,379,487	\$ --	
\$ (17,045,313)	\$ (3,655,177)					
Proceeds from the issuance of common stock at \$0.25 per share in connection with the exercise of warrants 281,642		1,126,564	1,127	280,515	--	--
Issuance of common stock at \$0.44 per share for cash - 623,000		1,415,909	1,416	621,584	--	-
Issuance of common stock at \$0.25 per share for cash - 10,000		40,233	40	9,960	--	-
Issuance of common stock at \$0.28 per share for cash - 10,000		35,947	36	9,964	--	-
Issuance of common stock at \$0.29 per share for cash - 20,000		69,431	69	19,931	--	-
Issuance of common stock at \$0.32 per share for cash - 30,000		94,449	94	29,906	--	-
Issuance of common stock at \$0.33 per share for cash - 20,000		60,620	61	19,939	--	-
Issuance of common stock at \$0.35 per share for cash - 59,999		172,824	173	59,826	--	-
Issuance of common stock at \$0.36 per share for cash - 80,000		223,756	224	79,776	--	-
Issuance of common stock at \$0.37 per share for cash - 40,000		108,079	108	39,892	--	-
Issuance of common stock at \$0.38 per share for cash - 10,000		26,549	27	9,973	--	-
Issuance of common stock at \$0.39 per share for cash - 20,000		51,748	52	19,948	--	-
Issuance of common stock at \$0.40 per share for cash - 10,000		25,233	25	9,975	--	-
Issuance of common stock at \$0.42 per share for cash - 60,001		143,885	144	59,857	--	-
Issuance of common stock at \$0.43 per share for cash - 30,001		70,467	70	29,930	--	-
Issuance of common stock at \$0.45 per share for cash - 10,000		22,455	22	9,978	--	-
Issuance of common stock at \$0.46 per share for cash - 20,000		43,944	44	19,956	--	-
Issuance of common stock at \$0.47 per share for cash		128,836	129	59,872	--	-

-	60,001				
Issuance of common stock at \$0.52 per share for cash	95,502	96	49,904	--	-
- 49,999					
Issuance of common stock with warrants at \$0.36 per unit for cash	55,556	56	19,944	--	-
- 20,000					
Issuance of common stock at \$0.27 per share for cash	90,000	90	24,210	--	-
- 24,300					
Issuance of common stock at \$0.50 per share for cash	3,000	3	1,497	--	-
- 1,500					
Issuance of common stock to Fusion Capital for "commitment" shares	50,000	50	(50)	--	--
--					

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

		DEFICIT			
ACCUMULATED	TOTAL	COMMON STOCK		DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	
DEVELOPMENT	EQUITY			CONSULTING	
(DEFICIT)		SHARES	AMOUNT	FEEES	STAGE
		-----	-----	-----	-----
Issuance of common stock to Fusion Capital for fees		418,604	419	(419)	--
- (0)					-
Issuance of common stock at \$0.34 per share in connection with the conversion of notes payable, including interest of \$38,371		479,513	480	162,891	--
163,371					--
Issuance of common stock at \$0.44 per share in connection with the conversion of notes payable		113,636	114	49,886	--
- 50,000					-
Issuance of common stock at \$0.25 per share in connection with the conversion of notes payable		80,000	80	19,920	--
- 20,000					-
Issuance of common stock at \$0.49 per share in connection with the conversion of notes payable		174,606	175	85,382	--
- 85,557					-
Issuance of common stock at \$1.75 per share for services		17,143	17	29,983	--
- 30,000					-
Issuance of common stock at \$0.44 per share for services		265,273	265	116,455	--
116,720					--
Issuance of common stock at \$0.70 per share for services		10,715	11	7,489	--
- 7,500					-

Issuance of common stock at \$0.73 per share for services	6,850	7	4,993	--	-
- 5,000					
Issuance of common stock at \$0.55 per share for services	46,364	46	25,454	--	-
- 25,500					
Issuance of common stock at \$0.25 per share for services	165,492	165	41,208	--	-
- 41,373					
Issuance of common stock at \$0.45 per share for services	28,377	28	12,741	--	-
- 12,769					
Issuance of common stock at \$0.50 per share for services for deferred consulting services	60,000	60	29,940	(30,000)	--
--					
Issuance of common stock at \$0.49 per share for services	25,087	25	12,318	--	-
- 12,343					
Issuance of common stock at \$0.45 per share for services for deferred consulting services	66,666	67	29,933	(30,000)	--
--					
Issuance of common stock at \$0.37 per share for services	13,369	13	4,987	--	-
- 5,000					
Issuance of common stock at \$0.42 per share for services	19,231	19	7,981	--	-
- 8,000					
Issuance of common stock at \$0.39 per share for services	18,042	18	6,982	--	-
- 7,000					
Issuance of common stock at \$0.32 per share for services	162,678	163	52,382	--	-
- 52,545					
Issuance of common stock at \$0.31 per share for services	16,234	16	4,984	--	-
- 5,000					
Issuance of common stock at \$0.39 per share for employee bonus	22,500	22	8,754	--	-
- 8,776					

continued.....
SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC.					
(A Development Stage Company)					
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)					
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND					
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007					

					DEFICIT
ACCUMULATED	TOTAL	COMMON STOCK		DEFERRED	DURING
STOCKHOLDERS'				CONSULTING	
DEVELOPMENT	EQUITY			FEES	STAGE
(DEFICIT)		SHARES	AMOUNT		

--					

Debt discount on debt issued with detachable warrants	--	--	84,000	--	-
- 84,000					
Amortization of deferred consulting fees	--	--	--	30,000	--
30,000					
Intrinsic value of options issued to directors	--	--	424,262	--	-
- 424,262					
Net loss	--	--	--	--	
(2,096,951) (2,096,951)					
--	-----	-----	-----	-----	-----
BALANCE - MARCH 31, 2005	17,014,696	\$ 17,015	\$ 16,088,278	\$ (30,000)	
\$(19,142,264) \$(3,066,971)					
Issuance of common stock at \$0.28 per share for cash	35,947	36	9,964	--	-
- 10,000					
Issuance of common stock at \$0.26 per share for cash	38,256	38	9,962	--	-
- 10,000					
Issuance of common stock at \$0.26 per share for cash	38,401	38	9,962	--	-
- 10,000					
Issuance of common stock at \$0.25 per share for cash	201,165	201	49,799	--	-
- 50,000					
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	-
- 20,000					
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	-
- 20,000					
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	-
- 20,000					
Issuance of common stock at \$0.25 per share for cash	80,466	80	19,920	--	-
- 20,000					
Issuance of common stock at \$0.18 per share for cash	100,000	100	17,500	--	-
- 17,600					
Issuance of common stock at \$0.25 per Share for cash	301,744	302	74,698	--	-
- 75,000					
Issuance of common stock at varied prices for cash	2,485,249	2,485	767,512	--	-
- 769,997					
Issuance of common stock at \$0.76 per share for cash	568,181	568	431,249	--	-
- 431,818					
Issuance of common stock at \$0.25 per share in connection with the conversion of notes payable, including interest of \$4,564	140,000	140	34,860	--	--
35,000					
Issuance of common stock at \$0.20 per share in connection with the conversion of convertible notes payable, including interest of \$4,943	174,716	175	34,768	--	-
- 34,943					
Issuance of common stock at \$0.31 per share for services	9,740	10	2,990	--	-
- 3,000					
Issuance of common stock at \$0.30 per share for services	25,134	25	7,475	--	-
- 7,500					

Issuance of common stock at \$0.25 per share for services	31,424	31	7,869	--	-
- 7,900					
Issuance of common stock at \$0.26 per share for services	19,084	19	4,981	--	-
- 5,000					

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

						DEFICIT
ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	CONSULTING	
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES	STAGE
(DEFICIT)		-----	-----	-----	-----	-----
Issuance of common stock at \$0.25 per share for services		33,228	33	8,407	--	-
- 8,440						
Issuance of common stock at \$0.25 per share for services		24,000	24	5,976	--	-
- 6,000						
Issuance of common stock at \$0.26 per share for services		11,450	11	2,989	--	-
- 3,000						
Issuance of common stock at \$0.26 per share for services		19,084	19	4,981	--	-
- 5,000						
Issuance of common stock at \$0.26 per share for services		34,352	34	8,966	--	-
- 9,000						
Issuance of common stock at \$0.26 per share for services		11,450	11	2,989	--	-
- 3,000						
Loss on settlement of accrued legal liabilities		--	--	142,245	--	-
- 142,245						
Issuance of common stock at \$0.24 per share for services		12,605	13	2,987	--	-
- 3,000						
Issuance of common stock at \$0.24 per share for services		21,008	21	4,979	--	-
- 5,000						
Issuance of common stock at \$0.23 per share for services		21,739	22	4,978	--	-
- 5,000						
Issuance of common stock at \$0.23 per share for services		21,740	22	4,978	--	-
- 5,000						
Issuance of common stock at \$0.23 per share for services		2,155	2	498	--	-
- 500						

Issuance of common stock at \$0.23 per share for services	91,739	92	21,008	--	-
- 21,100					
Issuance of common stock at \$0.21 per share for services	175,755	176	37,084	--	-
- 37,260					
Issuance of common stock at \$0.23 per share for services	37,863	38	8,519	--	-
- 8,557					
Issuance of common stock at \$0.23 per share for services	21,368	21	4,979	--	-
- 5,000					
Issuance of common stock at \$0.21 per share for services	27,852	28	5,710	--	-
- 5,738					
Issuance of common stock at \$0.24 per share for services	21,186	21	4,979	--	-
- 5,000					
Issuance of common stock at \$0.22 per share for services	35,278	35	7,585	--	-
- 7,620					
Issuance of common stock at \$0.38 per share for services	13,298	13	4,987	--	-
- 5,000					
Issuance of common stock at \$0.38 per share for services	19,948	20	7,640	--	-
- 7,660					
Issuance of common stock at \$0.37 per share for services	97,662	98	36,037	--	-
- 36,135					
Issuance of common stock at \$0.25 per share for services	371,847	372	91,137	--	-
- 91,509					
Issuance of common stock at \$0.25 per share for services	73,964	74	18,128	--	-
- 18,202					

 continued.....
 SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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 AETHLON MEDICAL, INC.
 (A Development Stage Company)
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
 FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
 FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

		DEFICIT			
ACCUMULATED	TOTAL	COMMON STOCK		DEFERRED	DURING
STOCKHOLDERS'				CONSULTING	
DEVELOPMENT	EQUITY			FEES	STAGE
(DEFICIT)		SHARES	AMOUNT		
-----	-----	-----	-----	-----	-----
Issuance of common stock at \$0.29 per share for services		13,333	13	3,827	--
- 3,840					-
Issuance of common stock at \$0.33 per share for services		15,060	15	4,985	--
- 5,000					-

Issuance of common stock at \$0.24 per share for services 139,155	579,813	580	138,575	--	--
Issuance of common stock at \$0.28 and \$0.33 per share for services 20,000	66,017	66	19,934	--	--
Issuance of common stock at \$0.36 per share for services - 5,000	13,889	14	4,986	--	-
Issuance of common stock at \$0.33 per share for services - 2,999	9,091	9	2,989	--	-
Issuance of common stock at \$0.28 per share for services - 3,001	10,563	11	2,991	--	-
Issuance of common stock at \$0.33 per share for services --	150,000	150	48,850	(49,000)	--
Issuance of common stock at \$0.28 per share for services - 10,000	35,714	36	9,964	--	-
Issuance of common stock at \$0.33 per share for services - 5,000	15,152	15	4,985	--	-
Issuance of common stock at \$0.28 per per share for services - 5,000	17,730	18	4,982	--	-
Issuance of common stock at \$0.20 and \$0.37 per share for services 19,974	79,255	79	19,894	--	--
Issuance of common stock at \$0.33 per share for services - 10,000	33,333	33	9,967	--	-
Issuance of common stock at \$0.39 per share for services - 85,391	220,080	220	85,171	--	-
Issuance of common stock at \$0.49 per share for services - 3,550	7,275	7	3,543	--	-
Issuance of common stock at \$0.34 per share for services - 9,197	27,284	27	9,170	--	-
Issuance of common stock at \$0.33 per share for services - 52,155	158,046	158	51,997	--	-
Issuance of common stock at \$0.20 per share for services 167,346	836,730	837	166,509	--	--
Issuance of cashless warrants --	389,168	389	(389)	--	--
Conversion of accrued salaries to employee stock options - 300,000	--	--	300,000	--	-
Debt discount on debt issued with detachable warrants - 119,610	--	--	119,610	--	-
Interest expense related to beneficial conversion feature - 222,375	--	--	222,375	--	-
Professional fees related to registration statement - (76,732)	--	--	(76,732)	--	-
Amortization of deferred consulting fees	--	--	--	34,083	-

- 34,083

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

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AETHLON MEDICAL, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

						DEFICIT
ACCUMULATED	TOTAL	COMMON STOCK		ADDITIONAL	DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	CONSULTING	
DEVELOPMENT	EQUITY	SHARES	AMOUNT	CAPITAL	FEES	STAGE
(DEFICIT)		-----	-----	-----	-----	-----
Reclassification of derivative liabilities upon registration of shares underlying warrants						
- 1,090,000		--	--	1,090,000	--	-
Net loss		--	--	--	--	
(2,920,183)	(2,920,183)	-----	-----	-----	-----	-----
BALANCE - MARCH 31, 2006						
\$ (22,062,447)	\$ (1,759,486)	25,383,705	\$ 25,384	\$ 20,322,494	\$ (44,917)	

Issuance of common stock at varied prices for cash						
- 796,747		2,649,773	2,650	794,097	--	-
Issuance of common stock at \$0.18 per share for cash						
- 100,000		555,556	556	99,444	--	-
Issuance of common stock at \$0.30 per share for cash						
- 400,000		1,333,333	1,333	398,667	--	-
Issuance of common stock at \$0.24 per share in connection with the conversion of notes payable, including interest of \$18,750 43,750						
		107,759	108	43,642	--	--
Issuance of common stock at \$0.24 per share for services						
- 8,000		33,058	33	7,967	--	-
Issuance of common stock at \$0.25 per share for services						
- 31,965		126,065	127	31,858	--	-
Issuance of common stock at \$0.26 per share for services						
- 40,505		156,485	156	40,349	--	-
Issuance of common stock at \$0.27 per share for services						
- 8,000		30,075	30	7,970	--	-
Issuance of common stock at \$0.28 per share for services						
- 12,300		43,819	44	12,256	--	-
Issuance of common stock at \$0.29 per share for services						
		14,563	15	4,150	--	-

-	4,165				
Issuance of common stock at \$0.30 per share for services	18,454	19	5,531	--	-
-	5,550				
Issuance of common stock at \$0.31 per share for services	32,984	33	10,467	--	-
-	10,500				
Issuance of common stock at \$0.32 per share for services	52,722	53	17,947	--	-
-	18,000				
Issuance of common stock at \$0.34 per share for services	29,965	30	9,470	--	-
-	9,500				
Issuance of common stock at \$0.37 per share for services	132,765	133	48,725	--	-
-	48,858				
Issuance of common stock at \$0.40 per share for services	7,813	8	2,492	--	-
-	2,500				
Issuance of common stock at \$0.45 per share for services	3,363	3	1,497	--	-
-	1,500				
Issuance of common stock at \$0.47 per share for services	14,535	15	4,985	--	-
-	5,000				

 SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.
 continued.....

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 AETHLON MEDICAL, INC.
 (A Development Stage Company)
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)
 FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
 FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

		DEFICIT			
ACCUMULATED	TOTAL	COMMON STOCK		DEFERRED	DURING
STOCKHOLDERS'		-----		PAID IN	
DEVELOPMENT	EQUITY			CONSULTING	
(DEFICIT)		SHARES	AMOUNT	FEEES	STAGE
-----		-----	-----	-----	-----
Issuance of common stock at \$0.50 per share for services		35,601	36	17,765	--
-	17,801				-
Issuance of common stock at \$0.51 per share for services		21,078	21	10,728	--
-	10,749				-
Issuance of common stock at \$0.53 per share for services		20,127	20	8,980	--
-	9,000				-
Issuance of common stock at \$0.55 per share for services		4,545	5	2,495	--
-	2,500				-
Issuance of common stock at \$0.58 per share for services		17,332	17	9,983	--
-	10,000				-

Issuance of common stock at \$0.59 per share for services	8,532	9	4,991	--	-
- 5,000					
Issuance of common stock at \$0.61 per share for services	4,934	5	2,995	--	-
- 3,000					
Issuance of common stock at \$0.79 per share for services	10,095	9	7,990	--	-
- 8,000					
Issuance of common stock at \$0.81 per share for services	3,086	3	2,497	--	-
- 2,500					
Correction for issuance of cashless warrants	(174,716)	(175)	175	--	--
--					
Issuance of cashless warrants	30,617	31	(31)	--	--
--					
Issuance of commitment shares	1,050,000	1,050	(1,050)	--	--
--					
Interest expense related to beneficial conversion feature	--	--	50,000	--	-
- 50,000					
Amortization of deferred consulting fees	--	--	--	44,917	--
44,917					
Licensing rights to cancer patent	40,000	40	10,760	--	--
10,800					
Stock compensation expense	--	--	38,132	--	-
- 38,132					
Issuance of common stock at \$0.20 per Share in settlement of accrued liabilities	114,130	114	22,997	--	--
23,111					
Reclassification of derivative liabilities upon registration of shares underlying warrants	--	--	(1,090,000)	--	-
- (1,090,000)					
Net loss	--	--	--	--	
(6,024,545) (6,024,545)					
--					
BALANCE - MARCH 31, 2007	31,912,153	\$ 31,912	\$ 20,963,410	\$ --	
\$(28,086,992) \$(7,091,670)					
=====	=====	=====	=====	=====	=====

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007

January
31, 1984
(Inception) Through
2007 2006 March
31, 2007

Cash flows from operating activities:		
Net loss	\$ (6,024,545)	\$ (2,920,183)
\$(28,086,992)		
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,400	34,241
1,007,393		
Amortization of deferred consulting fees	44,917	34,083
109,000		
Gain on settlement of debt	--	(131,175)
(131,175)		
Loss on settlement of accrued legal liabilities	--	142,245
142,245		
Gain on sale of property and equipment	--	--
(13,065)		
Change in estimated fair value of warrant liability	2,112,575	360,125
2,472,700		
Fair market value of warrants issued in connection with accounts payable and debt related costs	--	--
2,715,736		
Fair market value of common stock, warrants and options issued for services and interest	274,914	704,383
3,486,916		
Stock based compensation	38,132	--
462,394		
Loss on debt extinguishment	1,216,748	--
1,216,748		
Amortization of debt discount	177,762	259,416
1,285,787		
Impairment of patents and patents pending	--	81,722
416,026		
Impairment of goodwill	--	--
897,227		
Deferred compensation forgiven	--	--
217,223		
Changes in operating assets and liabilities:		
Prepaid expenses	27,652	(22,034)
156,967		
Other assets	4,000	20,050
(13,200)		
Accounts payable and accrued liabilities	535,166	(118,276)
2,049,116		
Due to related parties	(149,625)	(28,878)
1,322,500		

Net cash used in operating activities	(1,718,904)	(1,584,281)
(10,286,454)		

Cash flows from investing activities:		
Purchases of property and equipment	(17,810)	(4,651)
(266,697)		
Patents and patents pending	(6,294)	(11,000)
(370,127)		
Proceeds from the sale of property and equipment	--	--
17,065		
Cash of acquired company	--	--
10,728		

Net cash used in investing activities	(24,104)	(15,651)
(609,031)		

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

continued.....

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH MARCH 31, 2007 (CONTINUED)

	January		
31, 1984			
(Inception) Through			
31, 2007	2007	2006	March
<hr/>			
Cash flows from financing activities:			
Net proceeds from the issuance of notes payable	--	100,000	
1,710,000			
Principal repayments of notes payable	--	(80,000)	
(292,500)			
Proceeds from the issuance of convertible notes payable	50,000	1,030,000	
2,078,000			
Net proceeds from the issuance of common stock	1,296,737	1,454,415	
7,916,822			
Professional fees related to registration statements	--	(76,731)	
(76,731)			
<hr/>			
Net cash provided by financing activities	1,346,737	2,427,684	
11,335,591			
<hr/>			
Net increase (decrease) in cash	(396,271)	827,752	
440,106			
Cash at beginning of period	836,377	8,625	
--			
<hr/>			
Cash at end of period	\$ 440,106	\$ 836,377	\$
440,106			
<hr/>			
Supplemental disclosure of cash flow information -			
Cash paid during the period for:			
Interest	\$ --	\$ 8,000	\$
263,258			
<hr/>			
Income taxes	\$ --	\$ --	\$
13,346			
<hr/>			
Supplement schedule of noncash investing and financing activities:			
Debt and accrued interest converted to common stock	\$ 43,750	\$ 69,942	\$
2,480,711			
<hr/>			
Debt discount on notes payable associated with			
detachable warrants	\$ 50,000	\$ 1,070,860	\$
1,154,860			
<hr/>			
Issuance of common stock, warrants and options in			
settlement of accrued expenses and due to related parties	\$ 23,111	\$ 467,346	\$
1,003,273			
<hr/>			
Reclassification of derivative liability to (from)			
additional paid-in capital	\$ (1,090,000)	\$ 1,090,000	\$
--			
<hr/>			
Issuance of common stock in connection with license			
agreements	\$ --	\$ --	\$
18,000			

Net assets of entities acquired in exchange for equity securities	\$	--	\$	--	\$
1,597,867					
Debt placement fees paid by issuance of warrants	\$	--	\$	--	\$
843,538					
Patent pending acquired for 12,500 shares of common stock	\$	--	\$	--	\$
100,000					
Common stock issued for prepaid expenses	\$	--	\$	--	\$
161,537					
Licensing rights acquired with common stock issuance	\$	10,800	\$	--	\$
10,800					

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

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</TABLE>

AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Aethlon Medical, Inc. ("Aethlon" or the "Company") engages in the research and development of a medical device known as the Hemopurifier(R) that removes harmful substances from the blood. Aethlon is in the development stage on the Hemopurifier(R) and significant research and testing are still needed to reach commercial viability. Any resulting medical device or process will require approval by the U.S. Food and Drug Administration ("FDA") or the regulatory agency of any foreign country where it intends to sell its device. Aethlon has submitted an Investigational Device Exemption ("IDE") to the FDA and plans to begin FDA sanctioned clinical trials within the next twelve months. Since many of Aethlon's patents were issued in the 1980's, some have expired and other are scheduled to expire in the near future. Thus, some patents may expire before FDA approval or approval in a foreign country, if any, is obtained. However, the Company believes that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier(R) treatment technology.

Aethlon is classified as a development stage enterprise under accounting principles generally accepted in the United States of America ("GAAP"), and has not generated revenues from its planned principal operations.

Aethlon's common stock is quoted on the Over-the-Counter Bulletin Board administered by the National Association of Securities Dealers ("OTCBB") under the symbol "AEMD.OB."

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Aethlon Medical, Inc. and its inactive wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc., Syngen Research, Inc. and Cell Activation, Inc. (hereinafter collectively referred to as the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the ordinary course of business. The Company has suffered continuing losses from

operations, is in default on certain debt, has negative working capital of approximately \$7,260,000 recurring losses from operations and a deficit accumulated during the development stage of approximately \$28,087,000 at March 31, 2007, which among other matters, raises substantial doubt about its ability to continue as a going concern. A significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. The Company intends to fund operations through debt and/or equity financing arrangements, which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2008. Therefore, the Company will be required to seek additional funds to finance its long-term operations.

The Company is currently addressing its liquidity issue by continually seeking investment capital through the public markets, specifically, through private placement of common stock and a pending common stock purchase agreement with Fusion Capital Fund II, LLC ("Fusion"). The Company believes that its cash on hand and funds available from Fusion and/or additional private investment will be sufficient to meet its liquidity needs for fiscal 2008. However, no assurance can be given that the Company will receive any funds in addition to the funds it has received to date.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOING CONCERN (continued)

The successful outcome of future activities cannot be determined at this time and there is no assurance that, if achieved, the Company will have sufficient funds to execute its intended business plan or generate positive operating results.

The consolidated financial statements do not include any adjustments related to recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

RISKS AND UNCERTAINTIES

The Company operates in an industry that is subject to intense competition, government regulation and rapid technological change. The Company's operations are subject to significant risk and uncertainties including financial, operational, technological, regulatory and other risks associated with a development stage company, including the potential risk of business failure.

USE OF ESTIMATES

The Company prepares its consolidated financial statements in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include, among others, realization of long-lived assets, valuation of derivative liabilities, estimating fair value associated with debt and equity transactions and valuation of deferred tax assets. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosure About Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. The carrying amount of the Company's cash, accounts payable, accrued liabilities and notes payable approximates their estimated fair values due to the short-term maturities of those financial instruments. Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties. SFAS No. 107 requires that for instruments for which it is not practicable to estimate their fair value, information pertinent to those instruments be disclosed, such as the carrying amount, interest rate, and maturity, as well as the reasons why it is not practicable to estimate fair value. Information about these related party instruments is included in Note 8.

Management believes it is not practical to estimate the fair value of such financial instruments because the transactions cannot be assumed to have been consummated at arm's length, the terms are not deemed to be market terms, there are no quoted values available for these instruments, and an independent valuation would not be practicable due to the lack of data regarding similar instruments, if any, and the associated potential costs.

CONCENTRATIONS OF CREDIT RISKS

Cash is maintained at a single financial institution. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at each institution for up to \$100,000. At times, cash may be in excess of the FDIC insurance limit. The Company had approximately \$340,000 exceeding this limit at March 31, 2007.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from two to five years. Repairs and maintenance are charged to expense as incurred while improvements are capitalized. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation with any gain or loss included in the statements of operations.

INCOME TAXES

Under SFAS No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carry-forwards. The Company records a valuation allowance for deferred tax assets when, based on management's best estimate of taxable income in the foreseeable future, it is more likely than not that some portion of the deferred income tax assets may not be realized.

LONG-LIVED ASSETS

SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset, an impairment loss is recognized.

Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS No. 144 also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. The provisions of this pronouncement relating to assets held for disposal generally are required to be applied prospectively after the adoption date to newly initiated commitments to sell or dispose of such assets, (as defined), by management. As a result, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Company's financial statements with respect to future disposal decisions, if any. Management believes no impairment charges were necessary during the fiscal years ended March 31, 2007 and 2006.

EARNINGS PER SHARE

Under SFAS No. 128, "Earnings per Share," basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of

additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. If the Company had net income in each of the years ended March 31, 2007 and 2006, 12,885,453 and 11,086,990 shares would have been considered additional common stock equivalents, respectively, based on the treasury stock method. As the Company had net losses for the periods presented, basic and diluted loss per share are the same, as any additional common stock equivalents would be antidilutive.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SEGMENTS

SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information," requires public companies to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, the foreign countries in which it holds significant assets and how the Company reports revenues and its major customers. The Company currently operates in one segment, as disclosed in the accompanying consolidated statements of operations.

STOCK BASED COMPENSATION

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123-R, "Share Based Payment." SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured when all granting activities have been completed, generally the grant date, based on the fair value of the award. Prior to April 1, 2006, the Company accounted for awards granted under its equity incentive plan under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock Based Compensation," as amended. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the Over-the-Counter Bulletin Board administered by Nasdaq) on the date of grant. Under the modified prospective method of adoption for SFAS No. 123-R, the compensation cost recognized by the Company beginning April 1, 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

From time to time, the Company's Board of Directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of the Company's formal stock plans. The terms of these grants are individually negotiated and generally expire within five years from the grant date.

In August 2000, the Company adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of Company stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of the Company's common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory). At March 31, 2007, the Company had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited, with 467,500 available for future issuance. All of these options vested prior to the adoption of FAS 123-R.

The effects of share-based compensation resulting from the application of SFAS No. 123-R to options granted outside of the Company's Stock Option Plan resulted in an expense of \$38,132 for the fiscal year ended March 31, 2007. This expense was recorded as stock compensation included in payroll and related expenses in

the accompanying March 31, 2007 condensed consolidated statement of operations. Share-based compensation recognized as a result of the adoption of SFAS No. 123-R as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123-R use the Binomial Lattice option pricing model for estimating fair value of options granted.

The following table summarizes the effect of share-based compensation resulting from the application of SFAS No. 123-R to options granted:

	Fiscal Year Ended March 31, 2007
Payroll and related	\$ 38,132 =====
Net share-based compensation effect in net loss from operations	\$ 38,132 =====
Basic and diluted loss per common share	\$ (0.00) =====

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STOCK BASED COMPENSATION (continued)

In accordance with SFAS No. 123-R, the Company reviews share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after March 31, 2006 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the fiscal year ended March 31, 2007 was insignificant.

Pro forma information required under SFAS No. 123 for periods prior to April 1, 2006 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under and outside of the Company's equity incentive plans was as follows:

	YEAR ENDED MARCH 31, ----- 2006 -----
Net loss available to common stockholders, as reported	\$ 2,920,183
Add back: Recorded intrinsic value	--
Pro forma compensation expense	361,111 -----
Pro forma net loss available to common stockholders	\$ 3,281,294 =====
Loss per common share, as reported	
Basic and diluted	\$ (0.15) =====
Loss per common share, pro forma	
Basic and diluted	\$ (0.17) =====

Pro forma compensation expense reported in the above table is generally based on the vesting provisions in the related stock option grants.

Share compensation expense for the fiscal year ended March 31, 2007 relates to the vesting of existing grants (issued subsequent to April 1, 2006), the date the Company adopted SFAS No. 123-R and of grants issued during the current fiscal year.

The following weighted average assumptions were used in the valuation of these instruments.

	2007 -----	2006 -----
Annual dividends	Zero	Zero
Expected volatility	91.9%	89%

Risk free interest rate	4.84%	4.82%
Expected life	10.0 years	5.0 years

The expected volatility is based on the historic volatility. The expected life of options granted is based on the "simplified method" described in the SEC's Staff Accounting Bulletin No. 107 due to changes in the vesting terms and contractual life of current option grants compared to the Company's historical grants.

Options outstanding that have vested and are expected to vest as of March 31, 2007 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (1)
Vested	8,369,060	\$ 0.39	5.33	\$ 3,396,474
Expected to vest	835,000	0.25	5.67	\$ 412,550
Total	9,204,060			\$ 3,809,024

(1) These amounts represent the difference between the exercise price and \$0.74, the closing market price of the Company's common stock on March 31, 2007 as quoted on the Over-the-Counter Bulletin Board under the symbol "AEMD.OB" for all in-the-money options outstanding.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STOCK BASED COMPENSATION (continued)

Options outstanding that are expected to vest are net of estimated future forfeitures in accordance with the provisions of SFAS No. 123-R, which are estimated when compensation costs are recognized. The Company estimates that the fair value of unvested stock options expected to vest and be expensed in future periods is approximately \$134,000. Additional information with respect to stock option activity is as follows:

	Outstanding Options			
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
March 31, 2006	467,500	9,012,785	\$ 0.38	\$ 3,875,498
Grants	--	500,000	\$ 0.27	
Exercises	--	--	--	
Cancellations	--	(308,725)	\$ 0.38	
March 31, 2007	467,500	9,204,060	\$ 0.38	\$ 3,802,324
Options exercisable at:				
March 31, 2006		7,135,518	\$ 0.39	
March 31, 2007		8,369,060	\$ 0.39	

(1) Represents the difference between the exercise price and the March 31, 2006 or March 31, 2007 market price of the Company's common stock, which was \$0.81 and \$0.74, respectively, for "in the money" options.

The Company follows SFAS No. 123-R (as interpreted by EITF Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services") to account for transactions involving services provided by third parties where the Company issues equity instruments as part of the total consideration.

Pursuant to paragraph 8 of SFAS No. 123, the Company accounts for such

transactions using the fair value of the consideration received (i.e. the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable. The Company applies EITF Issue No. 96-18, in transactions, when the value of the goods and/or services are not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, using the following methodology:

- a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance).
- b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.
- c) For any transactions not meeting the criteria in (a) or (b) above, the Company re-measures the consideration at each reporting date based on its then current stock value.

PATENTS

The Company capitalizes the cost of patents and patents pending, some of which were acquired, and amortizes such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent.

STOCK PURCHASE WARRANTS ISSUED WITH NOTES PAYABLE

The Company granted warrants in connection with the issuance of certain notes payable. Under APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued With Stock Purchase Warrants", as amended, the relative estimated fair value of such warrants represents a discount from the face amount of the notes payable. Accordingly, the relative estimated fair value of the warrants in those certain transactions where the warrants qualified for equity classification has been recorded in the consolidated financial statements as a discount from the face amount of the notes. The discount is amortized using the effective yield method over the respective term of the related notes payable.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable (see Notes 6 and 7) provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force Issue No. 98-5 ("EITF Issue No. 98-5"), "Accounting for Convertible Securities With Beneficial Conversion Features or Contingently Adjustable Conversion Ratio" and Emerging Issues Task Force Issue No. 00-27, "Application of EITF Issue No. 98-5 to Certain Convertible Instruments," the estimated fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are accreted to interest expense over the term of the notes using the effective yield method.

CLASSIFICATION OF WARRANT OBLIGATION

In connection with the issuance of the 10% Series A Convertible Notes (see Note 6), the Company had an obligation to file a registration statement covering the common shares underlying the convertible notes and related warrants (the "Registerable Securities", as defined in the Registration Rights Agreement). The obligation to file the registration statement met the criteria of an embedded derivative to be bifurcated pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The classification of the warrant obligation was evaluated at each reporting date. From the original issuance date through January 20, 2006 and October 27, 2006, the Company was required to classify the warrant obligation as a derivative liability, recorded at its fair value, in accordance with SFAS No. 133 under EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In, a Company's Own Stock." Accordingly, the warrants were classified as derivative liabilities with the change in fair value reported in earnings.

REGISTRATION PAYMENT ARRANGEMENTS

The Company accounts for its liquidated damages on registration rights

agreements (see Note 6) in accordance with FASB Staff Position EITF 00-19-2, which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies."

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately \$673,614 and \$754,000 of research and development expenses during the years ended March 31, 2007 and 2006, respectively, which are included in various operating expenses in the accompanying consolidated statements of operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company's financial statements.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a more-likely-than-not recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken (or expected to be taken) in an income tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The requirement to assess the need for a valuation allowance on net deferred tax assets is not affected by FIN No. 48. This pronouncement is effective for fiscal years beginning after December 31, 2006. Management is in the process of evaluating this guidance, and therefore has not yet determined the impact (if any) that FIN No.48 will have on the Company's financial position or results of operation upon adoption.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 simplifies and codifies related guidance within GAAP, but does not require any new fair value measurements. The guidance in SFAS No. 157 applies to derivatives and other financial instruments measured at estimated fair value under SFAS No. 133 and related pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management does not expect the adoption of SFAS No. 157 to have a significant effect on the Company's financial position or results of operation.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If the Company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management has not yet evaluated the effects on future consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2007:

Furniture and office equipment	\$ 261,535
Accumulated depreciation	(247,873)

Depreciation expense for the years ended March 31, 2007 and 2006 approximated \$16,500 and \$23,000, respectively.

3. PATENTS

Patents include both foreign and domestic patents. There was one patent pending at March 31, 2007 and 2006. The unamortized cost of patents and patents pending is written off when management determines there is no future benefit. During the years ended March 31, 2007 and 2006, patents with net carrying values of \$0 and \$81,722, respectively, were written off as impairment expense. At March 31, 2007, the gross carrying amount of patents and patents in process totaled approximately \$175,000 and the related accumulated amortization totaled approximately 33,000. Amortization of patents approximated \$7,000 and \$12,000 during the years ended March 31, 2007 and 2006, respectively. Amortization expense on patents is estimated to be approximately \$7,000 per year for the next five fiscal years. Some of the Company's patents have expired and others may expire before FDA approval, if any, is obtained.

4. DEBT-TO-EQUITY CONVERSION PROGRAM

In March 2002, for a limited time, the Company extended an offer to certain note holders and vendors to convert past due amounts into restricted common stock and warrants to purchase common stock of the Company. The offer entailed the conversion of liabilities at a rate of one share and one-half of a warrant for every \$1.25 converted. The warrants had an exercise price of \$2.00 per share and expired three years from the date of issuance; none are outstanding at March 31, 2006 and 2005.

5. NOTES PAYABLE

12% NOTES

From August 1999 through September 2000, the Company entered into arrangements for the issuance of notes payable from private placement offerings (the "12% Notes") in the original aggregate amount of \$422,500. The 12% Notes bore annual interest at 12% (15% after maturity), required interest to be paid quarterly, matured one year from the date of issuance, and carried detachable warrants. These notes have no acceleration provisions. In June 2004, one such note in the principal amount of \$12,500 plus accrued interest was repaid. In December 2004, each of two such notes in the principal amount of \$25,000, plus \$17,778 accrued interest, were converted to 87,303 restricted common shares at \$0.49 per share.

On May 27, 2005 the Company issued a promissory note to an accredited investor in an amount of \$100,000 with 12% interest maturing on December 1, 2005. In conjunction with the issuance of the Note, the Company also issued a 12-month warrant to acquire 400,000 shares of Common Stock at \$0.25 per share. Accordingly, this warrant has been valued using a Black-Scholes option pricing model and an associated discount of \$41,860, was accreted to interest expense over the term of the Note. This entire amount was included in interest expense during the fiscal year ended March 31, 2006.

At March 31, 2007, \$347,500 of principal balance of the 12% Notes were outstanding and delinquent, in default, and bore interest at the default rate of 15%.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

5. NOTES PAYABLE (continued)

10% NOTES

From time to time, the Company issued convertible notes payable ("10% Note") to various investors, bearing interest at 10% per annum, with principal and interest due six months from the date of issuance. The 10% Notes require no payment of principal or interest during the term and may be converted to common stock of the Company at the conversion price of \$0.50 per share at any time at the option of the noteholder. The total amount of the original notes issued was \$275,000. There were two remaining 10% Notes outstanding at March 31, 2004. As of such date and through March 31, 2007, these notes were classified as notes payable since they were no longer convertible.

The remaining 10% Note in the amount of \$5,000, was past due and in default at March 31, 2007. At March 31, 2007, interest payable on this note totaled \$2,875.

9% NOTE

In April 2003, the Company issued a convertible note in the amount of \$150,000 ("9% Note"), bearing interest at 9% per annum, with principal and interest due in June 2003, which is in default and currently bears penalty interest at 18% per annum. The 9% Note required no payment of principal or interest during the term and was convertible into common stock of the Company at the conversion price of \$0.25 per share through June 2003 at the option of the noteholder. As this note is no longer convertible, the outstanding balance totaling \$150,000 has been recorded as notes payable in the accompanying consolidated balance sheet.

Notes payable, which are all in default, consist of the following at March 31, 2006:

12% Notes payable, all past due	\$ 347,500
10% Note payable, past due	5,000
9% Note payable, past due	150,000

	\$ 502,500
	=====

Management's plans to satisfy the remaining outstanding balance on these notes include converting the notes to common stock at market value or repayment with available funds.

6. CONVERTIBLE NOTES PAYABLE

10% CONVERTIBLE NOTES

On December 15, 2006, the Company issued two 10% Convertible Notes ("December 10% Notes") totaling \$50,000 to accredited investors. The December 10% Notes accrue interest at a rate of ten percent (10%) per annum and mature on March 15, 2007. Such notes are convertible into shares of restricted common stock at any time at the election of the holder at a fixed conversion price of \$0.17 per share for any conversion occurring on or before the maturity date. In addition, upon issuance, the Company issued five-year Warrants ("December 10% Note Warrants") to purchase a number of shares equal to the number of shares into which the December 10% Notes can be converted at a fixed exercise price of \$0.17. Additionally, if the December 10% Note Warrants are exercised prior to December 15, 2007, the holder will receive an additional warrant on the same terms as the December 10% Note Warrants on a one to one basis. The warrants can be settled in unregistered shares of common stock. The December 10% Note Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of \$15,627, the relative fair value measured at the commitment date, was recorded and presented net against the face amount of the December 10% Notes. The convertible feature of the December 10% Notes provides for an effective conversion rate that is below market value. Pursuant to EITF No. 98-5 and EITF No. 00-27, the Company estimated the fair value of such BCF to be \$34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the BCF were accreted to interest expense over the term of the December 10% Notes. Interest expense on the December 10% Notes for accretion of such debt discounts totaled approximately \$50,000 for the fiscal year ended March 31, 2007.

15% CONVERTIBLE NOTE

On May 16, 2005 the Company issued Fusion Capital ("Fusion") a \$30,000 Convertible Promissory Note (the "Convertible Note") with an interest rate of fifteen percent (15%) per annum that matured on August 15, 2005 (the "Maturity Date"). In addition, the Company issued Fusion a five-year warrant to purchase 300,000 shares of the Company's common stock at an exercise price of \$0.25 per share (the "Warrant"). In accordance with EITF Issue No. 98-5, EITF Issue No. 00-27 and APB No. 14, the Company recorded debt discounts associated with conversion feature and the warrants totaling \$30,000 which was entirely

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AETHLON MEDICAL, INC.
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6. CONVERTIBLE NOTES PAYABLE (continued)

accreted to interest expense during the fiscal year ended March 31, 2006. The Convertible Note and approximately \$5,000 in associated accrued interest was exchanged for 174,716 shares of restricted common stock on March 23, 2006.

10% SERIES A CONVERTIBLE NOTES

From July 11, 2005 through December 15, 2005 the Company received cash investments totaling \$1,000,000 from accredited investors based on agreed-upon terms reached on the cash receipt dates. Such investments were documented in

November and December 2005 in several 10% Series A Convertible Promissory Notes. The 10% Series A Convertible Notes accrue interest at a rate of ten percent (10%) per annum and matured on January 2, 2007. The 10% Series A Convertible Notes were convertible into shares of common stock at any time at the election of the holder at a conversion price equal to \$0.20 per share for any conversion occurring on or prior to the maturity date.

Convertible Notes Payable consists of the following at March 31, 2007:

	Principal -----	Discount -----	Net Amount -----
10% Series A Convertible Notes	\$ 1,000,000	\$ (1,000,000)	\$ --
December 10% Convertible Notes	50,000	--	50,000
	=====	=====	=====
	\$ 1,050,000	\$ (1,000,000)	\$ 50,000

The Conversion Option

SFAS No. 133 states that a contract issued by an entity that is both (a) indexed to its own stock and (b) would be classified in stockholders' equity if it were a freestanding financial instrument is not a derivative for purposes of that pronouncement. Management has concluded that the conversion option associated with the 10% Series A Convertible Notes is "indexed to the Company's own stock" as that term is defined by EITF Issue No. 01-6, "The Meaning of Indexed to Company's Own Stock". In addition, since such notes have been determined to be "conventional convertible debt instruments" as defined in EITF Issue No. 05-2, "The Meaning of Conventional Convertible Debt Instrument" in Issue 00-19, the requirements of EITF Issue No. 00-19 do not apply. Lastly, the debt host contract is not a derivative in its entirety and (based on SFAS No. 133) the conversion option need not be bifurcated from such contract. Therefore, the conversion option is not a derivative instrument as contemplated by EITF Issue No. 00-19 or SFAS No. 133. As explained below, the Company has therefore applied intrinsic value accounting, where applicable, to the BCF embedded in the conversion option.

Intrinsic Value Accounting for the BCF

The Company accounted for the BCF associated with the issuance of the 10% Series A Convertible Notes in accordance EITF Issue No. 98-5, EITF Issue No. 00-27, and APB No. 14. The convertible feature of the 10% Series A Convertible Notes provides for a rate of conversion that is below market value. The excess of the proceeds over the estimated fair value of the warrants (see "Accounting for the Warrants" below) was used to calculate the effective conversion price per share. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such BCF to be \$270,125 and recorded such amount as a debt discount against the face amount of the notes. Such discount was accreted to interest expense over the original term of the notes. Total interest expense on the 10% Series A Convertible Notes for amortization of the above BCF debt discount totaled \$142,364 and \$127,762 for the fiscal years ended March 31, 2007 and 2006.

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AETHLON MEDICAL, INC.
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10% SERIES A CONVERTIBLE NOTES (continued)

Accounting for the Warrants

Under this transaction, the Company is obligated to register for resale the common shares underlying the warrants, and as a result, the embedded derivative associated with this warrant obligation does not meet the scope exception of paragraph 11(a) of SFAS No. 133. Specifically, at the commitment date, the Company did not have any uncommitted registered shares to settle the warrant obligation and accordingly, such obligation was required to be classified as a liability (outside of stockholders' deficit) in accordance with EITF Issue No. 00-19. The Series A Warrants were valued at \$729,875 on the commitment date using a Binomial Lattice option pricing model. Such amount was recorded as a derivative liability and an offsetting debt discount against the face amount of the 10% Series A Convertible Notes. Such debt discount will begin to be expensed as future conversions occur and the warrants are issued.

On January, 2006, the registration statement which included the shares underlying the 10% Series A Convertible Notes ("Notes") and related warrants was deemed effective. At such time, the Company re-evaluated the classification of the warrant obligation and determined that the warrant obligation met the criteria for equity classification under EITF No. 00-19. Accordingly, the Company revalued the warrants at such date, totaling \$1,090,000, with the change in fair value of the warrant liability totaling \$360,125 expensed in the

accompanying consolidated statements of operations for the year ended March 31, 2006.

The Allonge Transactions

Effective March 22, 2007, the Company entered into four Allonges (the "Allonges") to its 10% Series A Convertible Notes entered into in December 2005 having an aggregate principal amount of \$1,000,000 (the "Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital, LLC and Christian J. Hoffmann III (the "Holders"). Each Holder has qualified as an "accredited investor" as that term is defined in the

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AETHLON MEDICAL, INC.
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6. CONVERTIBLE NOTES PAYABLE (continued)

Securities Act of 1933, as amended (the "Act"). Pursuant to the Allonges, the Company amended and restated the Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will also pay all accrued interest, through February 15, 2007 and each calendar quarter thereafter, in the form of units (the "Units") at the rate of \$0.20 per Unit (the "Interest Payment Rate"). The Allonges amend the Notes so that they are now convertible into Units at any time prior to the Maturity Date at the conversion price of \$0.20 per Unit (the "Conversion Price"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A Warrant expires on January 2, 2011 and is exercisable to purchase one share of Common Stock at a price of \$0.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant" and with the Class A Warrant, collectively, the "Warrants") for every two Class A Warrants exercised. Each Class B Warrant has a three-year term and is exercisable to purchase one share of Common Stock at a price equal to the greater of \$0.20 per share or 75% of the average of the closing bid prices of the Common Stock for the five trading days immediately preceding the date of the notice of conversion. Pursuant to EITF 06-06, and because of the change in the fair value of embedded conversion options as a result of the issuance of Units under the Allonges on March 22, 2007, such issuance was determined to be a substantial change in the 10% Series A Notes resulting in the extinguishment of the Notes as per APB No. 26. Therefore on March 22, 2007, the Company recorded a loss on extinguishment of debt of \$1,216,748. Between March 22, 2007 and March 31, 2007, the Company also recorded an additional other expense of \$143,125 to record the change in fair value of the derivative liability at the end of the fiscal year. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On or about March 13, 2007, the Company determined that the effectiveness of the registration statement underlying the warrant shares associated with the 10% Series A Convertible Notes had lapsed on October 27, 2006. Pursuant to EITF Issue No. 00-19, the Company believed it could no longer control settlement in registered shares. Accordingly, the Company reclassified the warrants as a derivative liability. Upon extinguishment, the Company recorded a net increase in warrant liability of \$757,002. In addition, other expense of \$1,212,448 was recorded for the change in fair value through the end of the fiscal year. Further, the Company also recorded estimated liquidated damages in an amount of \$220,000, an amount of the Company's estimate of the damages that are expected to be paid prior to the effective registration of the shares underlying the warrants.

7. EQUITY TRANSACTIONS

2003 CONSULTANT STOCK PLAN

In August 2003, the Company adopted the 2003 Consultant Stock Plan (the "Stock Plan"), which provides for grants of common stock through August 2013, to assist the Company in obtaining and retaining the services of persons providing consulting services for the Company. A total of 1,000,000 common shares are reserved for issuance under the Stock Plan. On March 29, 2004, the Company filed a registration statement on Form S-8 for the purpose of registering 1,000,000 common shares issuable under the Stock Plan under the Securities Act of 1933. On August 29, 2005, the Company filed a Form S-8 for the purpose of registering an additional 2,000,000 shares, for a total of 3,000,000 common shares reserved under the Plan.

2005 DIRECTORS COMPENSATION PROGRAM

In February 2005, the Company adopted the 2005 Directors Compensation Program (the "Directors Compensation Program") to assist in obtaining and retaining the

services of outside directors. Under the Directors Compensation Program, a newly elected director will receive a one time grant of a non-qualified stock option of 1.5% of the common stock outstanding at the time of election. The options will vest one-third at the time of election to the board and the remaining two-thirds will vest equally at year end over three years. Additionally, each director will also receive an annual \$25,000 non-qualified stock option retainer, \$15,000 of which is to be paid at the first of the year to all directors who are on the Board prior to the first meeting of the year and a \$10,000 retainer will be paid if a director attends 75% of the meetings either in person, via conference call or other electronic means. The exercise price for the options under the Directors Compensation Program will equal the average closing of the last ten (10) trading days prior to the date earned.

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AETHLON MEDICAL, INC.
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK

In April 2004, the Company issued 500,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of warrants at \$0.25 per share for cash totaling \$125,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In April 2004, the Company issued 17,143 shares at \$1.75 per share to an accredited individual investor for investor relations services in the amount of \$30,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In April 2004, the Company issued 50,000 shares of restricted common stock to Fusion Capital Fund II, LLC, an accredited institutional investor, for a financing commitment to provide \$6,000,000 under a registered private placement. In connection with the \$6,000,000 financing the Company paid a fee to Fusion Capital in the amount of 418,604 shares of common stock. The Company recorded no expense related to the issuance of these shares since they were related to equity fund raising activities. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2004, the Company issued 225,000 shares of common stock at \$0.44 per share and 225,000 warrants to purchase the Company's common stock at a price of \$0.76 per share to legal counsel for legal services in the amount of \$99,000, which was recorded as expense in the accompanying consolidated financial statements. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In May 2004, a \$50,000 10% convertible note was converted at \$0.44 per share for 113,636 shares of common stock and 113,636 warrants to purchase the Company's common stock at a price of \$0.76 per share. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In May 2004, the Company issued a total of 1,415,909 shares of restricted stock at a price of \$0.44 per share for cash totaling \$623,000 to fourteen accredited investors. In connection with the issuance of these shares, the Company granted the stockholders 1,640,908 warrants to purchase the Company's common stock at a price of \$0.76 per share. The warrants vested immediately and expire on the fifth anniversary from the date when a registration statement covering the common stock underlying such warrants is declared effective. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In July 2004, the Company issued 10,715 shares of restricted common stock at \$0.70 per share to an accredited individual for employee placement services in the amount of \$7,500. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In July 2004, the Company issued 6,850 shares of restricted common stock at \$0.73 per share to an accredited individual for consulting services on opportunities for the Company's Hemopurifier(R) within the biodefense marketplace in the amount of \$5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In September 2004, the Company issued 479,513 shares of restricted common stock to an accredited investor, in conjunction with the conversion of \$125,000 in principal amount of notes, plus accrued interest, at \$0.34 per share, in accordance with their convertible note agreement (see Note 7). This transaction

was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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AETHLON MEDICAL, INC.
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In November and December 2004, the Company issued 80,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of 80,000 warrants at \$0.25 per share for consideration of a \$20,000 reduction in the principal amount of a 10% one-year promissory note. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company issued 461,667 shares of restricted common stock to two accredited individual investors in connection with the exercise of 461,667 warrants at \$0.25 per share for cash totaling \$115,417. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company repaid two \$25,000 12% promissory notes, including accrued interest of \$17,778 each, through the issuance of 87,303 restricted common shares at \$0.49 per share to each of two separate accredited individual investors. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company issued 60,000 shares of restricted common stock at \$0.50 per share under a consulting agreement with an accredited individual investor, for investor relations consulting services to the Company. The fair value of the transaction of \$30,000 was recorded as deferred compensation and presented as an offset to additional paid-in capital in the accompanying consolidated financial statements. Such amount is being amortized to expense over the six month term of the agreement. At March 31, 2005, \$15,000 of such amount remained unamortized. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The remaining \$15,000 balance in deferred consulting fees were amortized during the fiscal year ended March 31, 2006.

In January 2005, the Company issued 55,556 shares of restricted common stock at \$0.36 per share and a warrant to purchase 55,556 shares of common stock at \$0.44 per share for cash in the amount of \$20,000 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 66,666 shares of restricted common stock at \$0.45 per share to an accredited individual investor under a consulting agreement for investor relations services to the Company. The fair value of the transaction of \$30,000 was recorded as deferred compensation and presented as an offset to additional paid-in capital in the accompanying consolidated financial statements. Such amount is being amortized to expense over the six month term of the agreement. At March 31, 2005, \$15,000 of such amount remained unamortized. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The remaining \$15,000 balance in deferred consulting fees were amortized during the fiscal year ended March 31, 2006.

In January 2005, the Company issued 25,834 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 25,834 shares of common stock at \$0.25 per share for cash totaling \$6,459. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 139,063 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 139,063 shares of common stock at \$0.25 per share for cash totaling \$34,766. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

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AETHLON MEDICAL, INC.
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In February 2005, the Company issued 90,000 shares of restricted common stock at \$0.27 per share and a three-year warrant to purchase 90,000 shares of common stock at \$0.34 per share for cash in the amount of \$24,300 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued an additional total of 1,416,958 shares of restricted common stock at prices ranging from \$0.25 to \$0.52 for total cash proceeds of approximately \$541,000.

During the year ended March 31, 2005, the Company issued an additional 557,647 shares of restricted common stock at prices ranging from \$0.25 to \$0.55 under various consulting service agreements for total recorded value of approximately \$196,000. All services on these agreements were completed and expensed during the year ended March 31, 2005.

In April 2005, the Company issued 9,740 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.31 per share in payment for scientific consulting services to the Company valued at \$3,000.

In April 2005, the Company issued 25,134 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.30 per share in payment for regulatory affairs consulting services to the Company valued at \$7,500.

In April 2005, the Company issued 31,424 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for regulatory affairs consulting services to the Company valued at \$7,900.

During the year ended March 31, 2006, the Company issued 3,990,807 shares of common stock at prices between \$0.25 to and \$0.76 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for cash proceeds totaling \$1,436,815. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

During the quarter ended June 30, 2005, the Company issued 95,420 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.262 per share in payment for regulatory affairs consulting services to the Company valued at \$25,000.

In May 2005, the Company issued 33,228 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for regulatory affairs consulting services to the Company valued at \$8,440.

In May 2005, the Company issued 24,000 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for investor relations consulting services to the Company valued at \$6,000.

In May 2005 the Company issued 100,000 shares of common stock and a warrant to purchase 400,000 shares of common stock at a purchase price of \$0.18 per share to an accredited investor for \$17,600. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In May 2005, the Company issued 11,450 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.26 per share in payment for scientific consulting services to the Company valued at \$3,000.

In June 2005, the Company issued 34,352 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.26 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In June 2005, the Company issued 34,352 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.26 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In June 2005, the Company issued 11,450 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.26 per share in payment for scientific consulting services to the Company valued at \$3,000.

In June 2005, the Company issued 21,008 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.24 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In June 2005, the Company issued 836,730 shares of restricted common stock and a three-year warrant to purchase 418,365 shares of the Company's restricted common stock at an exercise price of \$0.25 to legal counsel as an inducement to settle accrued past due legal services payable in the amount of \$167,346 which had been expensed in the prior fiscal year. At the time of the settlement, the shares of the Company's restricted common stock were valued at \$209,183 and, using a Black-Scholes option pricing model, the warrant was valued at \$100,408. The non-cash additional consideration of \$142,245 has been recorded as professional fees expense during the fiscal year ended March 31, 2006.

In June 2005, the Company issued 12,605 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.24 per share in payment for scientific consulting services to the Company valued at \$3,000.

During the quarter ended June 30, 2005, the Company expensed \$30,000 of deferred consulting fees, which were included in additional paid-in capital at March 31, 2005, as the related consulting services were completed.

In July 2005, the Company issued 43,479 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting services to the Company valued at \$10,000.

In July 2005, the Company issued 2,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting services to the Company valued at \$500.

In August 2005, the Company issued 37,863 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting services to the Company valued at \$8,557.

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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In August 2005, the Company issued 91,739 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting

services to the Company valued at \$21,100.

In August 2005, the Company issued 21,368 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.23 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In August 2005, the Company issued 175,755 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.21 per share in payment for regulatory affairs consulting services to the Company valued at \$37,260.

In September 2005, the Company issued 27,852 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.21 per share in payment for regulatory affairs consulting services to the Company valued at \$5,738.

In October 2005, the Company issued 21,186 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.24 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In October 2005, the Company issued 35,278 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.22 per share in payment for regulatory affairs consulting services to the Company valued at \$7,620.

In November 2005, the Company issued 19,948 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.38 per share in payment for regulatory affairs consulting services to the Company valued at \$7,660.

In November 2005, the Company issued 97,662 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.37 per share in payment for regulatory affairs consulting services to the Company valued at \$36,135.

In November 2005, the Company issued 13,298 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.38 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In December 2005, the Company issued 371,847 shares of common stock to legal counsel pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment of general legal fees valued at \$91,509.

In December 2005, the Company issued 73,964 shares of restricted common stock at \$0.25 per share in payment of legal fees related to capital raising transactions valued at \$18,202.

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AETHLON MEDICAL, INC.
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In December 2005, the Company issued 13,333 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.29 per share in payment for regulatory affairs consulting services to the Company valued at \$3,840.

In December 2005, the Company issued 15,060 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.33 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In January 2006, the Company issued 579,813 shares of restricted common stock at \$0.24 per share in payment for patent fees valued at \$139,155.

In January 2006, the Company issued 66,017 shares of restricted common stock at Prices ranging from \$0.28 to \$0.33 per share in payment for investor relations valued at \$20,000.

In January 2006, the Company issued 9,091 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.33 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000.

In January 2006, the Company issued 13,889 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.36 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In February 2006, the Company issued 10,563 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000.

In March 2006, the Company issued 17,730 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000.

In March 2006, the Company issued 79,255 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.28 per share in payment for Corporate communications consulting services to the Company valued at \$19,974.

In March 2006, the Company issued 110,040 shares of common stock to legal counsel pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan and 110,040 shares of restricted stock at \$0.39 per share in payment of general legal fees valued at \$85,392.

In March 2006, the Company issued 7,275 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.49 per share in payment for regulatory affairs consulting services to the Company.

In March 2006, the Company issued 27,284 shares of common stock to legal counsel pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.34 per share in payment of general legal fees valued at \$9,197.

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AETHLON MEDICAL, INC.
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In March 2006, the Company issued 158,046 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.33 per share in payment for regulatory affairs consulting services to the Company valued at \$52,155.

In March 2006, the Company converted a \$30,000 10% promissory notes held by an accredited individual investor, including accrued interest of \$4,564, through the issuance of 140,000 restricted common shares at \$0.25 per share.

In March 2006, a \$30,000 15% convertible note, including accrued interest of \$4,943, was converted at \$0.20 per share for 174,716 shares of common stock. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In March 2006, the Company issued 150,000 shares of restricted common stock under a one year investor relations consulting agreement which was valued at \$49,000 and being amortized over a one year period. Approximately \$4,000 was amortized during the year ended March 31, 2006. As a result, the remaining balance of \$44,917 represents that entire balance of deferred consulting fees (contra equity) in accompanying consolidated balance sheet.

In March 2006, the Company issued 35,714 shares of restricted common stock payment of professional services related to investor relations valued at \$10,000.

In March 2006, the Company issued 15,152 shares of restricted common stock at

\$0.33 per share in payment of professional services related to investor relations valued at \$5,000.

In March 2006, the Company issued 33,333 shares of restricted common stock at \$0.30 per share in payment of an option agreement valued at \$10,000.

In April 2006, the Company issued 3,782 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.79 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In April 2006, the Company issued 25,601 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.50 per share in payment for past due rents owed by the Company valued at \$12,801 based on the value of the services.

In April 2006, the Company issued 6,313 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.79 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In April 2006, the Company issued 10,000 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.50 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In April 2006, the Company issued 14,563 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.29 per share in payment for regulatory affairs consulting services to the Company valued at \$4,165 based on the value of the services.

In April 2006, the Company issued 3,086 shares of restricted common stock at \$0.81 per share in payment for investor relations valued at \$2,500 based on the value of the services.

During April 2006, the Company issued 209,679 shares of common stock at prices between \$0.57 and \$0.74 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$140,002. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In April 2006, the Company repaid a \$25,000 15% promissory notes, including accrued interest of \$18,750, through the issuance of 107,759 restricted common shares at \$0.41 per share to an accredited individual investor. There was no gain or loss on the extinguishment.

In May 2006, the Company issued 8,532 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.59 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In May 2006, the Company issued 5,703 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.53 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In May 2006, the Company issued 4,545 shares of restricted common stock at \$0.55 per share in payment for investor relations valued at \$2,500 based on the value of the services.

In June 2006, the Company issued 8,681 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.58 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In June 2006, the Company issued 5,703 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.53 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In June 2006, the Company issued 3,363 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant

Stock Plan at \$0.45 per share in payment for regulatory affairs consulting services to the Company valued at \$1,500 based on the value of the services.

In July 2006, the Company issued 8,721 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.34 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In July 2006, the Company issued 10,684 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.47 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In July 2006, the Company issued 6,250 shares of restricted common stock at \$0.40 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services.

In July 2006, the Company issued 7,813 shares of restricted common stock at \$0.32 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services.

In July 2006, the Company issued 8,721 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.34 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In July 2006, the Company issued 132,765 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.37 per share in payment for regulatory affairs consulting services to the Company valued at \$48,858 based on the value of the services.

In July 2006, the Company issued 14,535 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.34 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

During August 2006, the Company issued 113,235 shares of common stock at prices between \$0.26 and \$0.27 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$30,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In August 2006, the Company issued 9,434 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.32 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In August 2006, the Company issued 86,779 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for general legal expenses to the Company valued at \$22,085 based on the value of the services.

In August 2006, the Company issued 114,132 shares of restricted common stock at \$0.20 per share in payment for accrued accounting consulting services provided to the Company by a third party valued at \$23,111 based upon the value of the services.

During September 2006, the Company issued 439,936 shares of common stock at prices between \$0.25 and \$0.26 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$110,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In September 2006, the Company issued 4,808 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.31 per share in payment for regulatory affairs consulting services to the Company valued at \$1,500 based on the value of the services.

In September 2006, the Company issued 15,723 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.32 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In September 2006, the Company issued 9,868 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.30 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In September 2006, the Company issued 16,447 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.32 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In September 2006, the Company issued 9,733 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.30 per share in payment for regulatory affairs consulting services to the Company valued at \$2,550 based on the value of the services.

During October 2006, the Company issued 201,165 shares of common stock at \$0.25 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$50,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In October 2006, the Company issued 16,994 shares of restricted common stock at \$0.31 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services.

In October 2006, the Company issued 8,929 shares of restricted common stock at \$0.28 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services.

In October 2006, the Company issued 18,797 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.27 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In October 2006, the Company issued 11,278 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.27 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In October 2006, the Company issued 7,540 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for regulatory affairs consulting services to the Company valued at \$1,900 based on the value of the services.

In November 2006, the Company issued 555,556 shares of restricted common stock at \$0.18 per share in exchange for an investment of \$100,000. As an inducement the Company also issued five-year warrants to purchase a number of shares equal to the number of restricted shares issued converted at a fixed exercise price of \$0.18. Additionally, if the warrants are exercised prior to November 14, 2007, the holder will receive an additional warrant on the same terms as the warrants.

In November 2006, the Company issued 11,905 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In November 2006, the Company issued 19,841 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.25 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In December 2006, the Company issued 12,397 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.24 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In December 2006, the Company issued 20,661 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.24 per share in payment for regulatory affairs

consulting services to the Company valued at \$5,000 based on the value of the services.

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AETHLON MEDICAL, INC.
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7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In December 2006, the Company issued 40,000 shares of restricted common stock at \$0.25 per share in exchange for license and development rights related to certain intellectual property valued at \$10,800 based on the fair market value of the intellectual property license.

During December 2006, the Company issued 118,360 shares of common stock at prices between \$0.25 and \$0.26 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$30,000. These shares are registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In January 2007, the Company issued 15,248 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services to the Company valued at \$4,300 based on the value of the services.

In January 2007, the Company issued 10,714 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In January 2007, the Company issued 125,091 shares of restricted common stock at between \$0.24 and \$0.31 per share in payment for investor relations services to the Company valued at \$32,500 based on the value of the services.

In January 2007, the Company issued 17,857 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.28 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

During January 2007, the Company issued 782,268 shares of common stock at prices between \$0.25 and \$0.273 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$200,001. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In February 2007, the Company issued 31,394 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.255 per share in payment for general legal expenses to the Company valued at \$8,005 based on the value of the services.

In February 2007, the Company issued 9,740 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.308 per share in payment for regulatory affairs consultant services to the Company valued at \$3,000 based on the value of the services.

During February 2007, the Company issued 692,751 shares of common stock at prices between \$0.28 and \$0.32 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$199,998. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

In March 2007, the Company issued 15,723 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.318 per share in payment for regulatory affairs consultant services to the Company valued at \$5,000 based on the value of the services.

In March 2007, the Company issued 4,934 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.608 per share in payment for regulatory affairs consultant services to the Company valued at \$3,000 based on the value of the services.

In March 2007, the Company issued 21,078 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.51 per share in payment for regulatory affairs

consultant services to the Company valued at \$10,750 based on the value of the services.

In March 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consulting Stock Plan at \$0.578 per share in payment for regulatory affairs consultant services to the Company valued at \$5,000 based on the value of the services.

During March 2007, the Company issued 92,379 shares of common stock at prices between \$0.36 and \$0.44 per share to Fusion Capital under its \$6,000,000 common stock purchase agreement for net cash proceeds totaling \$36,745. These shares were registered pursuant to the Company's Form SB-2 registration statement effective December 7, 2004.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

7. EQUITY TRANSACTIONS (continued)

COMMON STOCK (continued)

In March 2007, the Company issued 1,333,333 shares of common stock at \$0.30 per share to Fusion Capital for net cash proceeds of \$400,000. In addition, the Company issued 1,050,000 of common shares as a commitment fee under a common stock purchase agreement.

On March 22, 2007 in effecting the Allonges (see "The Allonge Transactions"), the Company amended its 10% Series A Convertible Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company agreed to pay all accrued interest, through February 15, 2007 in the form of units (the "Units") at the rate of \$0.20 per Unit (the "Interest Payment Rate"). The Notes are convertible into Units at any time prior to the Maturity Date at the conversion price of \$0.20 per Unit (the "Conversion Price"). Each Unit is composed of one share of the company's common stock and warrants. At March 31, 2007, the Company is obligated to issue, but has not yet issued, 685,328 "Unit Shares" of common stock under the Allonges.

WARRANTS

During the year ended March 31, 2005, the Company granted 568,181 warrants to an investor in connection with a commitment fee for the purchase of common stock. The warrants have an exercise price of \$0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company granted 847,727 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of \$0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company issued 113,636 warrants to purchase common stock for \$0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with the conversion of notes payable (see Notes 7 and 8). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was insignificant and was charged to interest expense upon grant.

During the year ended March 31, 2005, the Company issued 225,000 warrants to purchase common stock for \$0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with common stock issued for legal services expense totaling \$99,000 (see "Common Stock" above).

During the year ended March 31, 2005, the Company issued 260,000 warrants to purchase common stock for \$0.50 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value is being amortized to interest expense over the life of the notes.

During the year ended March 31, 2005, the Company issued 144,443 warrants to purchase common stock for \$0.90 per share, which vested upon grant and expire in

October 2007. The warrants were issued in connection with the issuance of notes payable (see Note 7). These warrants were valued using the Black Scholes option pricing model; the relative pro-rata estimated fair value was amortized to interest expense over the life of the notes.

During the year ended March 31, 2005, the Company granted 55,556 warrants to An investor in connection with the purchase of common stock. The warrants have an exercise price of \$0.44 per share, vest immediately and are exercisable through January 2008. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

During the year ended March 31, 2005, the Company granted 90,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of \$0.34 per share, vest immediately and are exercisable through February 2008. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements.

As noted under "Common Stock", 1,206,564 warrants with an exercise price of \$0.25 per share, which were granted to investors in connection with the purchase of common stock, were exercised during the year ended March 31, 2005.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

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7. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

On May 16, 2005, the Company granted 100,000 warrants to an accredited investor in connection with the purchase of 100,000 restricted common shares for \$17,600. the warrants have an exercise price of \$0.176 and are exercisable through May 2008.

On May 16, 2005, the Company granted 300,000 warrants to Fusion Capital Fund II, LLC in connection with the issuance of a 15% Convertible Note. The warrants have an exercise price of \$0.25 per share and are exercisable through May 2010.

On May 27, 2005, the Company granted 400,000 warrants to an accredited investor in connection with the issuance of a \$100,000 12% note payable. The warrants had an exercise price of \$0.25 and expired on May 27, 2006.

On June 27, 2005, the Company granted three-year warrants to purchase 418,365 shares of the Company's restricted common stock at an exercise price of \$0.25 to legal counsel as an inducement to settle accrued past due legal services payable.

From July 11, 2006 through December 14, 2005, the Company granted three-year warrants to purchase 5,000,000 shares of common stock to the holders of an aggregate of \$1,000,000 in 10% Series A Convertible Notes. The warrants have an exercise price of \$0.20 and will be issued upon conversion of the underlying 10% Series A Convertible Notes.

On March 31, 2006, as an inducement to exercise 568,181 warrants at an exercise price of \$0.76 per share, the Company issued five-year replacement warrants in like amount to Fusion Capital Fund II, LLC. The 568,181 replacement warrants have an exercise price of \$0.76. Such warrants were valued using Binomial Option Pricing model and such value was insignificant.

On November 14, 2006, in conjunction with the purchase of 555,556 shares of the Company's restricted common stock, the Company granted five-year non-cashless warrants to purchase 555,556 shares of restricted common stock at an exercise price of \$0.18. If such warrants are exercised on or before November 14, 2007, the warrant holder will receive five-year non-cashless warrants to purchase an additional 555,556 shares of restricted common stock at an exercise price of \$0.18.

On December 15, 2006, as an inducement to enter into a \$100,000 10% convertible note, the Company granted noteholders five-year non-cashless warrants to purchase 294,118 shares of restricted common stock at an exercise price of \$0.17. If such warrants are exercised on or before December 15, 2007, the noteholders will receive five-year non-cashless warrants to purchase an additional 294,118 shares of restricted common stock at an exercise price of \$0.17.

On March 22, 2007 in effecting the Allonges, the Company amended its 10% Series A Convertible Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will also pay all accrued interest, through February 15, 2007 and each calendar quarter thereafter, in the form of units (the "Units") at the rate of \$0.20 per Unit (the "Interest Payment Rate"). The Notes are convertible into Units at any time prior to the Maturity Date at the conversion price of \$0.20 per Unit (the "Conversion Price"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A Warrant expires on January 2, 2011 and is exercisable to purchase one share of Common Stock at a price of \$0.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant" and with the Class A Warrant, collectively, the "Warrants") for every two Class A Warrants exercised. Each Class B Warrant has a three-year term and is exercisable to purchase one share of Common Stock at a price equal to the greater of \$0.20 per share or 75% of the average of the closing bid prices of the Common Stock for the five trading days immediately preceding the date of the notice of conversion. Class A Warrants to purchase 685,328 shares of Common Stock and Class B Warrants to purchase 342,665 shares of Common Stock were granted under the Allonges.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

7. EQUITY TRANSACTIONS (continued)

WARRANTS (continued)

A summary of the aggregate warrant activity for the years ended March 31, 2007 and 2006 is presented below:

	Year Ended March 31,			
	2007		2006	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	3,791,908	\$ 0.61	2,833,834	\$ 0.91
Granted	1,535,002	\$ 0.19	1,786,546	0.41
Exercised	(160,000)	\$ 0.50	(568,182)	0.76
Cancelled/Forfeited	(669,000)	\$ 0.72	(260,290)	3.30
	-----	-----	-----	-----
Outstanding, end of year	4,479,910	\$ 0.46	3,791,908	\$ 0.61
	=====	=====	=====	=====
Exercisable, end of year	4,479,910	\$ 0.46	3,791,908	\$ 0.61
	=====	=====	=====	=====
Weighted average estimated fair value of warrants granted		\$ 0.29		\$ 0.23
		=====		=====

</TABLE>

The following outlines the significant weighted average assumptions used to estimate the fair value information presented utilizing the Black-Scholes and Binomial Lattice option pricing models:

	Years Ended March 31,	
	2007	2006
Risk free interest rate	4.47%-4.57%	4.18%-4.3%
Average expected life	4.4 years	3 years
Expected volatility	90.7% - 93.4%	72% - 97%
Expected dividends		None

The detail of the warrants outstanding and exercisable as of March 31, 2007 is as follows:

<TABLE>
<CAPTION>

		Warrants Outstanding		Warrants Exercisable		
		Number	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Range of Exercise Prices		Outstanding			Outstanding	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	\$0.17 - \$0.20	1,635,002	4.07	\$ 0.19	1,635,002	\$ 0.19
	\$0.25 - \$0.44	863,921	1.81	\$ 0.27	863,921	\$ 0.27
	\$0.50 - \$0.90	1,998,987	3.00	\$ 0.76	1,998,987	\$ 0.76
		4,497,910			4,497,910	

</TABLE>

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

7. EQUITY TRANSACTIONS (continued)

OPTIONS

At March 31, 2007 the Company had issued 1,337,825 options to outside directors and 3,965,450 options to employee-directors under the 2005 Directors Compensation Program.

From time to time, the Company's Board of Directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of the Company's formal stock plans. The terms of these grants are individually negotiated.

In August 2000, the Company adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of Company stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of the Company's common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory). At March 31, 2007, the Company had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited, with 467,500 available for future issuance.

In March 2002, the Board of Directors granted the Company's Chief Executive Officer ("CEO") and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 250,000 shares of common stock each, at an exercise price of \$1.90 per share (the estimated fair value of the underlying common stock at grant date) and expire March 2012. Awards are earned upon achievement of certain financial and/or research and development milestones. On July 1, 2005, the Company's CEO forfeited all of his aforementioned 250,000 options.

In February 2005, the Board of Directors granted the Company's Chief Executive Officer ("CEO") and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 2,231,100 and 1,734,350 shares of common stock, respectively, at an exercise price of \$0.38 per share and vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. In addition Mr. Calvin Leung, a board member, was granted non-qualified stock options to purchase up to 308,725 shares at \$0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. Messrs. Franklyn S Barry and Edward G Broenniman, board members, were each granted non-qualified stock options to purchase up to 514,550 shares at \$0.38 that vest forty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was \$0.08 below the estimated fair value of the underlying common stock on the date of grant. Accordingly, the Company recorded approximately \$424,000 of compensation expense in the accompanying consolidated statement of operations for the year ended

March 31, 2005.

On September 9, 2005, the Company granted 2,857,143 options to James A. Joyce, its Chief Executive Officer, in exchange for \$300,000 of accrued related-party liabilities. The fair value of such options approximated the value of the accrued related-party liability.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. EQUITY TRANSACTIONS (continued)

OPTIONS (continued)

The following is a summary of the stock options outstanding at March 31, 2007 and 2006 and the changes during the two years then ended:

<TABLE>
<CAPTION>

	Year Ended March 31,			
	2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	9,012,785	\$ 0.38	6,679,390	\$ 0.80
Granted	500,000	0.27	3,357,143	0.21
Exercised	--	--	--	--
Cancelled/Forfeited	(308,725)	2.74	(1,023,748)	--
Outstanding, end of year	9,204,060	\$ 0.38	9,012,785	\$ 0.38
Exercisable, end of year	8,369,060	\$ 0.39	7,135,518	\$ 0.39
Weighted average estimated fair value of options granted		\$ 0.23		\$ 0.12

</TABLE>

The following outlines the significant weighted average assumptions used to estimate the fair value information presented utilizing the Binomial Lattice option pricing model for the years ended March 31, 2007 and March 31, 2006:

Years Ended March 31,	2007	2006
Risk free interest rate	4.84%	4.18%
Average expected life	10 years	4.7 years
Expected volatility	92%	72%
Expected dividends	None	None

The detail of the options outstanding and exercisable as of March 31, 2007 is as follows:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
<S> <C>	<C>	<C>	<C>	<C>	<C>
\$0.21 - \$0.23	3,357,143	7.39 years	\$ 0.21	3,022,143	\$ 0.21
\$0.38	5,494,550	4.15 years	\$ 0.37	4,994,550	\$ 0.38

\$1.78 - \$3.75	352,367	4.57 years	\$ 2.02	352,367	\$ 2.02
	-----			-----	
	9,204,060			8,369,060	
	=====			=====	

</TABLE>

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

8. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

Certain officers of the Company and other related parties have advanced the Company funds, agreed to defer compensation and/or paid expenses on behalf of the Company to cover working capital deficiencies. These non interest-bearing liabilities have been included as due to related parties in the accompanying consolidated financial statements.

Other related party transactions are disclosed elsewhere in these notes to consolidated financial statements.

9. INCOME TAX PROVISION

Income tax expense for the years ended March 31, 2007 and 2006 differed from the amounts computed by applying the U.S. Federal income tax rate of 34 percent to the loss from continuing operations before provision for income taxes as a result of the following:

	2007	2006
	-----	-----
Computed "expected" tax benefit	\$ (2,048,000)	\$ (993,000)
Reduction in income taxes resulting from:		
Derivative expense	718,000	122,000
Debt extinguishment	414,000	--
Change in deferred tax assets valuation allowance	1,078,000	1,024,000
State and local income taxes, net of federal benefit	(162,000)	(153,000)
Other	--	--
	-----	-----
	\$ --	\$ --
	=====	=====

The tax effects of temporary differences that give rise to significant portions of deferred tax assets at March 31, 2007 are presented below:

Deferred tax assets:	
Net operating loss carryforwards	\$ 5,210,000
Capitalized research and development	2,670,000
Other	136,000

Total gross deferred tax assets	8,016,000
Less valuation allowance	(8,016,000)

Net deferred tax assets	\$ --
	=====

The valuation allowance increased by \$1,078,000 and \$1,024,000 during the years ended March 31, 2007 and 2006, respectively. The current provision for income taxes for the years ended March 31, 2007 and 2006 is not significant and due primarily to certain state taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the history of operating losses, management believes it is more likely than not the Company will not realize the benefits of these deductible differences. A full reduction allowance has been recorded to offset 100% of the deferred tax asset.

As of March 31, 2007, the Company had tax net operating loss carryforwards of approximately \$13,600,000 and \$8,307,000 available to offset future taxable Federal and state income, respectively. The carryforward amounts expire in various years through 2026. In the event the Company were to experience a greater than 50% change in ownership as defined in Section 382 of the Internal Revenue Code, the utilization of the Company's tax net operating loss carryforwards could be severely restricted.

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

10. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

The Company entered into an employment agreement with its Chairman of the Board effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days notice, will be in effect until the employee retires or ceases to be employed by the Company. The Chairman of the Board was appointed President and Chief Executive Officer ("CEO") effective June 1, 2001 upon which the base annual salary was increased from \$120,000 to \$180,000. Effective January 1, 2005, the CEO's salary was increased from \$180,000 to \$205,000 per year. The CEO is eligible for an annual bonus at the discretion of the Board of Directors, of which \$0 and \$20,000 was earned during each of the years ended March 31, 2007 and 2006, respectively. Under the terms of the agreement, if the employee is terminated he may become eligible to receive a salary continuation payment in the amount of at least twelve months' base salary. Effective April 1, 2006, the CEO's salary was increased from \$205,000 to \$240,000 per year.

The Company entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed the Company's Chief Science Officer of the Company. His compensation under the agreement was modified in June 2001 from \$80,000 to \$150,000 per year. Effective January 1, 2005 Dr. Tullis' salary was increased from \$150,000 to \$165,000 per year. Under the terms of the agreement, his employment continues at a salary of \$165,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Dr. Tullis was granted 250,000 stock options to purchase the Company's common stock in connection with the completing certain milestones, such as the initiation and completion of certain clinical trials, the submission of proposals to the FDA and the filing of a patent application. Under the terms of the agreement, if the employee is terminated he may become eligible to receive a salary continuation payment in the amount of twelve months base salary. Effective April 1, 2006, the CSO's salary was increased from \$165,000 per year to \$185,000 per year.

LEASE COMMITMENTS

The Company leases its office and research and development space under an operating lease agreement which expires in July 2006. The Company signed an 12 month extension of its existing lease on substantially the same terms as its present lease. Minimum monthly payments under the new extension approximate \$7,700.

Rent expense approximated \$105,000 and \$126,000 for the years ended March 31, 2007 and 2006, respectively.

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PART I.

FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AETHLON MEDICAL, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2007

ASSETS	
Current assets	
Cash	\$ 180,146
Prepaid expenses and other current assets	8,279

	188,425
Property and equipment, net	10,087
Patents and patents pending, net	141,616
Other assets	13,200

	\$ 353,328
	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable and accrued liabilities	\$ 1,451,349
Due to related parties	1,083,999
Notes payable	502,500
Convertible notes payable, net of discount	80,761
Warrant obligation	3,775,425

	6,893,034
Commitments and Contingencies	
Stockholders' Deficit	
Common stock, par value \$0.001 per share; 50,000,000 shares authorized; 33,944,216 shares issued and outstanding	33,945
Additional paid-in capital	22,304,593
Deficit accumulated during` development stage	(28,878,243)

	(6,539,706)

	\$ 353,328
	=====

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

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<TABLE>

AETHLON MEDICAL, INC. (A Development Stage Company) CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS For the Three and Six Months Ended September 30, 2007 and 2006 and For the Period January 31, 1984 (Inception) Through September 30, 2007 (Unaudited)

January 31, 1984 (Inception) through September 30, 2007	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
REVENUES				
Grant income	\$ --	\$ --	\$ --	\$ --
\$ 1,424,012				
Subcontract income	--	--	--	--
73,746				
Sale of research and development	--	--	--	--

35,810				
-----	-----	-----	-----	-----
	--	--	--	--
1,533,568				
EXPENSES				
Professional Fees	253,671	166,144	441,076	366,648
6,379,303				
Payroll and related	300,590	207,020	821,776	391,277
8,956,973				
General and administrative	135,767	161,776	298,449	281,508
5,225,450				
Impairment	--	--	--	--
1,313,253				
-----	-----	-----	-----	-----
	690,028	534,940	1,561,301	1,039,443
21,874,979				
-----	-----	-----	-----	-----
OPERATING LOSS	(690,028)	(534,940)	(1,561,301)	(1,039,443)
(20,341,411)				
-----	-----	-----	-----	-----
OTHER EXPENSE (INCOME)				
Loss on Extinguishment of debt				
1,216,748				
Change in fair value of				
warrant liability	(492,250)	--	(914,025)	--
1,558,675				
Interest and other debt expenses	75,107	92,714	125,726	207,377
5,388,146				
Interest income	--	--	--	--
(17,415)				
Other	(17,833)	--	18,249	--
390,678				
-----	-----	-----	-----	-----
	(434,976)	92,714	(770,050)	207,377
8,536,832				
-----	-----	-----	-----	-----
NET LOSS	\$ (255,052)	\$ (627,654)	\$ (791,251)	\$ (1,246,810)
(28,878,243)				
=====	=====	=====	=====	=====
BASIC AND DILUTED LOSS PER				
COMMON SHARE	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON				
SHARES OUTSTANDING	32,997,498	25,990,706	32,489,949	25,779,241
	=====	=====	=====	=====

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

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AETHLON MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 AND
FOR THE PERIOD JANUARY 31, 1984 (INCEPTION) THROUGH SEPTEMBER 30, 2007
(Unaudited)

January 31, 1984
(Inception)
Through
September 30, 2007

Six Months Ended
September 30, 2007
(Unaudited)

Six Months Ended
September 30, 2006
(Unaudited)

Cash flows from operating activities:

Net loss	\$	(791,251)	\$	(1,246,810)	\$
(28,878,243)					
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization		12,668		14,972	
1,020,061					
Amortization of deferred consulting fees		--		24,500	
109,000					
Gain on sale of property and equipment		1,777		--	
(11,288)					
Gain on settlement of debt		--		--	
(131,175)					
Loss on settlement of accrued legal liabilities		--		--	
142,245					
Stock based compensation		352,951		9,500	
815,345					
Loss on debt extinguishment		--		--	
1,216,748					
Fair market value of warrants issued in connection with accounts payable and debt		--		--	
2,715,736					
Fair market value of common stock, warrants and options issued for services		194,119		164,458	
3,681,035					
Change in fair value of warrant liability		(914,025)		--	
1,558,675					
Amortization of debt discount		7,958		109,012	
1,293,745					
Beneficial conversion feature of convertible notes payable		--		--	
--					
Impairment of patents and patents pending		--		--	
416,026					
Impairment of goodwill		--		--	
897,227					
Deferred compensation forgiven		--		--	
217,223					
Changes in operating assets and liabilities:					
Prepaid expenses		(3,709)		(21,805)	
153,258					
Other assets		--		3,960	
(13,200)					
Accounts payable and accrued liabilities		77,270		(19,754)	
2,126,386					
Due to related parties		(5,000)		(103,000)	
1,317,500					
		-----		-----	---
Net cash used in operating activities		(1,067,242)		(1,064,967)	
(11,353,696)					
		-----		-----	---

Cash flows from investing activities:

Purchases of property and equipment		(3,997)		(14,454)	
(270,694)					
Patents and patents pending		(6,669)		--	
(376,796)					
Proceeds from the sale of property and equipment		--		--	
17,065					
Cash of acquired company		--		--	
10,728					
		-----		-----	---
Net cash used in investing activities		(10,666)		(14,454)	
(619,697)					
		-----		-----	---

Cash flows from financing activities:

Proceeds from the issuance of notes payable		--		--	
1,710,000					
Principal repayments of notes payable		--		--	
(292,500)					
Proceeds from the issuance of convertible notes payable		60,000		--	

2,138,000			
Proceeds from the issuance of common stock	815,000	280,003	
8,731,822			
Fees paid for equity financing	(57,052)	--	
(57,052)			
Professional fees related to registration statement	--	--	
(76,731)			
-----	-----	-----	---
Net cash provided by financing activities	817,948	280,003	
12,153,539			
-----	-----	-----	---
Net (decrease) increase in cash	(259,960)	(799,418)	
180,146			
Cash at beginning of period	440,106	836,377	
--			
-----	-----	-----	---
Cash at end of period	\$ 180,146	\$ 36,959	\$
180,146			
=====	=====	=====	

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

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</TABLE>

AETHLON MEDICAL, INC.
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

We are a development stage medical device company focused on expanding the applications of our Hemopurifier (R) platform technology, which is designed to rapidly reduce the presence of infectious viruses and other toxins from human blood. In this regard, our core focus is the development of therapeutic devices that treat acute viral conditions, chronic viral diseases and pathogens targeted as potential biological warfare agents. The Hemopurifier(R) combines the established scientific principles of affinity chromatography and hemodialysis as a means to mimic the immune system's response of clearing viruses and toxins from the blood before cell and organ infection can occur. The Hemopurifier(R) cannot cure viral conditions but can prevent virus and toxins from infecting unaffected tissues and cells. We have completed pre-clinical blood testing of the Hemopurifier(R) to treat HIV and Hepatitis-C, and have completed human safety trials on Hepatitis-C infected patients in India and are in the process of obtaining regulatory approval from the U.S. Food and Drug Administration ("FDA") to initiate clinical trials in the United States.

The commercialization of the Hemopurifier(R) will likely require the completion of human efficacy clinical trials. The approval of any application of the Hemopurifier(R) in the United States will necessitate the approval of the FDA to initiate human studies. Such studies could take years to demonstrate safety and effectiveness in humans and there is no assurance that the Hemopurifier(R) will be cleared by the FDA as a device we can market to the medical community. We also expect to face similar regulatory challenges from foreign regulatory agencies, should we attempt to commercialize and market the Hemopurifier(R) outside of the United States. As a result, we have not generated revenues from the sale of any Hemopurifier(R) application. Additionally, there have been no independent validation studies of our Hemopurifiers(R) to treat infectious disease. We manufacture our products on a small scale for testing purposes but have yet to manufacture our products on a large scale for commercial purposes. All of our pre-clinical human blood studies have been conducted in our laboratories under the direction of Dr. Richard Tullis, our Chief Science Officer.

The Company is classified as a development stage enterprise under accounting principles generally accepted in the United States of America ("GAAP"), and has not generated revenues from its principal operations.

The Company's common stock is quoted on the Over-the-Counter Bulletin Board of the National Association of Securities Dealers under the symbol "AEMD.OB".

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and

footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending March 31, 2008. For further information, refer to the Company's Annual Report On Form 10-KSB for the year ended March 31, 2007, which includes audited financial statements and footnotes as of March 31, 2007 and for the years ended March 31, 2006 and 2007.

NOTE 2. GOING CONCERN AND LIQUIDITY CONSIDERATIONS

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company has experienced continuing losses from operations, is in default on certain debt, has negative working capital of approximately (\$6,705,000), recurring losses from operations and a deficit accumulated during the development stage of approximately (\$28,878,000) at September 30, 2007, which among other matters, raises significant doubt about its ability to continue as a going concern. The Company has not generated significant revenue or any profit from operations since inception. A significant amount of additional capital will be necessary to advance the development of the Company's products to the point at which they may become commercially viable. The Company intends to fund operations through debt and/or equity financing arrangements, which management believes may be insufficient to fund its capital expenditures, working capital and other cash requirements (consisting of accounts payable, accrued liabilities, amounts due to related parties and amounts due under various notes payable) for the fiscal year ending March 31, 2008. Therefore the Company will be required to seek additional funds to finance its short-term operations.

The Company is currently addressing its liquidity issue by exploring investment capital opportunities. The Company believes that its access to capital, together with existing cash resources, will be sufficient to meet its liquidity needs for fiscal 2008. In August 2007, the Company raised \$815,000 in a private placement (see Note 5). The Company has in place an \$8.4 million common stock purchase agreement with Fusion Capital Fund II, LLC, which can provide working capital pending successful registration of the shares underlying the agreement. The Company's present working capital balance is insufficient to meet its working capital needs for fiscal 2008. However, no assurance can be given that the Company will receive any additional funds through its capital raising efforts.

The condensed consolidated financial statements do not include any adjustments relating to the recoverability of assets that might be necessary should the Company be unable to continue as a going concern.

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NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Company presented below is designed to assist the reader in understanding the Company's consolidated financial statements. Such financial statements and related notes are the representations of Company management, who is responsible for their integrity and objectivity. These accounting policies conform to GAAP in all material respects, and have been consistently applied in preparing the accompanying condensed consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its legal wholly-owned subsidiaries Aethlon, Inc., Hemex, Inc. and Cell Activation, Inc. (collectively hereinafter referred to as the "Company"). These subsidiaries are dormant and there exist no material intercompany transactions or balances.

LOSS PER COMMON SHARE

Loss per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year in accordance with SFAS No. 128, "EARNINGS PER SHARE."

Securities that could potentially dilute basic loss per share (prior to their conversion, exercise or redemption) were not included in the diluted-loss-per-share computation because their effect is anti-dilutive. There were 18,459,500 and 17,899,812 potentially dilutive common shares outstanding for the three and six months ended September 30, 2007, respectively.

PATENTS

The Company capitalizes the cost of patents, some of which were acquired, and amortizes such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent.

RESEARCH AND DEVELOPMENT EXPENSES

The Company incurred approximately \$331,000 and \$335,000 of research and development expenses during the six months ended September 30, 2007 and 2006, respectively. For the fiscal quarter ended September 30, 2007 and 2006, the Company incurred research and development expense of approximately \$151,000 and \$176,931, respectively.

EQUITY INSTRUMENTS FOR SERVICES PROVIDED BY OTHER THAN EMPLOYEES

The Company follows SFAS No. 123-R (as interpreted by Emerging Issues Task Force ("EITF") Issue No. 96-18, "ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING, GOODS OR SERVICES") ("EITF No. 96-18") to account for transactions involving goods and services provided by third parties where the Company issues equity instruments as part of the total consideration. Pursuant to paragraph 7 of SFAS No. 123-R, the Company accounts for such transactions using the fair value of the consideration received (i.e. the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable.

The Company applies EITF No. 96-18, in transactions, when the value of the goods and/or services are not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, using the following methodology:

- (a) For transactions where goods have already been delivered or services rendered, the equity instruments are issued on or about the date the performance is complete (and valued on the date of issuance).
- (b) For transactions where the instruments are issued on a fully vested, non-forfeitable basis, the equity instruments are valued on or about the date of the contract.
- (c) For any transactions not meeting the criteria in (a) or (b) above, the Company re-measures the consideration at each reporting date based on its then current stock value.

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IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

SFAS No.144 ("SFAS 144"), "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset (excluding interest), an impairment loss is recognized. Impairment losses are calculated as the difference between the cost basis of an asset and its estimated fair value. SFAS 144 also requires companies to separately report discontinued operations and extends that reporting requirement to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the estimated fair value less costs to sell. Management believes that no impairment existed at or during the six months ended September 30, 2007.

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). Pursuant to EITF Issue No. 98-5, "ACCOUNTING FOR CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES OR CONTINGENTLY ADJUSTABLE CONVERSION RATIO" and EITF No. 00-27, "APPLICATION OF EITF ISSUE NO. 98-5 TO CERTAIN CONVERTIBLE INSTRUMENTS," the estimated fair value of the BCF is recorded in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

DERIVATIVE LIABILITIES AND CLASSIFICATION OF WARRANT OBLIGATION

The Company evaluates free-standing instruments (or embedded derivatives) indexed to its common stock to properly classify such instruments within equity or as liabilities in its financial statements, pursuant to the requirements of the EITF Issue No. 00-19, "ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO AND POTENTIALLY SETTLED IN, A COMPANY'S OWN STOCK," EITF Issue No. 01-06, "THE MEANING OF INDEXED TO A COMPANY'S OWN STOCK," EITF Issue No. 05-04, "THE EFFECT OF A LIQUIDATED DAMAGES CLAUSE ON A FREESTANDING FINANCIAL INSTRUMENT SUBJECT TO EITF Issue No. 00-19," and SFAS No. 133, "ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES," as amended. The Company's policy is to settle instruments indexed to its common shares on a first-in-first-out basis.

In the fiscal year ending March 31, 2006, the Company was obligated to register for resale the shares underlying warrants in connection with the issuance of its

10% Series A Convertible Promissory Notes. In accordance with EITF Issue No. 00-19, the value of the warrants were recorded as a liability until the registration became effective on January 20, 2006. On or about March 13, 2007, the Company determined that the effectiveness of the registration statement underlying the conversion and warrant shares associated with the 10% Series A Promissory Notes had lapsed on October 27, 2006. Upon the registration lapse, in accordance with EITF Issue No. 00-19, the Company reversed the accounting effect of the prior registration effectiveness and reclassified the warrants from stockholders to a derivative liability, which is required to be revalued at the end of each reporting period. At September 30, 2007, the fair value of the warrant liability was determined to be \$3,775,425 and for the six months ended September 30, 2007 a gain in the amount of approximately \$914,000 was recognized as other income as a result of the change in the fair value of such liability since March 31, 2007.

REGISTRATION PAYMENT ARRANGEMENTS

The Company accounts for its liquidated damages on registration rights agreements in accordance with FASB Staff Position EITF Issue No. 00-19-2 "ACCOUNTING FOR REGISTRATION PAYMENT ARRANGEMENTS" which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies." On September 30, 2007, the Company had recorded \$238,249 of accrued liquidated damages in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheet.

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STOCK BASED COMPENSATION

Effective April 1, 2006, the Company adopted the provisions of SFAS No. 123-R, "Share-Based Payment," ("SFAS No. 123-R"). SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at the grant date, based on the fair value of the award. The Company previously accounted for awards granted under its equity incentive plan under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "ACCOUNTING FOR STOCK BASED COMPENSATION," as amended. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the Over-the-Counter Bulletin Board administered by Nasdaq) on the date of grant. Accordingly, no share-based compensation was recognized in the financial statements for the three and six months ended June 30, 2005. Under the modified prospective method of adoption for SFAS No. 123-R, the compensation cost recognized by the Company beginning April 1, 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123-R.

From time to time, the Company's Board of Directors grants common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any of the Company's formal stock plans. The terms of these grants are individually negotiated and generally expire within five years from the grant date.

In August 2000, the Company adopted the 2000 Stock Option Plan ("Stock Option Plan"), which was approved by its stockholders in September 2000. The Stock Option Plan provides for the issuance of up to 500,000 options to purchase shares of common stock. Such options can be incentive options or nonstatutory options, and may be granted to employees, directors and consultants. The Stock Option Plan has limits as to the eligibility of those stockholders who own more than 10% of Company stock, as defined. The options granted pursuant to the Stock Option Plan may have exercise prices of no less than 100% of fair market value of the Company's common stock at the date of grant (incentive options), or no less than 75% of fair market value of such stock at the date of grant (nonstatutory). At September 30, 2006, the Company had granted 47,500 options under the 2000 Stock Option Plan of which 15,000 had been forfeited, with 467,500 available for future issuance. All of these options vested prior to the adoption of FAS 123-R.

The effects of share-based compensation resulting from the application of SFAS No. 123-R to options granted outside of the Company's Stock Option Plan resulted in an expense of \$69,446 for the quarter ended September 30, 2007 and \$352,951 for the six month period ended September 30, 2007. This expense was recorded as stock compensation included in payroll and related expenses in the accompanying September 30, 2007 condensed consolidated statement of operations. Share-based compensation recognized as a result of the adoption of SFAS No. 123-R as well as pro forma disclosures according to the original provisions of SFAS No. 123 for

periods prior to the adoption of SFAS No. 123-R use the Binomial Lattice option pricing model for estimating fair value of options granted.

The following table summarizes the effect of share-based compensation resulting from the application of SFAS No. 123-R to options granted:

	Three Months Ended September 30, 2007	Six Months Ended September 30, 2007
Payroll and related	\$ (69,446) =====	\$ (352,951) =====
Net share-based compensation effect in net loss from continuing operations	\$ (69,446) =====	\$ (352,951) =====
Basic and diluted loss per common share	\$ (0.00) =====	\$ (0.00) =====

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In accordance with SFAS No. 123-R, the Company adjusts share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after March 31, 2006 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the six month period ended September 30, 2007 was insignificant.

The following weighted average assumptions were used in the valuation of these instruments.

	Six Months Ended September 30	
	2007	2006
Annual dividends	zero	zero
Expected volatility	92%	72%
Risk free interest rate	4.72%	4.18%
Expected life	2.14 years	4.7 years

The expected volatility is based on the historic volatility. The expected life of options granted is based on the "simplified method" described in the SEC's Staff Accounting Bulletin No. 107 due to changes in the vesting terms and contractual life of current option grants compared to the Company's historical grants. Options outstanding that have vested and are expected to vest as of September 30, 2007 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (1)
Vested	9,702,393	\$ 0.38	5.27	\$2,817,804
Expected to vest	2,001,667	0.33	8.85	\$ 572,317
Total	11,704,060 =====			\$3,390,121 =====

(1) These amounts represent the difference between the exercise price and \$0.62, the closing market price of the Company's common stock on September 30, 2007 as quoted on the Over-the-Counter Bulletin Board under the symbol "AEMD.OB" for all in-the-money options outstanding.

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Options outstanding that are expected to vest are net of estimated future forfeitures in accordance with the provisions of SFAS No. 123-R, which are estimated when compensation costs are recognized. Additional information with respect to stock option activity is as follows:

	Outstanding Options			
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
March 31, 2006	467,500	9,204,060	\$ 0.38	\$3,802,324 =====
Grants	--	2,500,000	\$ 0.36	
Exercises	--	--	--	
Cancellations	--	--	--	

September 30, 2007	467,500	11,704,060	\$ 0.38	\$2,808,974
	=====	=====	=====	=====

Options exercisable at:

March 31, 2007	8,369,060	\$ 0.39
	=====	=====
September 30, 2007	9,702,393	\$ 0.38

(1) Represents the difference between the exercise price and the March 31, 2007 or September 30, 2007 market price of the Company's common stock, which was \$0.74 and \$0.62, respectively.

At September 30, 2007, there was approximately \$513,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over a weighted average period of 1.62 years

INCOME TAXES

Under SFAS 109, "ACCOUNTING FOR INCOME TAXES," deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carryforwards. The Company records a valuation allowance for deferred tax assets when, based on management's best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN No. 48 establishes a single model to address accounting for certain tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN No. 48 on April 1, 2007. Upon adoption, the Company recognized no adjustment in the amount of unrecognized tax benefits. As of the date of adoption the Company had no unrecognized tax benefits. The Company's policy is to recognize interest and penalties that would be assessed in relation to the settlement of unrecognized tax benefits as a component of income tax expense. The Company has recognized approximately \$36,000 in penalties and interest upon the adoption of FIN No. 48.

The Company and its subsidiaries are subject to federal income tax. With few exceptions, the Company is no longer subject to U.S. federal income tax examination for years before 2000; state and local tax examinations before 2000. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount.

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The Company is not currently under Internal Revenue Service (IRS), state, local or foreign jurisdiction tax examinations.

For the quarter and nine-month periods ended September 30, 2007, the Company recorded no income tax provision.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 simplifies and codifies related guidance within GAAP, but does not require any new fair value measurements. The guidance in SFAS No. 157 applies to derivatives and other financial instruments measured at estimated fair value under SFAS No. 133 and related pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If the Company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management has not yet evaluated the effects on future consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its

Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

NOTE 4. NOTES PAYABLE

At September 30, 2007, the Company had \$502,500 in principal amount of notes payable outstanding with twelve noteholders.

The Company is currently in default on \$502,500 of amounts owed under various unsecured notes payable and is currently seeking other financing arrangements to retire all past due notes. At September 30, 2007 the Company had accrued interest in the amount of \$385,848 associated with these defaulted notes payable.

On July 13, 2007, in exchange for \$60,000, the Company issued the Phillip A. Ward Trust a 12% Convertible Note, with accrued interest due at maturity on July 13, 2008. The face value of the note is convertible at a \$0.50 conversion price into 120,000 restricted shares of common stock.

At September 30, 2007, the Company had \$1,110,000 in principal amount of convertible notes payable outstanding, net of \$1,030,239 discount, held by six noteholders. The \$1,030,000 discount is comprised of \$29,921 in unamortized BCF discount and \$1,000,000 in unamortized discount attributable to the valuation of warrant rights associated with the issuance of convertible notes. At September 30, 2007, the Company had accrued interest in the amount of \$243,623 associated with these convertible notes payable.

NOTE 5. EQUITY TRANSACTIONS

In April 2007, the Company issued 30,617 shares of restricted common stock as the result of a cashless exercise of 80,000 warrants held by a former noteholder.

In April 2007, the Company issued 15,152 shares of restricted common stock at \$0.33 per share in payment of an option agreement valued at \$5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In April 2007, the Company issued 8,651 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.58 per share in payment for regulatory affairs consulting services to the Company valued at \$5,000 based on the value of the services.

In April 2007, the Company issued 3,937 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.76 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In May 2007, the Company issued 13,124 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.76 per share in payment for regulatory affairs consulting services to the Company valued at \$10,000 based on the value of the services.

In May 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.58 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In June 2007, the Company issued 41,999 shares of restricted common stock at between \$0.30 and \$0.74 per share in payment for investor relations services to the Company valued at \$20,000 based on the value of the services.

In June 2007, the Company issued 17,526 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.58 per share in payment for regulatory affairs consulting services to the Company valued at \$10,200 based on the value of the services.

In June 2007, the Company issued 5,155 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.58 per share in payment for regulatory affairs consulting services to the Company valued at \$3,000 based on the value of the services.

In June 2007, the Company issued 10,174 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003

Consultant Stock Plan at \$0.63 per share in payment for regulatory affairs consulting services to the Company valued at \$6,450 based on the value of the services.

In August 2007, the Company issued 1,630,000 shares of common stock for cash proceeds of \$815,000 (\$757,950 net of commissions). The shares were issued to accredited investors in the form of Units comprised of two shares of common stock and one three-year warrant to acquire common stock at an exercise price of \$0.50. The offering price of each Unit was \$1.00.

In August 2007, the Company issued 14,827 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.60 per share in payment of grant writing consulting services to the Company valued at \$10,500 based upon the value of the services.

In August of 2007, the Company issued 71,045 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.24 per share in payment for outstanding liabilities related to regulatory consulting services to the Company valued at \$17,051 based upon the value of the services provided.

In August of 2007, the Company issued 13,017 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.49 per share in payment for regulatory consulting services to the Company valued at \$6,413 based upon the value of the services provided.

In August of 2007, the Company issued 103,106 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.59 per share in payment of legal fees related to general corporate legal services to the Company valued at \$62,894 based upon the value of the services provided.

In August 2007, the Company issued 21,020 shares of restricted common stock at prices between \$0.68 and \$0.78 per share in payment for investor relations services to the Company valued at \$15,000 based on the value of the services.

In August 2007, the Company issued 8,264 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at prices between \$0.68 and \$0.78 per share in payment for regulatory affairs consulting services to the Company valued at \$6,000 based on the value of the services.

In September 2007, the Company issued 14,000 shares of common stock to an accredited investor at \$0.50 per share in payment of commissions related to the August Private Placement transaction valued at \$7,000 based upon the value of services provided.

In September 2007, the Company issued 5,294 shares of common stock pursuant to the Company's S-8 registration statement covering the Company's 2003 Consultant Stock Plan at \$0.68 per share in payment for regulatory affairs consulting services to the Company valued at \$3,600 based on the value of the services provided.

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NOTE 6. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

From time to time, claims are made against the Company in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur, such as monetary damages, fines, penalties or injunctions prohibiting the Company from selling one or more products or engaging in other activities. The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on the Company's results of operations for that period or future periods. The Company is not presently a party to any pending or threatened legal proceedings.

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PART II

Indemnification of Directors and Officers

Our Articles of Incorporation permit us to limit the liability of our directors to the fullest extent permitted under Section 78.037 of the Nevada General Corporation Law. As permitted by Section 78.037 of the Nevada General Corporation Law, our Bylaws and Articles of Incorporation also include provisions that eliminate the personal liability of each of its officers and directors for any obligations arising out of any acts or conduct of such officer or director performed for or on behalf of the Company. To the fullest extent allowed by Section 78.751 of the Nevada General Corporation Law, we will defend, indemnify and hold harmless its directors or officers from and against any and

all claims, judgments and liabilities to which each director or officer becomes subject to in connection with the performance of his or her duties and will reimburse each such director or officer for all legal and other expenses reasonably incurred in connection with any such claim of liability. However, we will not indemnify any officer or director against, or reimburse for, any expense incurred in connection with any claim or liability arising out of the officer's or director's own negligence or misconduct in the performance of duty.

The provisions of our Bylaws and Articles of Incorporation regarding indemnification are not exclusive of any other right we have to indemnify or reimburse our officers or directors in any proper case, even if not specifically provided for in our Articles of Incorporation or Bylaws.

We believe that the indemnity provisions contained in our bylaws and the limitation of liability provisions contained in our certificate of incorporation are necessary to attract and retain qualified persons for these positions. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed hereby in the Securities Act and we will be governed by the final adjudication of such issue.

OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated costs and expenses which we expect to incur with respect to the offering and sale or distribution of common shares under this registration statement. We have agreed to pay all of these expenses.

SEC Filing Fee	\$ 178
Financial printer fees	1,000*
Legal fees and expenses	11,500*
Blue Sky Fees and Expenses	500*
Accounting fees and expenses	15,000*
Miscellaneous	500*

Total	\$ 28,678

* estimated

RECENT SALES OF UNREGISTERED SECURITIES

We have sold or issued the following securities not registered under the Securities Act in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act or Regulation D of the Securities Act during the three year period ending on the date of filing of this registration statement. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

MARCH 31, 2007 THROUGH JANUARY 22, 2008

CONVERTIBLE NOTE PAYABLE

On July 13, 2007, in exchange for \$60,000, the Company issued the Phillip A Ward Trust a 12% Convertible Note, with accrued interest due at Maturity on July 13, 2008. The face value of the note is convertible at a \$0.50 conversion price into 120,000 restricted shares of common stock. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On January 18, 2008 the Company issued and sold promissory notes in the principal amount of \$220,000 (the "Notes") and three-year warrants to purchase and aggregate of 660,000 shares of the Company's common stock at an exercise price of \$.50 per share (the "Warrants"). The Notes bear interest compounded

monthly at an annual rate of eight percent (8%) per annum and mature on October 18, 2008. The Company is required to file a registration statement with the SEC covering the shares underlying the Warrants within 60 calendar days of closing. In the event that, within 180 days of closing such registration statement is not effective, the Company is obligated to penalties, payable in cash, of 2% per month. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On December 5, 2007 the Company issued and sold promissory notes in the principal amount of \$495,000 (the "Notes") and three-year warrants to purchase and aggregate of 1,485,000 shares of the Company's common stock at an exercise price of \$.50 per share (the "Warrants"). The Notes bear interest compounded monthly at an annual rate of eight percent (8%) per annum and mature on September 5, 2008. The Company is required to file a registration statement with the SEC covering the shares underlying the Warrants within 60 calendar days of closing. In the event that, within 180 days of closing such registration statement is not effective, the Company is obligated to penalties, payable in cash, of 2% per month. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

Effective March 5, 2007, the Company entered into four Allonges (the "Allonges") to its 10% Series A Convertible Promissory Notes entered into in December 2005 having an aggregate principal amount of \$1,000,000 (the "Prior Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital, LLC and Christian J. Hoffmann III (the "Holders"). This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On November 29, 2007, the Company entered into Amended and Restated 10% Series A Convertible Promissory Notes (the "Notes") with the Holders. The Notes were issued in exchange for the Prior Notes, and all amendments to the Prior Notes, including the Allonges entered into between the Company and the Holders on March 5, 2007.

The Notes bear an aggregate principal amount of \$1,000,000 and are convertible into an aggregate of 5,000,000 shares of the Company's Common Stock and mature on February 15, 2009. The Notes provide for the payment of accrued and default interest through December 31, 2007 in the aggregate amount of \$295,248 to be paid in units ("Units") at the rate of \$0.20 per Unit, each Unit consisting of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant") to purchase one share of the Company's Common Stock at an exercise price of \$0.20 per share. If the Holders exercise the Class A Warrants on or before February 15, 2010, the Company will issue them one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. The Class B Warrants will have an exercise price of \$0.60 per share.

The Notes also provide for the payment of liquidated damages through November 29, 2007 in the aggregate amount \$269,336 to be paid in units ("Damages Units") at the rate of \$0.40 per Damages Unit, each Damages Unit consisting of one share of the Company's Common Stock and one Class A-1 Common Stock Purchase Warrant (the "Class A-1 Warrant") to purchase one share of the Company's Common Stock at an exercise price of \$0.40 per share. If the Holders exercise the Class A-1 Warrants on or before February 15, 2010, the Company will issue them one Class B-1 Common Stock Purchase Warrant (the "Class B-1 Warrant") for every two Class A-1 Warrants exercised. The Class B-1 Warrants will have an exercise price of \$0.40 per share.

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In addition, the Notes provide for the issuance of Class A Principal Common Stock Purchase Warrants (the "Class A Principal Warrant") to purchase an aggregate of 5,000,000 shares of the Company's Common Stock on the same terms as the Class A Warrants. The shares underlying the Class A Warrants, the Class A-1 Warrants and the Class A Principal Warrants shall be registered with the SEC by March 31, 2008, and the shares underlying the Class B Warrants and the Class B-1 Warrants shall be registered with the SEC by the 30th day following the issuance date of such warrants. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK

On January 8, 2008 the Company completed a private placement of 250,000 Units, priced at \$1.00 per unit, raising \$250,000. Each Unit is comprised of two shares of common stock and one warrant. The warrant has an exercise price of \$0.50 and is exercisable for three years from issuance. The Company is required to file a registration statement with the SEC covering the shares underlying the units within 60 calendar days of closing. In the event that, within 180 days of closing such registration is not effective, or the underlying shares are not saleable under SEC Rule 144, the Company is obligated to pay penalties, payable in additional shares, of 2% per month. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On December 31, 2007 the Company completed a private placement of 1,000,000 Units, priced at \$1.00 per unit, raising \$980,000. Each Unit is comprised of two shares of common stock and one warrant. The warrant has an exercise price of \$0.50 and is exercisable for three years from issuance. The Company is required to file a registration statement with the SEC covering the shares underlying the units within 60 calendar days of closing. In the event that, within 180 days of closing such registration is not effective, or the underlying shares are not saleable under SEC Rule 144, the Company is obligated to pay penalties, payable in additional shares, of 2% per month. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In August 2007, the Company issued 21,020 shares of restricted common stock at between \$0.68 and \$0.78 per share in payment for investor relations services to the Company valued at \$15,000 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In August 2007, the Company issued 14,000 shares of restricted common stock at \$0.50 per share in payment of a finder's fee to the Company valued at \$7,000 based on the value of the services.

In June 2007, the Company issued 41,999 shares of restricted common stock at between \$0.30 and \$0.74 per share in payment for investor relations services to the Company valued at \$20,000 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In April 2007, the Company issued 30,617 shares of restricted common stock as a result of the exercise of a cashless warrant held by a former noteholder. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In April 2007, the Company issued 15,152 shares of restricted common stock at \$0.33 per share in payment of an option agreement valued at \$5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

FISCAL YEAR ENDED MARCH 31, 2007

CONVERTIBLE NOTES PAYABLE AND WARRANTS

On December 15, 2006, the Company issued two 10% Convertible Notes ("December 10% Notes") totaling \$50,000 to accredited investors. The December 10% Notes accrue interest at a rate of ten percent (10%) per annum and mature on March 15, 2007. Such notes are convertible into shares of restricted common stock at any time at the election of the holder at a fixed conversion price of \$0.17 per share for any conversion occurring on or before the maturity date. In addition, upon issuance, the Company issued five-year Warrants ("December 10% Note Warrants") to purchase a number of shares equal to the number of shares into which the December 10% Notes can be converted at a fixed exercise price of \$0.17. Additionally, if the December 10% Note Warrants are exercised prior to December 15, 2007, the holder will receive an additional warrant on the same terms as the December 10% Note Warrants on a one to one basis. The warrants can be settled in unregistered shares of common stock. The December 10% Note Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of \$15,627, the relative fair value measured at the commitment date, was recorded and presented net against the face amount of the December 10% Notes. The convertible feature of the December 10% Notes provides for an effective conversion rate that is below market value. Pursuant to EITF No. 98-5 and EITF No. 00-27, the Company estimated the fair value of such BCF to be \$34,373 and recorded such amount as a debt discount. The discounts associated with the warrants and the BCF are being accreted to interest expense over the term of the December 10% Notes. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

Effective March 22, 2007, the Company entered into four Allonges (the "Allonges") to its 10% Series A Convertible Promissory Notes entered into in December 2005 having an aggregate principal amount of \$1,000,000 (the "Notes") with the Estate of Allan S. Bird, the Ellen R. Weiner Family Revocable Trust, Claypoole Capital, LLC and Christian J. Hoffmann III (the "Holders"). Each Holder has qualified as an "accredited investor" as that term is defined in the Securities Act of 1933, as amended (the "Act"). Pursuant to the Allonges, the Company amended and restated the Notes to extend the maturity date of the Notes from January 2, 2007 until January 3, 2008. The Company will also pay all accrued interest, through February 15, 2007 and each calendar quarter thereafter, in the form of units (the "Units") at the rate of \$0.20 per Unit (the "Interest Payment Rate"). The Notes are convertible into Units at any time prior to the Maturity Date at the conversion price of \$0.20 per Unit (the "Conversion Price"). Each Unit is composed of one share of the Company's Common Stock and on Class A Common Stock Purchase Warrant (the "Class A Warrant"). Each Class A

Warrant expires on January 2, 2001 and is exercisable to purchase one share of Common Stock at a price of \$0.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant" and with the Class A Warrant, collectively, the "Warrants") for every two Class A Warrants exercised. Each Class B Warrant has a three-year term and is exercisable to purchase one share of Common Stock at a price equal to the greater of \$0.20 per share or 75% of the average of the closing bid prices of the Common Stock for the five trading days immediately preceding the date of the notice of conversion. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK

In April 2006, the Company issued 3,086 shares of restricted common stock at \$0.81 per share in payment for investor relations valued at \$2,500 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In April 2006, the Company repaid a \$25,000 15% promissory notes, including accrued interest of \$18,750, through the issuance of 107,759 restricted common shares at \$0.406 per share to an accredited individual investor. There was no gain or loss on the extinguishment. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2006, the Company issued 4,545 shares of restricted common stock at \$0.55 per share in payment for investor relations valued at \$2,500 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In July 2006, the Company issued 6,250 shares of restricted common stock at \$0.40 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In July 2006, the Company issued 7,813 shares of restricted common stock at \$0.32 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In August 2006, the Company issued 114,132 shares of restricted common stock at \$0.20 per share in payment for accrued accounting consulting services provided to the Company by a third party valued at \$23,111 based upon the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In October 2006, the Company issued 8,065 shares of restricted common stock at \$0.31 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In October 2006, the Company issued 8,929 shares of restricted common stock at \$0.28 per share in payment for investor relations services to the Company valued at \$2,500 based on the value of the services. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

In November 2006, the Company issued 555,556 shares of restricted common stock at \$0.18 per share in exchange for an investment of \$100,000. As an inducement the Company also issued five-year warrants to purchase a number of shares equal to the number of restricted shares issued converted at a fixed exercise price of \$0.18. Additionally, if the warrants are exercised prior to November 14, 2007, the holder will receive an additional warrant on the same terms as the warrants. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In December 2006, the Company issued 40,000 shares of restricted common stock at \$0.25 per share in exchange for license and development rights related to certain intellectual property valued at \$10,000 based on the fair market value of the intellectual property license. This transaction was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

On March 31, 2007, we entered into a common stock purchase agreement (the "Purchase Agreement"), as amended on August 10, 2007, with Fusion Capital Fund II, LLC, an Illinois limited liability company ("Fusion Capital") for the purchase of up to \$8.4 million. We agreed to sell to Fusion Capital 1,333,333 shares of our common stock for \$400,000 on March 27, 2007. We agreed to issue to Fusion Capital 1,050,000 shares of our common stock as a commitment fee for

entering into the Purchase Agreement. These issuances were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

FISCAL YEAR ENDED MARCH 31, 2006

CONVERTIBLE DEBT AND WARRANTS

On May 16, 2005 the Company issued Fusion Capital ("Fusion") a \$30,000 Convertible Promissory Note (the "Note") with an interest rate of fifteen percent (15%) per annum that matured on August 15, 2005. In addition, the Company also issued a five-year, cashless warrant to purchase 300,000 shares of the Company's common stock at an exercise price of \$0.25. The Note was converted into 174,716 restricted shares of common stock in March 2006. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

From July 11, 2005 through December 15, 2005 the Company received cash investments of \$760,000 from an accredited investor (Ellen R. Weiner Family Revocable Trust) based on agreed-upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005, November 4, 2005 and December 15, 2005 in three 10% Series A Convertible Notes ("Weiner Series A Notes"). The Weiner Series A Notes accrue interest at a rate of ten percent (10%) per annum and mature on January 2, 2007. The Weiner Series A Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to \$0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Weiner Series A Warrants") to purchase a number of shares equal to the number of shares into which the Weiner Series A Notes can be converted at an exercise price of \$0.20. The Weiner Series A Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of \$531,875, measured at the commitment dates, will be expensed as future conversions occur. The convertible feature of the Weiner Series A Notes provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such BCF to be \$228,125 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Weiner Series A Notes. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

From August 8, 2005 through December 14, 2005 the Company received cash investments of \$225,000, from an accredited investor (Allan S. Bird) based on agreed upon terms reached on the cash receipt dates. Such investments were documented on November 2, 2005, November 7, 2005 and December 14, 2005 in three 10% Series A Convertible Notes ("Bird Series A Notes"). The Bird Series A Notes accrue interest at a rate of ten percent (10%) per annum and mature on January 2, 2007. The Bird Series A Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price equal to \$0.20 per share for any conversion occurring on or prior to the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "Bird Series A Warrants") to purchase a number of shares equal to the number of shares into which the Bird Series A Notes can be converted at an exercise price of \$0.20. The Bird Series A Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of \$183,000, measured at the commitment dates. The discount will be expensed when the warrants are issued when future debt conversions occur. The convertible feature of the Bird Series A Note provides for a rate of conversion that is below market value. Pursuant to EITF 98-5 and EITF 00-27, the Company has estimated the fair value of such BCF to be \$42,000 and records such amount as a debt discount. Such discount is being accreted to interest expense over the term of the Bird Series A Note. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

On December 15, 2005, the Company received total cash investments of \$15,000 from two related accredited investors (Christian Hoffmann III and Claypoole Capital, LLC). Such investments were documented in two 10% Series A Convertible Notes ("December Notes"). The December Notes accrue interest at a rate of ten percent (10%) per annum and mature on January 2, 2007. The December Notes are convertible into shares of restricted common stock at any time at the election of the holder at a conversion price of \$0.20 per share for any conversion occurring on or before the maturity date. In addition, upon conversion, the Company is obligated to issue three-year Warrants (the "December Warrants") to purchase a number of shares equal to the number of shares into which the December Notes were converted at an exercise price of \$0.20. The December Warrants have been valued using a Binomial Lattice option pricing model and an associated discount of \$15,000, measured at the commitment date and the discount will be expensed when the warrants are issued upon the occurrence of future debt conversion. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2005 the Company issued 100,000 shares of common stock and a warrant to purchase 400,000 shares of common stock at a purchase price of \$0.176 per share to an accredited investor for \$17,600. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In June 2005, the Company issued 836,730 shares of restricted common stock and a three-year warrant to purchase 418,365 shares of the Company's restricted common stock at an exercise price of \$0.25 to legal counsel as an inducement to settle accrued past due legal services payable in the amount of \$167,346 which had been expensed in the prior fiscal year. At the time of the settlement, the shares of the Company's restricted common stock were valued at \$209,183 and, using a Black-Scholes option pricing model, the warrant was valued at \$100,408. Additional non-cash expense of \$142,245 was recorded as professional fees expense during the quarter ended June 30, 2005. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

COMMON STOCK

In December 2005, the Company issued 73,964 shares of restricted common stock at \$0.246 per share in payment of legal fees related to capital raising transactions valued at \$18,202. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2006, the Company issued 579,813 shares of restricted common stock at \$0.24 per share in payment for patent fees valued at \$139,155. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2006, the Company issued 66,017 shares of restricted common stock at Prices ranging from \$0.28 to \$0.33 per share in payment for investor relations. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During March 2006, the Company issued 568,181 shares of common stock, at \$0.76 per share, to Fusion Capital for total proceeds of \$431,818 pursuant to an outstanding warrant held by Fusion Capital. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2006, the Company repaid a \$30,000 10% promissory notes, including accrued interest of \$4,564, through the issuance of 140,000 restricted common shares at \$0.25 per share to an accredited individual investor. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2006, a \$30,000 15% convertible note was converted at \$0.20 per share for 174,716 shares of common stock at a price of \$0.20 per share. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In March 2006, the Company issued 150,000 shares of restricted common stock at \$0.326 per share in payment of profession services related to investor relations valued at \$49,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In March 2006, the Company issued 35,714 shares of restricted common stock at \$0.28 per share in payment of profession services related to investor relations valued at \$10,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In March 2006, the Company issued 15,152 shares of restricted common stock at \$0.33 per share in payment of profession services related to investor relations valued at \$5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In March 2006, the Company issued 33,333 shares of restricted common stock at \$0.33 per share in payment of an option agreement valued at \$10,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

OPTIONS

On September 9, 2005, the Company granted 2,857,143 options to James A. Joyce, its Chief Executive Officer, in exchange for \$300,000 of accrued related-party liabilities. The fair value of such options approximated the value of the accrued related-party liability. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

NOTES PAYABLE

In October 2004, the Company issued two \$40,000, 10% one year promissory notes each with 80,000 three-year warrants to purchase common stock at \$0.50 per share and 44,444 three-year warrants to purchase common stock at \$0.90 per share for cash in a total amount of \$80,000 to two accredited individual investors. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In October 2004, the Company issued a \$50,000, 10% one-year promissory note plus 100,000 three-year warrants to purchase common stock at \$0.50 per share and 55,555 three-year warrants to purchase common stock at \$0.90 per share for cash in the amount of \$50,000 to an accredited individual investor. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

COMMON STOCK

In April 2004, the Company issued 500,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of warrants at \$0.25 per share for cash totaling \$125,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In April 2004, the Company issued 17,143 shares at \$1.75 per share to an accredited individual investor for investor relations services in the amount of \$30,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In April 2004, the Company issued 50,000 shares of restricted common stock to Fusion Capital Fund II, LLC, an accredited institutional investor, for a financing commitment to provide \$6,000,000 under a common stock purchase agreement. In connection with this agreement the Company paid a fee to Fusion Capital in the amount of 418,604 shares of common stock. These issuances were exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2004, the Company issued 225,000 shares of common stock at \$0.44 per share and 225,000 warrants to purchase the Company's common stock at a price of \$0.76 per share to legal counsel for legal services in the amount of \$99,000, which was recorded as expense in the accompanying consolidated financial statements. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In May 2004, a \$50,000 10% convertible note was converted at \$0.44 per share for 113,636 shares of common stock and 113,636 warrants to purchase the Company's common stock at a price of \$0.76 per share. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In May 2004, we issued fourteen accredited investors a total of 847,727 shares of restricted stock at a price of \$0.44 per share for cash totaling \$373,000. In connection with the issuance of these shares, we granted the stockholders 1,529,545 warrants to purchase our common stock at a price of \$0.76 per share. The warrants vested immediately and expire on fifth anniversary from the date of a registration statement covering the common stock underlying such warrants is declared effective. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In May 2004, the Company issued 568,181 shares of restricted common stock to Fusion Capital at \$0.44 per share for cash totaling \$250,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In July 2004, the Company issued 10,715 shares of restricted common stock at \$0.70 per share to an accredited individual for employee placement services in the amount of \$7,500. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In July 2004, the Company issued 6,850 shares of restricted common stock at \$0.73 per share to an accredited individual for consulting services on opportunities for the Company's Hemopurifier(TM) within the biodefense marketplace in the amount of \$5,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In August 2004, the Company issued 46,364 shares of restricted common stock at \$0.55 per share to an accredited individual for employee placement services in the amount of \$25,500. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In August 2004, the Company issued 165,492 and 28,377 shares of restricted common stock at \$0.25 and \$0.45 per share, respectively. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In September 2004, the Company issued 479,513 shares of restricted common stock to an accredited investor, in conjunction with the conversion of \$125,000 in principal amount of notes, plus accrued interest, at \$0.34 per share, in accordance with their convertible note agreement (see Note 8). This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

In November and December 2004, the Company issued 80,000 shares of restricted common stock to an accredited individual investor in connection with the exercise of 80,000 warrants at \$0.25 per share for consideration of a \$20,000 reduction in the principal amount of a 10% one-year promissory note. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company issued 461,667 shares of restricted common stock to two accredited individual investors in connection with the exercise of 461,667 warrants at \$0.25 per share for cash totaling \$115,417. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company repaid two \$25,000 12% promissory notes, including accrued interest of \$17,778 each, through the issuance of 87,303 restricted common shares at \$0.49 per share to each of two separate accredited individual investors. These transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In December 2004, the Company issued 60,000 shares of restricted common stock at \$0.50 per share under a consulting agreement with an accredited individual investor, for investor relations consulting services to the Company. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 55,556 shares of restricted common stock at \$0.36 per share and a warrant to purchase 55,556 shares of common stock at \$0.44 per share for cash in the amount of \$20,000 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 66,666 shares of restricted common stock at \$0.45 per share to an accredited individual investor under a consulting agreement for investor relations services to the Company. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In January 2005, the Company issued 25,834 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 25,834 shares of common stock at \$0.25 per share for cash totaling \$6,459. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 139,063 shares of restricted common stock to an accredited individual investor in connection with the exercise of a warrant to purchase 139,063 shares of common stock at \$0.25 per share for cash totaling \$34,766. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2005, the Company issued 90,000 shares of restricted common stock at \$0.27 per share and a three-year warrant to purchase 90,000 shares of common stock at \$0.34 per share for cash in the amount of \$24,300 to an accredited individual investor. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued an additional total of 1,416,958 shares of restricted common stock at prices ranging from \$0.25 to \$0.52 for total cash proceeds of approximately \$541,000. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued an additional 557,647 shares of restricted common stock at prices ranging from \$0.25 to \$0.55 under various consulting service agreements for total recorded value of approximately \$196,000. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

WARRANTS

In August 2004, the Company issued a one-year warrant, which vests immediately, to purchase 7,000 shares of common stock at \$0.55 per share to an accredited corporate entity in conjunction with a \$6,000 fee for investor and public relations services. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 568,181 warrants to an investor in connection with a commitment fee for the purchase of common stock. The warrants have an exercise price of \$0.76 per share, vest immediately and are exercisable through May 2009. As the warrants were issued in connection with equity financing, no expense has been recorded in the accompanying consolidated financial statements. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 847,727 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of \$0.76 per share, vest immediately and are exercisable through May 2009. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 113,636 warrants to purchase common stock for \$0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with the conversion of notes payable. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 225,000 warrants to purchase common stock for \$0.76 per share, which are exercisable through May 2009 and vested upon grant. The warrants were issued in connection with common stock issued for legal services expense totaling \$99,000 (see "Common Stock" above). This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 260,000 warrants to purchase common stock for \$0.50 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company issued 144,443 warrants to purchase common stock for \$0.90 per share, which vested upon grant and expire in October 2007. The warrants were issued in connection with the issuance of notes payable. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 55,556 warrants to an investor in connection with the purchase of common stock. The warrants have an exercise price of \$0.44 per share, vest immediately and are exercisable through January 2008. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, the Company granted 90,000 warrants to investors in connection with the purchase of common stock. The warrants have an exercise price of \$0.34 per share, vest immediately and are exercisable through February 2008. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

During the year ended March 31, 2005, 1,206,564 warrants with a exercise price of \$0.25 per share, which were granted to investors in connection with the purchase of common stock, were exercised. This transaction was exempt from registration pursuant to Regulation D promulgated under the Securities Act of 1933.

OPTIONS

In February 2005, the Board of Directors granted the Company's Chief Executive Officer ("CEO") and Chief Scientific Officer ("CSO") non-qualified stock options to purchase up to 2,231,100 and 1,734,350 shares of common stock, respectively, at an exercise price of \$0.38 per share and vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. In addition Mr. Calvin Leung, a board member, was granted non-qualified stock options to purchase up to 308,725 shares at \$0.38 that vest fifty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. Messrs. Franklyn S Barry and Edward G Broenniman, board members, were each granted non-qualified stock options to purchase up to 514,550 shares at \$0.38 that vest forty percent immediately, twenty-five percent in December 2005 and twenty-five percent in December 2006. All of these options granted expire in 2010 and 2011 and were granted at a price that was \$0.08 below the estimated fair value of the underlying common stock on the date of grant. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

EXHIBITS

3.1	Articles of Incorporation of Aethlon Medical, Inc. (1)
3.2	Bylaws of Aethlon Medical, Inc. (1)
3.3	Certificate of Amendment of Articles of Incorporation dated March 28, 2000 (2)
3.4	Certificate of Amendment of Articles of Incorporation dated June 13, 2005(16)
3.5	Certificate of Amendment of Articles of Incorporation dated March 6, 2007 (17)
5.1*	Legal opinion by Richardson & Patel LLP
10.1	Employment Letter between Aethlon Medical, Inc. and James Dorst dated July 29, 2005 (15)
10.2	Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (3)
10.3	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Aethlon, Inc. dated March 10, 1999 (4)
10.4	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Hemex, Inc. dated March 10, 1999 (4)
10.5	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Syngen Research, Inc. (5)
10.6	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Cell Activation, Inc. (6)
10.7	2003 Consultant Stock Plan, as amended August 2005 (7)
10.8	Lease by and between Aethlon Medical, Inc. and San Diego Science Center (8)
10.9	Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (8)
10.10	Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis (8)
10.11*	Cooperative Agreement by and between Aethlon Medical, Inc. and George Mason University
10.12	Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (10)
10.13	Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis (10)
10.14	Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry (10)
10.15	Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman (10)
10.16	Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (11)
10.17	10% Convertible Promissory Note by and between Aethlon Medical and Allan S. Bird (12)
10.18	10% Convertible Promissory Note by and between Aethlon Medical and Ellen R. Weiner Family Revocable Trust (12)
10.19	Form of Warrant for the benefit of Allan S. Bird and Ellen R. Weiner Family Revocable Trust (12)
10.20	Form of Registration Rights Agreement by and between Aethlon Medical and Allan S. Bird and Ellen R. Weiner Revocable Trust (12)
10.21	10% Convertible Promissory Note by and between Aethlon Medical, Inc. and Christian J. Hoffmann III (16)
10.22	10% Convertible Promissory Note by and between Aethlon Medical, Inc. and Claypoole Capital, LLC (16)
10.23	Form of Warrant for the benefit of Christian J. Hoffmann III and Claypoole Capital, LLC (16)
10.24	Form of Registration Rights Agreement by and between Aethlon Medical, Inc. and Christian J. Hoffmann III and Claypoole Capital, LLC (16)
10.25	Warrant for the benefit of Fusion Capital Fund II, LLC dated March 31, 2006 (17)
10.26*	Common Stock Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007
10.27*	Registration Rights Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007
10.28*	Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Christian Hoffman III
10.29*	Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and amongs Aethlon Medical, Inc., Joel S. Aaronson, Patricia Green, Christina J. Bird, Co-Executor of the Estate of Allan S. Bird
10.30*	Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Claypoole Capital, LLC
10.31*	Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Ellen R. Weiner Family Revocable Trust
10.32*	Form of Registration Rights Agreement for Amended and Restated Notes and Warrants

10.33* Form of Class A Warrant
 10.34* Form of Class A Principal Warrant
 10.35* Form of Class A-1 Warrant
 10.36* Form of 10% Convertible Note

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10.37* Form of Class B Warrant
 10.38* Form of Class B-1 Warrant
 10.39* Form of Amended and Restated 10% Convertible Notes
 10.40 Form of Unit Securities including Promissory Note and Common Stock Purchase Warrants (9)
 10.41* Form of Unit Offering Subscription Agreement
 10.42* Form of Common Stock Warrant
 10.43* Form of Unit Securities including Promissory Note and Common Stock Purchase Warrant
 10.44* First Amendment to Common Stock Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007
 14* Code of Ethics
 21 List of subsidiaries (10)
 23.1 Consent of Squar, Milner, Peterson, Miranda & Williamson, LLP, Independent Registered Public Accounting Firm
 23.2 Consent of Richardson & Patel LLP (included in Exhibit 5.1)

* FILED HERewith

- (1) Filed with the Company's Registration Statement on Form SB-2 dated December 18, 2000 and incorporated by reference.
- (2) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2000 and incorporated by reference.
- (3) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 1999 and incorporated by reference.
- (4) Filed with the Company's Current Report on Form 8-K dated March 10, 1999 and incorporated by reference.
- (5) Filed with the Company's Current Report on Form 8-K dated January 10, 2000 and incorporated by reference.
- (6) Filed with the Company's Current Report on Form 8-K dated April 10, 2000 and incorporated by reference.
- (7) Incorporated by reference from our Registration Statement on Form S-8 (File No. 333-114017) filed on August 29, 2005.
- (8) Filed with the Company's Annual Report on Form 10-KSB/A for the year ended March 31, 2004 and incorporated by reference.
- (9) Filed with the Company's Current Report on Form 8-K dated December 11, 2007 and incorporated by reference. (10) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2005 and incorporated by reference.
- (11) Filed with the Company's Current Report on Form 8-K dated September 9, 2005 and incorporated by reference.
- (12) Filed with the Company's Current Report on Form 8-K dated November 7, 2005 and incorporated by reference.
- (13) Filed with the Company's Post-Effective Amendment No.1 to Registration Statement on Form SB-2 filed on December 8, 2005 and incorporated by reference.
- (14) Filed with the Company's Current Report on Form 8-K dated June 14, 2005 and incorporated by reference.
- (15) Filed with the Company's Current Report on Form 8-K dated March 7, 2007 and incorporated by reference.
- (16) Filed with the Company's Registration Statement on Form SB-2 filed on January 9, 2006 and incorporated by reference.
- (17) Filed with the Company's Current Report on Form 8-K dated April 4, 2006 and incorporated by reference.

UNDERTAKINGS.

We hereby undertake to:

1. File, during any period in which we offer or sell securities, a post-effective amendment to this registration statement to:
 - (i) Include any prospectus required by Section 10(a)(3) of the Securities Act;
 - (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC under Rule 424(b) if, in the

aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table on the face page of the effective registration statement; or

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- (iii) Include any additional or changed material information on the plan of distribution.
- 2. For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.
- 3. For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned small business issuer undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser: Any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424; Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer; The portion of any other free writing prospectus relating to the offering containing material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and Any other communication that is an offer in the offering made by the undersigned small business issuer to the purchaser.
- 4. File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.
- 5. Each prospectus filed by the undersigned small business issuer pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement.
- 6. Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.
- 7. Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an Underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.
- 5. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been advised that

in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than our payment of expenses incurred or paid by any of our directors, officers or controlling persons in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Form S-1 Registration Statement and authorized this Form S-1 Registration Statement to be signed on its behalf by the undersigned, in the City of San Diego, State of California on February 8, 2008.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chief Executive Officer, President and
Chief Accounting Officer
(principal executive officer)

In accordance with the requirements of the Securities Act of 1933, this Form S-1 Registration Statement was signed by the following persons in the capacities and on the dates stated:

<TABLE>		
<S>	<C>	<C>
By: /s/ James A. Joyce	President, Chief Executive Officer,	February 8, 2008
-----	Chief Accounting Officer and Chairman	
James A. Joyce	(principal executive officer)	
By: /s/ Richard H. Tullis	Chief Science Officer and Director	February 8, 2008

Richard H. Tullis		
By: /s/ Franklyn S. Barry, Jr.	Director	February 8, 2008

Franklyn S. Barry, Jr.		
By: /s/ Edward Broenniman	Director	February 8, 2008

Edward Broenniman		
</TABLE>		

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EXHIBIT INDEX

3.1	Articles of Incorporation of Aethlon Medical, Inc. (1)
3.2	Bylaws of Aethlon Medical, Inc. (1)
3.3	Certificate of Amendment of Articles of Incorporation dated March 28, 2000 (2)
3.4	Certificate of Amendment of Articles of Incorporation dated June 13, 2005 (16)
3.5	Certificate of Amendment of Articles of Incorporation dated March 6, 2007 (17)
5.1*	Legal opinion by Richardson & Patel LLP
10.1	Employment Letter between Aethlon Medical, Inc. and James Dorst dated July 29, 2005 (15)
10.2	Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (3)
10.3	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Aethlon, Inc. dated March 10, 1999 (4)
10.4	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Hemex, Inc. dated March 10, 1999 (4)
10.5	Agreement and Plan of Reorganization Between Aethlon Medical,

Inc. and Syngen Research, Inc. (5)
 10.6 Agreement and Plan of Reorganization Between Aethlon Medical, Inc. and Cell Activation, Inc. (6)
 10.7 2003 Consultant Stock Plan, as amended August 2005 (7)
 10.8 Lease by and between Aethlon Medical, Inc. and San Diego Science Center (8)
 10.9 Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (8)
 10.10 Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis (8)
 10.11* Cooperative Agreement by and between Aethlon Medical, Inc. and George Mason University
 10.12 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (10)
 10.13 Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis (10)
 10.14 Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry (10)
 10.15 Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman (10)
 10.16 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce (11)
 10.17 10% Convertible Promissory Note by and between Aethlon Medical and Allan S. Bird (12)
 10.18 10% Convertible Promissory Note by and between Aethlon Medical and Ellen R. Weiner Family Revocable Trust (12)
 10.19 Form of Warrant for the benefit of Allan S. Bird and Ellen R. Weiner Family Revocable Trust (12)
 10.20 Form of Registration Rights Agreement by and between Aethlon Medical and Allan S. Bird and Ellen R. Weiner Revocable Trust (12)
 10.21 10% Convertible Promissory Note by and between Aethlon Medical, Inc. and Christian J. Hoffmann III (16)
 10.22 10% Convertible Promissory Note by and between Aethlon Medical, Inc. and Claypoole Capital, LLC (16)
 10.23 Form of Warrant for the benefit of Christian J. Hoffmann III and Claypoole Capital, LLC (16)
 10.24 Form of Registration Rights Agreement by and between Aethlon Medical, Inc. and Christian J. Hoffmann III and Claypoole Capital, LLC (16)
 10.25 Warrant for the benefit of Fusion Capital Fund II, LLC dated March 31, 2006 (17)
 10.26* Common Stock Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007
 10.27* Registration Rights Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007
 10.28* Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Christian Hoffman III
 10.29* Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and amongst Aethlon Medical, Inc., Joel S. Aaronson, Patricia Green, Christina J. Bird, Co-Executor of the Estate of Allan S. Bird
 10.30* Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Claypoole Capital, LLC
 10.31* Form of Allonge to 10% Series A Convertible Notes dated March 5, 2007 by and between Aethlon Medical, Inc. and Ellen R. Weiner Family Revocable Trust
 10.32* Form of Registration Rights Agreement for Amended and Restated Notes and Warrants
 10.33* Form of Class A Warrant
 10.34* Form of Class A Principal Warrant
 10.35* Form of Class A-1 Warrant
 10.36* Form of 10% Convertible Note

10.37* Form of Class B Warrant
 10.38* Form of Class B-1 Warrant
 10.39* Form of Amended and Restated 10% Convertible Notes
 10.40 Form of Unit Securities including Promissory Note and Common Stock Purchase Warrants (9)
 10.41* Form of Unit Offering Subscription Agreement
 10.42* Form of Common Stock Warrant
 10.43* Form of Unit Securities including Promissory Note and Common Stock Purchase Warrant
 10.44* First Amendment to Common Stock Purchase Agreement by and between Aethlon Medical, Inc. and Fusion Capital Fund II, LLC dated March 21, 2007
 14* Code of Ethics

21 List of subsidiaries (10)
23.1 Consent of Squar, Milner, Peterson, Miranda & Williamson, LLP,
Independent Registered Public Accounting Firm
23.2 Consent of Richardson & Patel LLP (included in Exhibit 5.1)

* FILED HERewith

- (1) Filed with the Company's Registration Statement on Form SB-2 dated December 18, 2000 and incorporated by reference.
- (2) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2000 and incorporated by reference.
- (3) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 1999 and incorporated by reference.
- (4) Filed with the Company's Current Report on Form 8-K dated March 10, 1999 and incorporated by reference.
- (5) Filed with the Company's Current Report on Form 8-K dated January 10, 2000 and incorporated by reference.
- (6) Filed with the Company's Current Report on Form 8-K dated April 10, 2000 and incorporated by reference.
- (7) Incorporated by reference from our Registration Statement on Form S-8 (File No. 333-114017) filed on August 29, 2005.
- (8) Filed with the Company's Annual Report on Form 10-KSB/A for the year ended March 31, 2004 and incorporated by reference.
- (9) Filed with the Company's Current Report on Form 8-K dated December 11, 2007 and incorporated by reference. (10) Filed with the Company's Annual Report on Form 10-KSB for the year ended March 31, 2005 and incorporated by reference.
- (11) Filed with the Company's Current Report on Form 8-K dated September 9, 2005 and incorporated by reference.
- (12) Filed with the Company's Current Report on Form 8-K dated November 7, 2005 and incorporated by reference.
- (13) Filed with the Company's Post-Effective Amendment No.1 to Registration Statement on Form SB-2 filed on December 8, 2005 and incorporated by reference.
- (14) Filed with the Company's Current Report on Form 8-K dated June 14, 2005 and incorporated by reference.
- (15) Filed with the Company's Current Report on Form 8-K dated March 7, 2007 and incorporated by reference.
- (16) Filed with the Company's Registration Statement on Form SB-2 filed on January 9, 2006 and incorporated by reference.
- (17) Filed with the Company's Current Report on Form 8-K dated April 4, 2006 and incorporated by reference.

RICHARDSON & PATEL
10900 WILSHIRE BLVD.
SUITE 500
LOS ANGELES, CALIFORNIA 90024
TELEPHONE (310) 208-1183
FACSIMILE (310) 208-1154

February 11, 2008

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109

Re: REGISTRATION STATEMENT ON FORM S-1

Ladies and Gentlemen:

We have acted as counsel to Aethlon Medical, Inc., a Nevada corporation (the "Company"), in connection with the registration with the Securities and Exchange Commission (the "Commission") on Form S-1 (the "Registration Statement") of 8,000,000 shares of the Company's common stock, par value \$0.001 (the "Shares"), to be issued to the selling stockholder under the terms of the Common Stock Purchase Agreement, as amended, between the Company and Fusion Capital Fund II, LLC (the "Purchase Agreement") as described in the Registration Statement. In connection with the Registration Statement, we have reviewed the proceedings of the Board of Directors of the Company relating to the registration and the issuance (or proposed issuance) of the Shares, the Company's Certificate of Incorporation and all amendments thereto, the Bylaws of the Company and all amendments thereto, and such other documents and matters as we have deemed necessary to render the following opinion.

Based upon that review, it is our opinion that the Shares that may be issued under the terms of the Purchase Agreement, will be legally issued, fully paid, and non-assessable under Nevada law, including the statutory provisions, all applicable provisions of the Nevada Constitution and all reported judicial decisions interpreting those laws.

We hereby consent to the use of this opinion in the registration statement filed with the Commission in connection with the registration of the Shares and to reference to our firm under the heading "Legal Matters" in the registration statement and the prospectus included therein. In giving such consent, we do not consider that we are "experts" within the meaning of such term as used in the Securities Act of 1933, as amended, or the rules and regulations of the Commission issued thereunder, with respect to any part of the registration statement, including this opinion as an exhibit or otherwise.

/s/ RICHARDSON & PATEL LLP

CODE OF BUSINESS CONDUCT AND ETHICS
(AS APPROVED BY THE BOARD OF DIRECTORS)

THIS CODE APPLIES TO EVERY DIRECTOR, OFFICER (INCLUDING THE CHIEF EXECUTIVE OFFICER, PRESIDENT AND CHIEF FINANCIAL OFFICER), AND EMPLOYEE OF AETHLON MEDICAL, INC., (THE "COMPANY").

To further the Company's fundamental principles of honesty, loyalty, fairness and forthrightness, the Board of Directors of the Company (the "BOARD:") has established and adopted this Code of Business Conduct and Ethics (this "CODE").

This Code strives to deter wrongdoing and promote the following six objectives:

- o honest and ethical conduct;
- o avoidance of conflicts of interest;
- o full, fair, accurate, timely and transparent disclosure;
- o compliance with applicable government and self-regulatory organization laws, rules and regulations;
- o prompt internal reporting of Code violations; and
- o accountability for compliance with the Code.

Below, we discuss situations that require application of our fundamental principles and promotion of our objectives. If you believe there is a conflict between this Code and a specific procedure, please consult the Company's Board of Directors for guidance.

Each of our directors, officers and employees is expected to:

- o understand the requirements of your position, including Company expectations and governmental rules and regulations that apply to your position;
- o comply with this Code and all applicable laws, rules and regulations;
- o report any violation of this Code of which you become aware; and
- o be accountable for complying with this Code.

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ETHICS ADMINISTRATOR

All matters concerning this Code shall be heard by the Board of Directors.

ACCOUNTING POLICIES

The Company will make and keep books, records and accounts, which in reasonable detail accurately and fairly present the Company's transactions.

All directors, officers, employees and other persons are prohibited from directly or indirectly falsifying or causing to be false or misleading any financial or accounting book, record or account. You and others are expressly prohibited from directly or indirectly manipulating an audit, and from destroying or tampering with any record, document or tangible object with the intent to obstruct a pending or contemplated audit, review or federal investigation. The commission of, or participation in, one of these prohibited activities or other illegal conduct will subject you to federal penalties, as well as to punishment, up to and including termination of employment.

No director, officer or employee of the Company may directly or indirectly make or cause to be made a materially false or misleading statement, or omit to state, or cause another person to omit to state, any material fact necessary to make statements made not misleading, in connection with the audit of financial statements by independent accountants, the preparation of any required reports whether by independent or internal accountants, or any other work which involves or relates to the filing of a document with the Securities and Exchange Commission ("SEC").

AMENDMENTS AND MODIFICATIONS OF THIS CODE

There shall be no amendment or modification to this Code except upon approval by the Board of Directors.

In case of any amendment or modification of this Code that applies to an officer or director of the Company, the amendment or modification shall be posted on the Company's website within two days of the board vote or shall be otherwise disclosed as required by applicable law or the rules of any stock exchange or market on which the Company's securities are listed for trading. Notice posted on the website shall remain there for a period of twelve months and shall be retained in the Company's files as required by law.

ANTI-BOYCOTT AND U.S. SANCTIONS LAWS

The Company must comply with anti-boycott laws of the United States, which prohibit it from participating in, and require us to report to the authorities any request to participate in, a boycott of a country or businesses within a country. If you receive such a request, report it to your immediate superior, our CEO, or to the chairman of the Board of Directors. We will also not engage in business with any government, entity, organization or individual where doing so is prohibited by applicable laws.

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ANTITRUST AND FAIR COMPETITION LAWS

The purpose of antitrust laws of the United States and most other countries is to provide a level playing field to economic competitors and to promote fair competition. No director, officer or employee, under any circumstances or in any context, may enter into any understanding or agreement, whether express or implied, formal or informal, written or oral, with an actual or potential competitor, which would illegally limit or restrict in any way either party's actions, including the offers of either party to any third party. This prohibition includes any action relating to prices, costs, profits, products, services, terms or conditions of sale, market share or customer or supplier classification or selection.

It is our policy to comply with all U.S. antitrust laws. This policy is not to be compromised or qualified by anyone acting for or on behalf of our Company. You must understand and comply with the antitrust laws as they may bear upon your activities and decisions. Anti-competitive behavior in violation of antitrust laws can result in criminal penalties, both for you and for the Company. Accordingly, any question regarding compliance with antitrust laws or your responsibilities under this policy should be directed to our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel. Any director, officer or employee found to have knowingly participated in violating the antitrust laws will be subject to disciplinary action, up to and including termination of employment.

Below are some scenarios that are prohibited and scenarios that could be prohibited for antitrust reasons. These scenarios are not an exhaustive list of all prohibited and possibly prohibited antitrust conduct.

- o Proposals or agreements or understanding, express or implied, formal or

informal, written or oral, with any competitor regarding any aspect of competition between the Company and the competitor for sales to third parties;

- o Proposals or agreements or understandings with customers which restrict the price or other terms at which the customer may resell or lease any product to a third party; or
- o Proposals or agreements or understandings with suppliers which restrict the price or other terms at which the Company may resell or lease any product or service to a third party.

The following business arrangements could raise anti-competition or antitrust law issues. Before entering into them, you must consult with our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel:

- o Exclusive arrangements for the purchase or sale of products or services;
- o Bundling of goods and services; or
- o Agreements to add an employee of the Company to another entity's board of Directors.

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BRIBERY

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You are strictly forbidden from offering, promising or giving money, gifts, loans, rewards, favors or anything of value to any governmental official, employee, agent or other intermediary (either inside or outside the United States) which is prohibited by law. Those paying a bribe may subject the Company and themselves to civil and criminal penalties. When dealing with government customers or officials, no improper payments will be tolerated. If you receive any offer of money or gifts that is intended to influence a business decision, it should be reported to your supervisor our CEO or the chairman of the Board of Directors immediately.

The Company prohibits improper payments in all of its activities, whether these activities are with governments or in the private sector.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

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The Company's goal and intention is to comply with the laws, rules and regulations by which we are governed. In fact, we strive to comply not only with requirements of the law but also with recognized compliance practices. All illegal activities or illegal conduct are prohibited whether or not they are specifically set forth in this Code.

Where law does not govern a situation or where the law is unclear or conflicting, you should discuss the situation with your supervisor, our CEO or the chairman of the Board of Directors, who may then direct you to our legal counsel. Business should always be conducted in a fair and forthright manner. Directors, officers and employees are expected to act according to high ethical standards.

COMPUTER AND INFORMATION SYSTEMS

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For business purposes, officers and employees are provided telephones and computer workstations and software, including network access to computing systems such as the Internet and e-mail, to improve personal productivity and to efficiently manage proprietary information in a secure and reliable manner. You must obtain the permission from your supervisor or our CEO to install any software on any Company computer or connect any personal laptop to the Company network. As with other equipment and assets of the Company, we are each responsible for the appropriate use of these assets. Except for limited personal use of the Company's telephones and computer/e-mail, such equipment may be used only for business purposes. Officers and employees should not expect a right to privacy of their e-mail or Internet use. All e-mails or Internet use on Company equipment is subject to monitoring by the Company.

CONFIDENTIAL INFORMATION BELONGING TO OTHERS

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You must respect the confidentiality of information, including, but not limited to, trade secrets and other information given in confidence by others, just as we protect our own confidential information. This includes, but is not limited to partners, suppliers, contractors, competitors or customers. However, certain restrictions about the information of others may place an unfair burden on the Company's future business. For that reason, directors, officers and employees should coordinate with your supervisor or the CEO to ensure appropriate

agreements are in place prior to receiving any confidential third-party information. In addition, any confidential information that you may possess from an outside source, such as a previous employer, must not, so long as such information remains confidential, be disclosed to or used by the Company. Unsolicited confidential information submitted to the Company should be refused, returned to the sender where possible and deleted, if received via the Internet.

CONFIDENTIAL AND PROPRIETARY INFORMATION

It is the Company's policy to ensure that all operations, activities and business affairs of the Company and our business associates are kept confidential to the greatest extent possible. Confidential information includes all non-public information that might be of use to competitors, or that might be harmful to the Company or its customers if disclosed. Confidential and proprietary information about the Company or its business associates belongs to the Company, must be treated with strictest confidence and is not to be disclosed or discussed with others.

Unless otherwise agreed to in writing, confidential and proprietary information includes any and all information from which the Company may derive an economic benefit, including, but not limited to, methods, inventions, improvements or discoveries, whether or not patentable or copyrightable, and any other information of a similar nature disclosed to the directors, officers or employees of the Company or otherwise made known to the Company as a consequence of or through employment or association with the Company (including information originated by the director, officer or employee). This can include, but is not limited to, information regarding the Company's business, products, processes, and services. It also can include information relating to research, development, inventions, trade secrets, intellectual property of any type or description, data, business plans, marketing strategies, engineering, contract negotiations, contents of the Company intranet and business methods or practices.

The following are examples of information that is not considered confidential:

- o information that is in the public domain to the extent it is readily available;
- o information that becomes generally known to the public other than by disclosure by the Company or a director, officer or employee; or
- o information you receive from a party that is under no legal obligation of confidentiality with the Company with respect to such information.

We have exclusive property rights to all confidential and proprietary information regarding the Company or our business associates. The unauthorized disclosure of this information could destroy its value to the Company and give others an unfair advantage. You are responsible for safeguarding Company information and complying with established security controls and procedures. All documents, records, notebooks, notes, memoranda and similar repositories of information containing information of a secret, proprietary, confidential or generally undisclosed nature relating to the Company or our operations and activities, including any copies thereof, unless otherwise agreed to in writing, belong to the Company and shall be held by you in trust solely for the benefit of the Company. Confidential or proprietary information must be delivered to the Company by you on the termination of your association with us or at any other time we request.

CONFLICTS OF INTEREST

Conflicts of interest can arise in virtually every area of our operations. A "conflict of interest" exists whenever an individual's private interests interfere or conflict in any way (or even appear to interfere or conflict) with the interests of the Company. We must strive to avoid conflicts of interest. We must each make decisions solely in the best interest of the Company. Any business, financial or other relationship with suppliers, customers or competitors that might impair or appear to impair the exercise of our judgment solely for the benefit of the Company is prohibited.

Here are some examples of conflicts of interest:

- o FAMILY MEMBERS--Actions of family members may create a conflict of interest. For example, gifts to family members by a supplier of the Company are considered gifts to you and must be reported. Doing business for the Company with organizations where your family members are employed or that are partially or fully owned by your family members or close friends may create a conflict or the appearance of a

conflict of interest. For purposes of this Code "family members" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, and adoptive relationships.

- o GIFTS, ENTERTAINMENT, LOANS, OR OTHER FAVORS--Directors, officers and employees shall not seek or accept personal gain, directly or indirectly, from anyone soliciting business from, or doing business with, the Company, or from any person or entity in competition with us. Examples of such personal gains are gifts, non-business-related trips, gratuities, favors, loans, and guarantees of loans, excessive entertainment or rewards. However, you may accept gifts of a nominal value. Other than common business courtesies, directors, officers, employees and independent contractors must not offer or provide anything to any person or organization for the purpose of influencing the person or organization in their business relationship with us.

Directors, officers and employees are expected to deal with advisors or suppliers who best serve the needs of the Company as to price, quality and service in making decisions concerning the use or purchase of materials, equipment, property or services. Directors, officers and employees who use the Company's advisors, suppliers or contractors in a personal capacity are expected to pay market value for materials and services provided.

- o OUTSIDE EMPLOYMENT--Officers and employees may not participate in outside employment, self-employment, or serve as officers, directors, partners or consultants for outside organizations, if such activity:
 - o reduces work efficiency;
 - o interferes with your ability to act conscientiously in our best interest; or
- o requires you to utilize our proprietary or confidential procedures, plans or techniques.

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You must inform your supervisor or the CEO of any outside employment, including the employer's name and expected work hours.

You should report any actual or potential conflict of interest involving yourself or others of which you become aware to your supervisor or our CEO. Officers and directors should report any actual or potential conflict of interest involving yourself or others of which you become aware to the chairman of the Board of Directors.

CORPORATE OPPORTUNITIES AND USE AND PROTECTION OF COMPANY ASSETS

You are prohibited from:

- o taking for yourself, personally, opportunities that are discovered through the use of Company property, information or position;
- o using Company property, information or position for personal gain; or
- o competing with the Company.

You have a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

You are personally responsible and accountable for the proper expenditure of Company funds, including money spent for travel expenses or for customer entertainment. You are also responsible for the proper use of property over which you have control, including both Company property and funds and property that customers or others have entrusted to your custody. Company assets must be used only for proper purposes.

Company property should not be misused. Company property may not be sold, loaned or given away regardless of condition or value, without proper authorization. Each director, officer and employee should protect our assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. Company assets should be used only for legitimate business purposes.

DISCIPLINE FOR NONCOMPLIANCE WITH THIS CODE

Disciplinary actions for violations of this Code can include oral or written reprimands, suspension or termination of employment or a potential civil lawsuit against you. The violation of laws, rules or regulations, which can subject the Company to fines and other penalties, may result in your criminal prosecution.

DISCLOSURE POLICIES AND CONTROLS

The continuing excellence of the Company's reputation depends upon our full and complete disclosure of important information about the Company that is used in the securities marketplace. Our financial and non-financial disclosures and filings with the SEC must be transparent, accurate and timely. We must all work together to insure that reliable, truthful and accurate information is disclosed to the public.

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The Company must disclose to the SEC, current security holders and the investing public information that is required, and any additional information that may be necessary to ensure the required disclosures are not misleading or inaccurate. The Company requires you to participate in the disclosure process, which is overseen by our CEO and CFO. The disclosure process is designed to record, process, summarize and report material information as required by all applicable laws, rules and regulations. Participation in the disclosure process is a requirement of a public company, and full cooperation and participation by our CEO, CFO and, upon request, other employees in the disclosure process is a requirement of this Code.

Officers and employees must fully comply with their disclosure responsibilities in an accurate and timely manner or be subject to discipline of up to and including termination of employment.

ENVIRONMENT, HEALTH AND SAFETY

The Company is committed to managing and operating our assets in a manner that is protective of human health and safety and the environment. It is our policy to comply, in all material respects, with applicable health, safety and environmental laws and regulations. Each employee is also expected to comply with our policies, programs, standards and procedures.

FILING OF GOVERNMENT REPORTS

Any reports or information provided, on our behalf, to federal, state, local or foreign governments should be true, complete and accurate. Any omission, misstatement or lack of attention to detail could result in a violation of the reporting laws, rules and regulations.

FOREIGN CORRUPT PRACTICES ACT

The United States Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to foreign government officials or foreign political candidates in order to obtain, retain or direct business. Accordingly, corporate funds, property or anything of value may not be, directly or indirectly, offered or given by you or an agent acting on our behalf, to a foreign official, foreign political party or official thereof or any candidate for a foreign political office for the purpose of influencing any act or decision of such foreign person or inducing such person to use his influence or in order to assist in obtaining or retaining business for, or directing business to, any person.

You are also prohibited from offering or paying anything of value to any foreign person if it is known or there is a reason to know that all or part of such payment will be used for the above-described prohibited actions. This provision includes situations when intermediaries, such as affiliates, or agents, are used to channel payoffs to foreign officials.

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INSIDER TRADING OR TIPPING

Directors, officers and employees who are aware of material, non-public information from or about the Company (an "INSIDER"), are not permitted, directly or through family members or other persons or entities, to:

- o buy or sell securities (or derivatives relating to such securities) of the Company, or
- o pass on, tip or disclose material, nonpublic information to others outside the Company including family and friends.

Such buying, selling or trading of securities may be punished by discipline, up to and including termination of employment; civil actions, resulting in penalties of up to three times the amount of profit gained or loss avoided by the inside trade or stock tip, or criminal actions, resulting in fines and jail time.

Examples of information that may be considered material, non-public information in some circumstances are:

- o undisclosed annual, quarterly or monthly financial results, a change in earnings or earnings projections, or unexpected or unusual gains or losses in major operations;
- o undisclosed negotiations and agreements regarding mergers, concessions, joint ventures, acquisitions, divestitures, business combinations or tender offers;
- o undisclosed major management changes;
- o a substantial contract award or termination that has not been publicly disclosed;
- o a major lawsuit or claim that has not been publicly disclosed;
- o the gain or loss of a significant customer or supplier that has not been publicly disclosed;
- o an undisclosed filing of a bankruptcy petition by the Company;
- o information that is considered confidential; and
- o any other undisclosed information that could affect our stock price.

The same policy also applies to securities issued by another company if you have acquired material, nonpublic information relating to such company in the course of your employment or affiliation with the Company.

When material information has been publicly disclosed, each insider must continue to refrain from buying or selling the securities in question until the third business day after the information has been publicly released to allow the markets time to absorb the information.

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INTELLECTUAL PROPERTY: PATENTS, COPYRIGHTS AND TRADEMARKS

Except as otherwise agreed to in writing between the Company and an officer or employee, all intellectual property you conceive or develop during the course of your employment shall be the sole property of the Company. The term intellectual property includes any invention, discovery, concept, idea, or writing whether protectable or not by any United States or foreign copyright, trademark, patent, or common law including, but not limited to, designs, materials, compositions of matter, machines, processes, improvements, data, computer software, writings, formula, techniques, know-how, methods, as well as improvements thereof or know-how related thereto concerning any past, present, or prospective activities of the Company. Officers and employees must promptly disclose in writing to the Company any intellectual property developed or conceived either solely or with others during the course of your employment and must render any and all aid and assistance, at our expense, to secure the appropriate patent, copyright, or trademark protection for such intellectual property.

Copyright laws may protect items posted on a website. Unless a website grants permission to download the Internet content you generally only have the legal right to view the content. If you do not have permission to download and distribute specific website content you should contact your supervisor or our CEO, who may refer you to our legal counsel.

If you are unclear as to the application of this Intellectual Property Policy or if questions arise, please consult with your supervisor or our CEO, who may refer you to our legal counsel.

INVESTOR RELATIONS AND PUBLIC AFFAIRS

It is very important that the information disseminated about the Company be both accurate and consistent. For this reason, all matters relating to the Company's internal and external communications are handled by our CEO (or, if retained for such purpose, a public relations consultant). Our CEO (or a public relations consultant retained by the Company) is solely responsible for public communications with stockholders, analysts and other interested members of the financial community. Our CEO (or a public relations consultant retained by the Company) is also solely responsible for our marketing and advertising activities and communication with employees, the media, local communities and government officials. Our CEO serves as the Company's spokesperson in both routine and crisis situations.

POLITICAL CONTRIBUTIONS

You must refrain from making any use of Company, personal or other funds or resources on behalf of the Company for political or other purposes which are improper or prohibited by the applicable federal, state, local or foreign laws, rules or regulations. Company contributions or expenditures in connection with election campaigns will be permitted only to the extent allowed by federal, state, local or foreign election laws, rules and regulations.

You are encouraged to participate actively in the political process. We believe that individual participation is a continuing responsibility of those who live in a free country.

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PROHIBITED SUBSTANCES

The use of alcohol, illegal drugs or other prohibited items, including legal drugs which affect the ability to perform one's work duties, are prohibited while on Company premises. We also prohibit the possession or use of alcoholic beverages, firearms, weapons or explosives on our property, unless authorized by our CEO. You are also prohibited from reporting to work while under the influence of alcohol or illegal drugs. We reserve the right to perform pre-employment and random drug testing on employees, as permitted by law.

RECORD RETENTION

The alteration, destruction or falsification of corporate documents or records may constitute a criminal act. Destroying or altering documents with the intent to obstruct a pending or anticipated official government proceeding is a criminal act and could result in large fines and a prison sentence of up to 20 years. Document destruction or falsification in other contexts can result in a violation of the federal securities laws or the obstruction of justice laws.

REPORTING VIOLATIONS OF THIS CODE

You should be alert and sensitive to situations that could result in actions that might violate federal, state, or local laws or the standards of conduct set forth in this Code. If you believe your own conduct or that of a fellow employee may have violated any such laws or this Code, you have an obligation to report the matter.

Generally, you should raise such matters first with an immediate supervisor. However, if you are not comfortable bringing the matter up with your immediate supervisor, or do not believe the supervisor has dealt with the matter properly, then you should raise the matter with our CEO who may, if a law, rule or regulation is in question, then refer you to our legal counsel. The most important point is that possible violations should be reported and we support all means of reporting them.

Directors and officers should report any potential violations of this Code to the chairman of the Board of Directors or to our legal counsel.

We will not allow retaliation against an employee for reporting a possible violation of this Code in good faith. Retaliation for reporting a federal offense is illegal under federal law and prohibited under this Code. Retaliation for reporting any violation of a law, rule or regulation or a provision of this Code is prohibited. Retaliation will result in discipline, up to and including termination of employment, and may also result in criminal prosecution. However, if a reporting individual was involved in improper activity the individual may be appropriately disciplined even if he or she was the one who disclosed the matter to the Company. In these circumstances, we may consider the conduct of the reporting individual in reporting the information as a mitigating factor in any disciplinary decision.

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WAIVERS

There shall be no waiver of any part of this Code for any director or officer except by a vote of the Board of Directors. In case a waiver of this Code is granted to a director or officer, the notice of such waiver shall be posted on our website within five days of the Board's vote or shall be otherwise disclosed as required by applicable law or the rules of any stock exchange or market on which the Company's securities are listed for trading. Notices posted on our website shall remain there for a period of 12 months and shall be retained in our files as required by law.

CONCLUSION

This Code is an attempt to point all of us at the Company in the right direction, but no document can achieve the level of principled compliance that

we are seeking. In reality, each of us must strive every day to maintain our awareness of these issues and to comply with the Code's principles to the best of our abilities. Before we take an action, we must always ask ourselves:

- o Does it feel right?
- o Is this action ethical in every way?
- o Is this action in compliance with the law?
- o Could my action create an appearance of impropriety?
- o Am I trying to fool anyone, including myself, about the propriety of this action?

If an action would elicit the wrong answer to any of these questions, do not take it. We cannot expect perfection, but we do expect good faith. If you act in bad faith or fail to report illegal or unethical behavior, then you will be subject to disciplinary procedures. We hope that you agree that the best course of action is to be honest, forthright and loyal at all times.

GEORGE MASON UNIVERSITY - AETHLON MEDICAL, INC.

COOPERATIVE AGREEMENT

PREAMBLE

This Cooperative Agreement (hereinafter "Agreement") is entered into by and between The Rector and Visitors of George Mason University, for its National Center for Biodefense hereinafter called "GMU", a located at 4400 University Drive, MS 4C6, Fairfax, VA 22030-4444, phone number (703) 993-2988, and Aethlon Medical Inc., hereinafter called "Aethlon", a Nevada Corporation, with an office located at 7625 Fay Avenue, Suite 200, La Jolla, California, 92037 phone number (858) 459-7800. GMU and Aethlon are hereinafter referred to as "the Parties".

I. RECITALS

1.01 Funding sources including, but not limited to the "Government", may make available funding opportunities to support research activities that explore and/or demonstrate the feasibility of apheresis treatment to certain bioweapons, including certain CDC Class A toxins. Certain funding opportunities may also be made available to support joint projects to demonstrate the practical or commercial value of apheresis treatments for certain biodefense applications as outlined in Appendix B (Projects). These funding opportunities may become available in the form of an RFP to support such activities.

1.02 The Parties have complementary skills and capabilities which, taken together, would allow the Parties to perform the Project

I .03 The Parties wish to form a teaming arrangement and to define their respective rights, duties, and obligations thereunder.

II.OBJECTIVE AND DURATION

2.01 The objective of the teaming hereunder shall be to cooperate in identifying possible funding sources and in preparing and submitting proposals in an attempt to obtain the award of contracts for Projects resulting from any RFPs to support these activities.

2.02 In each instance, the Parties shall determine which party will be the prime. Both parties agree to prepare data required for any proposals and to cooperate in integrating the data. The party designated as prime shall submit the proposal with the other party identified in the proposal as the subcontractor to provide following services as outlined in the proposal.

2.03 The duration of this Agreement shall be from the effective date hereof until the occurrence of the earliest of the following events (subject, however, to the provisions of Paragraph A.3, Attachment A hereto);

- a) The failure or inability of either party to provide the support for the preparation of identified proposal opportunities.
- b) Mutual consent of the Parties to terminate this Agreement.
- c) Lapse of 24 months from the effective date of this agreement without award of a contract to support one or more Projects unless a procurement is still open.
- d) The indictment, suspension, or debarment by the Government of either party.

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- e) A Receiver, trustee in Bankruptcy, or other Custodian of the property or assets of a party hereto is appointed, or if either party hereto commits an act of bankruptcy or is adjudicated bankrupt or insolvent.
- f) During the term hereof it is determined that either party may be ineligible for award due to an Organizational Conflict of Interest.

III. PROPOSAL PREPARATION

3.01 The party designated as prime shall have primary responsibility for the preparation of all technical and non-technical aspects of the proposal including, but not limited to:

- a) Marketing and promotional effort;
- b) Proposal content assembly and production;
- c) Liaison with Government customer personnel;
- d) Oral discussions and negotiations, if held.

3.02 The party designated as the subcontractor shall contribute to the preparation of the proposal to the extent necessary to assure the inclusion of a thorough and accurate description of its responsibilities in the Project.

Each party shall cooperate with the other (i) to provide such assistance as may be required during the pre-proposal, proposal and post-proposal stages, (ii) to furnish proposal material including manuscripts, graphic material and cost and pricing data backup as required by the RIP or as appropriate, (iii) to assure availability of management and technical personnel and (iv) to submit management, technical and cost proposal materials and proposal clarifications within required time frames as requested by the party assuming the prime position.

Notwithstanding the provisions of Paragraph 3.01 preceding, the subcontractor party shall be entitled to participate in oral discussions concerning its contributions to the proposal and shall at all times be entitled to receive, upon reasonable request, documentation and information concerning oral discussions and negotiations between the prime party and the Government. Further, the prime party shall in no way modify the proposal during discussions or negotiations so as to either increase the risk of performance to, or decrease potential cost or fee recovery by the subcontracting party unless the subcontracting party specifically approves.

3.03 The subcontracting party will provide direct proposal support to the other party in the development of proposals. Detailed proposal writing assignments will be determined at a separate meeting or via separate communication between GMU and Aethlon. All bid and proposal costs are the responsibility of the party which incurs them and will not be paid by the other party.

3.04 GMU's contractual point of contact is Ann McQuigan, Ph.D. and the GMU technical point of contact is Jerry Coughter. Aethlon's contractual point of contact is James A. Joyce and the Aethlon technical point of contact is Richard Tullis, Ph.D.

3.05 The Parties shall carry out the preparation of proposals and the conduct of all negotiations and pricing, in accordance with all applicable laws and regulations governing the applicable RFP and the award of any contract thereunder,

3.06 Except as may otherwise be agreed in writing by the Parties, each of the Parties shall bear its own expenses for its own performance of proposal and related work.

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3.07 Contractor past performance may be a significant evaluation factor for the solicitation. Both parties understand and agree that they will be required to provide timely reports of all past performance information reasonably requested by the prime party. The prime party reserves the right to independently contact the points of contact provided in the other party's past performance citations to determine the adequacy/appropriateness of those citations. The prime party, at its sole discretion, may utilize in its proposal any or all citations provided by the other party.

IV. FORMATION OF A SUBCONTRACT

4.01 Should a contract be awarded as a result of this Agreement, the Parties agree to enter into good faith negotiations intending to culminate in a subcontract to be awarded to the subcontracting party for its area of interest identified in the relevant proposal subject to necessary Government approvals, required flowdown clauses, and negotiation of mutually acceptable price, delivery, terms, and conditions.

V. GENERAL PROVISIONS

5.01 No announcement, release, or other disclosure of information relating to this Agreement shall be made except by specific written agreement of the Parties.

5.02 This Agreement shall not constitute, create, or in any way be interpreted as a joint venture, partnership, or formal business organization of any kind. Neither party may assign or transfer its interests under this Agreement without the written consent of the other party hereto except that GMU shall have the right to assign its responsibilities under this Agreement to any division, subsidiary, or affiliate thereof.

5.03 The efforts of both parties relating to any RFP in the area of a Project shall be exclusive to this Agreement, and both parties, except as defined in section 5.03.a, agree not to pursue the RFP either independently or in concert with any additional party. In the event that the Government directs any change affecting this Agreement in any material respect this Agreement shall be

modified in accordance with such direction, and the exclusivity of effort described above shall continue to exist, except as the Government may specifically prescribe, provided, however, that in no event shall this provision be construed as a contract for the benefit of third parties.

5.03.a Aethlon is developing and commercializing the civilian use (defined as non-military) of its proprietary Hemopurifier technology in conjunction with parties other than GMU.

5.04 Attachment A hereto, entitled "Proprietary Data Provisions", is incorporated by reference.

5.05 This Agreement is the entire agreement among the Parties and supersedes any prior oral or written agreement or understanding pertaining to this Project. Changes to this Agreement, to be effective, must be in writing and executed by the Parties.

5.06 Notices shall be deemed given hereunder when received or, if mailed by prepaid certified or registered mail return receipt requested, five (5) days after mailing. Notices shall be addressed to the contractual point of contact specified in Paragraph 3.03 of this Agreement at the addresses specified in the PREAMBLE above. Either Party may change its cognizant point of contact by written notice to the other.

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5.07 Neither party shall be liable to the other for any indirect, incidental, special, or consequential damages, however caused, whether as a consequence of the negligence of the one party or otherwise.

5.08 If any provision of this Agreement or part of such provision is or becomes invalid or unenforceable, then the remaining provisions hereof shall continue to be effective.

5.09 No waiver by a party of any of its rights or remedies shall be construed as a waiver by such party of any other rights or remedies that such party may have under this Agreement.

5.10 Any controversy or claim arising between the Parties out of or in connection with the provisions of the Agreement shall be resolved by amicable discussions between appropriate executives of the respective companies who are a party to this Agreement. If such discussions do not result in a resolution of the controversy or claim, either party may file suit in any court of competent jurisdiction.

5.11 Inventions conceived solely by employees of Aethlon shall belong exclusively to Aethlon. Inventions conceived solely by employees of SMU shall belong exclusively to GMU. Inventions conceived jointly by the Parties hereto in the course of work called for by this Agreement shall be subject to further agreement of the Parties. This understanding is subject to modification as may be required by applicable Government regulations, or the terms of the prime contract or resultant subcontract between the Parties. Except as stated in the preceding paragraph, nothing contained in this Agreement shall be deemed, by implications, estoppel, or otherwise, to grant any right or license in respect of any patents, inventions, or technical information at any time owned by the other party.

5.12 Irrespective of the place of performance, this Agreement will be construed and interpreted according to the Federal common law of Government contracts as enunciated and applied by Federal judicial bodies, Boards of Contract Appeals, and quasi-judicial agencies of the Federal Government. To the extent that the Federal common law of Government contracts is not dispositive, the laws of the Commonwealth of Virginia shall apply.

VI. EXECUTION AND EFFECTIVITY

6.01 The Parties have executed this Agreement on the dates entered below. The Agreement may be executed in two or more counterparts.

6.02 This Agreement is effective as of the last date entered below.

For AETHLON MEDICAL, INC.

For: GEORGE MASON UNIVERSITY

Signature: //s//
Printed Name: James A Joyce
Title: Chairman and CEO
Date: 2/25/04

Signature: //s//
Printed Name: Ann T McGuigan PhD
Title: Director, Office of Sponsored Program
Date: 2/25/04

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ATTACHMENT A

PROPRIETARY DATA PROVISIONS

A.1 No party to this Agreement shall use, for any purpose not connected with the Projects, or this Agreement, any data, as hereafter defined ("Data") or divulge such Data to any person or entity other than appropriate Government agencies to which proposals or reports must be submitted in connection With GMU's performance. The foregoing limitations shall not apply to the disclosure or use of any portion of such Data which:

- a) The receiving party can demonstrate by written evidence was already known to it, prior to receiving it from the other party; or
- b) Prior to the time of its disclosure hereunder to any party, has been published or otherwise made freely available to the general public; or
- e) Subsequent to its disclosure hereunder to any other party is independently thereafter rightfully made available on an unrestricted basis to the public or the receiving party by the disclosing party or by another authorized party; or
- d) is independently developed by the receiving party

For purposes of this Agreement, the term Data is defined to mean any technical information, program or systems concept, financial information, or any other information disclosed to it by the other party in connection with the performance of this Agreement. Nothing here n shall restrict a party from disclosing any portion of such Data on a restricted basis pursuant to a judicial or other lawful Government order, but only to the extent of such order.

A.1 No license to the other party, under any trademark, patent, or copyright, domestic or foreign, is either granted or implied by the conveying of Data to a party. None of the information which may be submitted or exchanged by the Parties shall constitute any representation, warranty, assurance, guarantee, or inducement by a party to the other with respect to the infringement of trademarks, patents, copyrights, or other rights of third persons.

A.2 Notwithstanding any other portions of this Agreement, the obligations of this Attachment A shall continue for a period of five (5) years from the effective date of this Agreement.

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ATTACHMENT B

STATEMENT OF WORK

B.1 Purpose

This attachment to the teaming agreement between GMU and Aethlon is provided to delineate anticipated work responsibilities under any contract awarded as a result of the Government's RFP to GMU. This attachment also discusses proposal responsibilities.

B.1.1 Work Responsibilities

It is intended that the following will be required of one party as a subcontractor to the other party during the performance of the contract anticipated to be awarded as a result of the RFP; Such performance shall be determined by mutual agreement of both parties prior to proposal preparation and submission.

- o To work jointly with GMU to perform experiments to demonstrate the feasibility of apheresis treatments to specific bioweapons. Target diseases may include:
 - o Small pox -> rabbit pox in rabbits
 - o Anthrax -> model to be determine
- o To work jointly with GMU to obtain government or private funding for joint projects to demonstrate the practical or commercial value of apheresis treatments for biodefense application. Examples of target diseases include
 - o Anthrax
 - o Small pox
 - o Plague
 - o Tularemia

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COMMON STOCK PURCHASE AGREEMENT

COMMON STOCK PURCHASE AGREEMENT (the "Agreement"), dated as of March 21, 2007, by and between AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), and FUSION CAPITAL FUND II, LLC, an Illinois limited liability company (the "Buyer"). Capitalized terms used herein and not otherwise defined herein are defined in Section 10 hereof.

WHEREAS:

Subject to the terms and conditions set forth in this Agreement, the Company wishes to sell to the Buyer, and the Buyer wishes to buy from the Company, up to Eight Million Four Hundred Thousand Dollars (\$8,400,000.00) of the Company's common stock, par value \$0.001 per share (the "Common Stock"). The shares of Common Stock to be purchased hereunder are referred to herein as the "Purchase Shares."

NOW THEREFORE, the Company and the Buyer hereby agree as follows:

1. PURCHASE OF COMMON STOCK.

Subject to the terms and conditions set forth in this Agreement, the Company has the right to sell to the Buyer, and the Buyer has the obligation to purchase from the Company, Purchase Shares as follows:

(a) Initial Purchase; Commencement of Base and Block Purchases of Common Stock. On the Filing Date (as defined in Section 4(a) hereof), the Buyer shall buy from the Company as of such date Four Hundred Thousand Dollars (\$400,000.00) of Purchase Shares (the "Initial Purchase" and such Purchase Shares are referred to herein as the "Initial Purchase Shares") at the lesser of (i) the Purchase Price as of the Business Day prior to the Filing Date, or (ii) \$0.30. The Initial Purchase Shares shall be issued in certificated form and (subject to Section 5 hereof) shall bear only the restrictive legend set forth in Section 4(e) hereof. Thereafter, the purchase and sale of Purchase Shares hereunder shall occur from time to time upon written notices by the Company to the Buyer on the terms and conditions as set forth herein following the satisfaction of the conditions (the "Commencement") as set forth in Sections 6 and 7 below (the date of satisfaction of such conditions, the "Commencement Date").

(b) The Company's Right to Require Purchases. Any time on or after the Commencement Date, the Company shall have the right but not the obligation to direct the Buyer by its delivery to the Buyer of Base Purchase Notices from time to time to buy Purchase Shares (each such purchase a "Base Purchase") in any amount up to Thirty Two Thousand Dollars (\$32,000.00) per Base Purchase Notice (the "Base Purchase Amount") at the Purchase Price on the Purchase Date. The Company may deliver multiple Base Purchase Notices to the Buyer so long as at least two (2) Business Days have passed since the most recent Base Purchase was completed. Notwithstanding the foregoing, any time on or after the Commencement Date, the Company shall also have the right but not the obligation by its delivery to the Buyer of Block Purchase Notices from time to time to direct the Buyer to buy Purchase Shares (each such purchase a "Block Purchase") in any amount up to One Million Dollars (\$1,000,000.00) per Block Purchase Notice at the Block Purchase Price on the Purchase Date as provided herein. For a Block Purchase Notice to be valid the following conditions must be met: (1) the Block Purchase Amount shall not exceed Fifty Thousand Dollars (\$50,000.00) per Block Purchase Notice, (2) the Company must deliver the Purchase Shares before 11:00

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a.m. eastern time on the Purchase Date and (3) the Sale Price of the Common Stock must not be below \$0.30 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to One Hundred Thousand Dollars (\$100,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below \$0.40 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to Two Hundred Thousand Dollars (\$200,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below \$0.55 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to Four Hundred Thousand Dollars (\$400,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below \$0.70 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock

split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Block Purchase Amount may be increased to up to One Million Dollars (\$1,000,000.00) per Block Purchase Notice if the Sale Price of the Common Stock is not below \$1.50 (subject to equitable adjustment for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction) during the Purchase Date, the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. As used herein, the term "Block Purchase Price" shall mean the lesser of (i) the lowest Sale Price of the Common Stock on the Purchase Date or (ii) the lowest Purchase Price during the previous seven (7) Business Days prior to the date that the valid Block Purchase Notice was received by the Buyer. However, if at any time during the Purchase Date, the date of the delivery of the Block Purchase Notice or during the Business Day prior to the delivery of the Block Purchase Notice, the Sale Price of the Common Stock is below the applicable Block Purchase threshold price, such Block Purchase shall be void and the Buyer's obligations to buy Purchase Shares in respect of that Block Purchase Notice shall be terminated. Thereafter, the Company shall again have the right to submit a Block Purchase Notice as set forth herein by delivery of a new Block Purchase Notice only if the Sale Price of the Common Stock is above the applicable Block Purchase threshold price during the date of the delivery of the Block Purchase Notice and during the Business Day prior to the delivery of the Block Purchase Notice. The Company may deliver multiple Block Purchase Notices to the Buyer so long as at least two (2) Business Days have passed since the most recent Block Purchase was completed.

(c) Payment for Purchase Shares. The Buyer shall pay to the Company an amount equal to the Purchase Amount with respect to such Purchase Shares as full payment for such Purchase Shares via wire transfer of immediately available funds on the same Business Day that the Buyer receives such Purchase Shares if they are received by the Buyer before 11:00 a.m. eastern time or if received by the Buyer after 11:00 a.m. eastern time, the next Business Day. The Company shall not issue any fraction of a share of Common Stock upon any purchase. If the issuance would result in the issuance of a fraction of a share of Common Stock, the Company shall round such fraction of a share of Common Stock up or down to the nearest whole share. All payments made under this Agreement shall be made in lawful money of the United States of America or wire transfer of immediately available funds to such account as the Company may from time to time designate by written notice in accordance with the provisions of this Agreement. Whenever any amount expressed to be due by the terms of this Agreement is due on any day that is not a Business Day, the same shall instead be due on the next succeeding day that is a Business Day.

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(d) Purchase Price Floor. The Company and the Buyer shall not effect any sales under this Agreement on any Purchase Date where the Purchase Price for any purchases of Purchase Shares would be less than the Floor Price. "Floor Price" means \$0.25, which shall be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction.

(e) Records of Purchases. The Buyer and the Company shall each maintain records showing the remaining Available Amount at any give time and the dates and Purchase Amounts for each purchase or shall use such other method, reasonably satisfactory to the Buyer and the Company.

(f) Taxes. The Company shall pay any and all transfer, stamp or similar taxes that may be payable with respect to the issuance and delivery of any shares of Common Stock to the Buyer made under this Agreement.

2. BUYER'S REPRESENTATIONS AND WARRANTIES.

The Buyer represents and warrants to the Company that as of the date hereof and as of the Commencement Date:

(a) Investment Purpose. The Buyer is entering into this Agreement and acquiring the Commitment Shares, (as defined in Section 4(e) hereof) (this Agreement, the Purchase Shares and the Commitment Shares are collectively referred to herein as the "Securities"), for its own account for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof; provided however, by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term.

(b) Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a)(3) of Regulation D.

(c) Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements,

acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

(d) Information. The Buyer has been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities that have been reasonably requested by the Buyer, including, without limitation, the SEC Documents (as defined in Section 3(f) hereof). The Buyer understands that its investment in the Securities involves a high degree of risk. The Buyer (i) is able to bear the economic risk of an investment in the Securities including a total loss, (ii) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the proposed investment in the Securities and (iii) has had an opportunity to ask questions of and receive answers from the officers of the Company concerning the financial condition and business of the Company and others matters related to an investment in the Securities. Neither such inquiries nor any other due diligence investigations conducted by the Buyer or its representatives shall modify, amend or affect the Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Securities.

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(e) No Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(f) Transfer or Sale. The Buyer understands that except as provided in the Registration Rights Agreement (as defined in Section 4(a) hereof): (i) the Securities have not been and are not being registered under the 1933 Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (A) subsequently registered thereunder or (B) an exemption exists permitting such Securities to be sold, assigned or transferred without such registration; (ii) any sale of the Securities made in reliance on Rule 144 may be made only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of the Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register the Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

(g) Validity; Enforcement. This Agreement has been duly and validly authorized, executed and delivered on behalf of the Buyer and is a valid and binding agreement of the Buyer enforceable against the Buyer in accordance with its terms, subject as to enforceability to general principles of equity and to applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies.

(h) Residency. The Buyer is a resident of the State of Illinois.

(i) No Prior Short Selling. The Buyer represents and warrants to the Company that at no time prior to the date of this Agreement has any of the Buyer, its agents, representatives or affiliates engaged in or effected, in any manner whatsoever, directly or indirectly, any (i) "short sale" (as such term is defined in Section 242.200 of Regulation SHO of the Securities Exchange Act of 1934, as amended (the "1934 Act")) of the Common Stock or (ii) hedging transaction, which establishes a net short position with respect to the Common Stock.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to the Buyer that as of the date hereof and as of the Commencement Date:

(a) Organization and Qualification. The Company and its "Subsidiaries" (which for purposes of this Agreement means any entity in which the Company, directly or indirectly, owns 50% or more of the voting stock or capital stock or other similar equity interests) are corporations duly organized and validly existing in good standing under the laws of the jurisdiction in which they are incorporated, and have the requisite corporate power and authority to own their properties and to carry on their business as now being conducted. Each of the Company and its Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification

necessary, except to the extent that the failure to be so qualified or be in good standing could not reasonably be expected to have a Material Adverse Effect. As used in this Agreement, "Material Adverse Effect" means any material adverse effect on any of: (i) the business, properties, assets, operations, results of operations or financial condition of the Company and its Subsidiaries, if any, taken as a whole, or (ii) the authority or ability of the Company to perform its obligations under the Transaction Documents (as defined in Section 3(b) hereof). The Company has no Subsidiaries except as set forth on Schedule 3(a).

(b) Authorization; Enforcement; Validity. (i) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement and each of the other agreements entered into by the parties on the Commencement Date and attached hereto as exhibits to this Agreement (collectively, the "Transaction Documents"), and to issue the Securities in accordance with the terms hereof and thereof, (ii) the execution and delivery of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby, including without limitation, the issuance of the Commitment Shares and the reservation for issuance and the issuance of the Purchase Shares issuable under this Agreement, have been duly authorized by the Company's Board of Directors and no further consent or authorization is required by the Company, its Board of Directors or its shareholders, (iii) this Agreement has been, and each other Transaction Document shall be on the Commencement Date, duly executed and delivered by the Company and (iv) this Agreement constitutes, and each other Transaction Document upon its execution on behalf of the Company, shall constitute, the valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies. The Board of Directors of the Company has approved the resolutions (the "Signing Resolutions") substantially in the form as set forth as Exhibit C-1 attached hereto to authorize this Agreement and the transactions contemplated hereby. The Signing Resolutions are valid, in full force and effect and have not been modified or supplemented in any respect other than by the resolutions set forth in Exhibit C-2 attached hereto regarding the registration statement referred to in Section 4 hereof. The Company has delivered to the Buyer a true and correct copy of a unanimous written consent adopting the Signing Resolutions executed by all of the members of the Board of Directors of the Company. No other approvals or consents of the Company's Board of Directors and/or shareholders is necessary under applicable laws and the Company's Certificate of Incorporation and/or Bylaws to authorize the execution and delivery of this Agreement or any of the transactions contemplated hereby, including, but not limited to, the issuance of the Commitment Shares and the issuance of the Purchase Shares.

(c) Capitalization. As of the date hereof, the authorized capital stock of the Company consists of (i) 100,000,000 shares of Common Stock, of which as of the date hereof, 29,423,874 shares are issued and outstanding, none are held as treasury shares, 500,000 shares are reserved for issuance pursuant to the Company's stock option plans of which 467,500 shares remain available for future grants and 20,021,809 shares are issuable and reserved for issuance pursuant to securities (other than stock options issued pursuant to the Company's stock option plans) exercisable or exchangeable for, or convertible into, shares of Common Stock and (ii) no shares of Preferred Stock are issued and outstanding. All of such outstanding shares have been, or upon issuance will be, validly issued and are fully paid and nonassessable. Except as disclosed in Schedule 3(c), (i) no shares of the Company's capital stock are subject to preemptive rights or any other similar rights or any liens or encumbrances suffered or permitted by the Company, (ii) there are no outstanding debt securities, (iii) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company or any of its Subsidiaries, or contracts, commitments, understandings or

arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its Subsidiaries or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company or any of its Subsidiaries, (iv) there are no agreements or arrangements under which the Company or any of its Subsidiaries is obligated to register the sale of any of their securities under the 1933 Act (except the Registration Rights Agreement), (v) there are no outstanding securities or instruments of the Company or any of its Subsidiaries which contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to redeem a security of the Company or any of its Subsidiaries, (vi) there are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Securities as described in this Agreement and

(vii) the Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement. The Company has furnished to the Buyer true and correct copies of the Company's Certificate of Incorporation, as amended and as in effect on the date hereof (the "Certificate of Incorporation"), and the Company's By-laws, as amended and as in effect on the date hereof (the "By-laws"), and summaries of the terms of all securities convertible into or exercisable for Common Stock, if any, and copies of any documents containing the material rights of the holders thereof in respect thereto.

(d) Issuance of Securities. The Commitment Shares and the Initial Purchase Shares have been duly authorized and, upon issuance (and payment therefor in the case of the Initial Purchase Shares) in accordance with the terms hereof, the Commitment Shares and Initial Purchase Shares shall be (i) validly issued, fully paid and non-assessable and (ii) free from all taxes, liens and charges with respect to the issue thereof. 6,000,000 shares of Common Stock have been duly authorized and reserved for issuance as Purchase Shares under this Agreement after the Commencement. Upon issuance and payment therefor in accordance with the terms and conditions of this Agreement, the Purchase Shares shall be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof, with the holders being entitled to all rights accorded to a holder of Common Stock.

(e) No Conflicts. Except as disclosed in Schedule 3(e), the execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the reservation for issuance and issuance of the Purchase Shares) will not (i) result in a violation of the Certificate of Incorporation, any Certificate of Designations, Preferences and Rights of any outstanding series of preferred stock of the Company or the By-laws or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its Subsidiaries is a party, or result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of the Principal Market applicable to the Company or any of its Subsidiaries) or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, except in the case of conflicts, defaults, terminations, amendments, accelerations, cancellations and violations under clause (ii), which could not reasonably be expected to result in a Material Adverse Effect. Except as disclosed in Schedule 3(e), neither the Company nor its Subsidiaries is in violation of any term of or in default under its Certificate of Incorporation, any Certificate of Designation, Preferences and Rights of any outstanding series of preferred stock of the Company or By-laws or their organizational charter or by-laws, respectively. Except as disclosed in Schedule 3(e), neither the Company nor any of its Subsidiaries is in violation of any term of or is in default under any material contract, agreement, mortgage, indebtedness, indenture, instrument, judgment, decree or order or any statute, rule or regulation applicable to the Company or its Subsidiaries, except for possible conflicts, defaults, terminations or

amendments which could not reasonably be expected to have a Material Adverse Effect. The business of the Company and its Subsidiaries is not being conducted, and shall not be conducted, in violation of any law, ordinance, regulation of any governmental entity, except for possible violations, the sanctions for which either individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. Except as specifically contemplated by this Agreement and as required under the 1933 Act or applicable state securities laws, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self-regulatory agency in order for it to execute, deliver or perform any of its obligations under or contemplated by the Transaction Documents in accordance with the terms hereof or thereof. Except as disclosed in Schedule 3(e), all consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence shall be obtained or effected on or prior to the Commencement Date. Except as listed in Schedule 3(e), since January 1, 2006, the Company has not received nor delivered any notices or correspondence from or to the Principal Market. The Principal Market has not commenced any delisting proceedings against the Company.

(f) SEC Documents; Financial Statements. Except as disclosed in Schedule 3(f), since January 1, 2006,, the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the 1934 Act (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). As of their respective dates (except as they have been correctly amended), the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable

to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC (except as they may have been properly amended), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates (except as they have been properly amended), the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as listed in Schedule 3(f), the Company has received no notices or correspondence from the SEC since January 1, 2006. The SEC has not commenced any enforcement proceedings against the Company or any of its subsidiaries.

(g) Absence of Certain Changes. Except as disclosed in Schedule 3(g), since January 1, 2007, there has been no material adverse change in the business, properties, operations, financial condition or results of operations of the Company or its Subsidiaries. The Company has not taken any steps, and does not currently expect to take any steps, to seek protection pursuant to any Bankruptcy Law nor does the Company or any of its Subsidiaries have any knowledge or reason to believe that its creditors intend to initiate involuntary bankruptcy or insolvency proceedings. The Company is financially solvent and is generally able to pay its debts as they become due.

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(h) Absence of Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company, the Common Stock or any of the Company's Subsidiaries or any of the Company's or the Company's Subsidiaries' officers or directors in their capacities as such, which could reasonably be expected to have a Material Adverse Effect. A description of each action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body which, as of the date of this Agreement, is pending or threatened in writing against or affecting the Company, the Common Stock or any of the Company's Subsidiaries or any of the Company's or the Company's Subsidiaries' officers or directors in their capacities as such, is set forth in Schedule 3(h).

(i) Acknowledgment Regarding Buyer's Status. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchaser with respect to the Transaction Documents and the transactions contemplated hereby and thereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated hereby and thereby and any advice given by the Buyer or any of its representatives or agents in connection with the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to the Buyer's purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into the Transaction Documents has been based solely on the independent evaluation by the Company and its representatives and advisors.

(j) No General Solicitation. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the 1933 Act) in connection with the offer or sale of the Securities.

(k) Intellectual Property Rights. The Company and its Subsidiaries own or possess adequate rights or licenses to use all material trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, governmental authorizations, trade secrets and rights necessary to conduct their respective businesses as now conducted. Except as set forth on Schedule 3(k), none of the Company's material trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, government authorizations, trade secrets or other intellectual property rights have expired or terminated, or, by the terms and conditions thereof, could expire or terminate within two years from the date of this Agreement. The Company and its Subsidiaries do not have any knowledge of any infringement by the Company or its Subsidiaries of any material trademark, trade name rights, patents, patent rights, copyrights, inventions, licenses, service names, service marks, service mark registrations, trade secret or other

similar rights of others, or of any such development of similar or identical trade secrets or technical information by others and, except as set forth on Schedule 3(k), there is no claim, action or proceeding being made or brought against, or to the Company's knowledge, being threatened against, the Company or its Subsidiaries regarding trademark, trade name, patents, patent rights, invention, copyright, license, service names, service marks, service mark registrations, trade secret or other infringement, which could reasonably be expected to have a Material Adverse Effect.

(l) Environmental Laws. The Company and its Subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where, in each of the three foregoing clauses, the failure to so comply could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

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(m) Title. The Company and its Subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its Subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(m) or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and any of its Subsidiaries. Any real property and facilities held under lease by the Company and any of its Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its Subsidiaries.

(n) Insurance. The Company and each of its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company and its Subsidiaries are engaged. Neither the Company nor any such Subsidiary has been refused any insurance coverage sought or applied for and neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition, financial or otherwise, or the earnings, business or operations of the Company and its Subsidiaries, taken as a whole.

(o) Regulatory Permits. The Company and its Subsidiaries possess all material certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and neither the Company nor any such Subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit.

(p) Tax Status. The Company and each of its Subsidiaries has made or filed all federal and state income and all other material tax returns, reports and declarations required by any jurisdiction to which it is subject (unless and only to the extent that the Company and each of its Subsidiaries has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes) and has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim.

(q) Transactions With Affiliates. Except as set forth on Schedule 3(q) and other than the grant or exercise of stock options disclosed on Schedule 3(c), none of the officers, directors, or employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has an interest or is an officer, director, trustee or partner.

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(r) Application of Takeover Protections. The Company and its board of directors have taken or will take prior to the Commencement Date all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Certificate of Incorporation or the laws of the state of its incorporation which is or could become applicable to the Buyer as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and the Buyer's ownership of the Securities.

(s) Foreign Corrupt Practices. Neither the Company, nor any of its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any of its Subsidiaries has, in the course of its actions for, or on behalf of, the Company, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended; or made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

4. COVENANTS.

(a) Filing of Form 8-K and Registration Statement. The Company agrees that it shall, within the time required under the 1934 Act file a Report on Form 8-K disclosing this Agreement and the transaction contemplated hereby. The Company shall also file within ten (10) Business Days from the date hereof a new registration statement covering only the sale of the Commitment Shares and 7,333,333 Purchase Shares (which includes the 1,333,333 Initial Purchase Shares) in accordance with the terms of the Registration Rights Agreement between the Company and the Buyer, dated as of the date hereof ("Registration Rights Agreement"). After such registration statement is declared effective by the SEC, the Company agrees and acknowledges that any sales by the Company to the Buyer pursuant to this Agreement are sales of the Company's equity securities in a transaction that is registered under the 1933 Act.

(b) Blue Sky. The Company shall take such action, if any, as is reasonably necessary in order to obtain an exemption for or to qualify (i) the initial sale of the Commitment Shares and any Purchase Shares to the Buyer under this Agreement and (ii) any subsequent sale of the Commitment Shares and any Purchase Shares by the Buyer, in each case, under applicable securities or "Blue Sky" laws of the states of the United States in such states as is reasonably requested by the Buyer from time to time, and shall provide evidence of any such action so taken to the Buyer.

(c) Listing. The Company shall promptly secure the listing of all of the Purchase Shares and Commitment Shares upon each national securities exchange and automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all such securities from time to time issuable under the terms of the Transaction Documents. The Company shall maintain the Common Stock's authorization for quotation on the Principal Market. Neither the Company nor any of its Subsidiaries shall take any action that would be reasonably expected to result in the delisting or suspension of the Common Stock on the Principal Market. The Company shall promptly, and in no event later than the following Business Day, provide to the Buyer copies of any notices it receives from the Principal Market regarding the continued eligibility of the Common Stock for listing on such automated quotation system or securities exchange. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section.

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(d) Limitation on Short Sales and Hedging Transactions. The Buyer agrees that beginning on the date of this Agreement and ending on the date of termination of this Agreement as provided in Section 11(k), the Buyer and its agents, representatives and affiliates shall not in any manner whatsoever enter into or effect, directly or indirectly, any (i) "short sale" (as such term is defined in Section 242.200 of Regulation SHO of the 1934 Act) of the Common Stock or (ii) hedging transaction, which establishes a net short position with respect to the Common Stock.

(e) Issuance of Commitment Shares; Limitation on Sales of Commitment Shares. Immediately upon the execution of this Agreement, the Company shall issue to the Buyer as consideration for the Buyer entering into this Agreement 1,050,000 shares of Common Stock (the "Commitment Shares"). The Commitment Shares shall be issued in certificated form and (subject to Section 5 hereof) shall bear the following restrictive legend and no other restrictive legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY

NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

The Buyer agrees that the Buyer shall not transfer or sell the Commitment Shares until the earlier of 500 Business Days (25 Monthly Periods) from the date hereof or the date on which this Agreement has been terminated, provided, however, that such restrictions shall not apply: (i) in connection with any transfers to or among affiliates (as defined in the 1934 Act), (ii) in connection with any pledge in connection with a bona fide loan or margin account, (iii) in the event that the Commencement does not occur on or before July 1, 2007, due to the failure of the Company to satisfy the conditions set forth in Section 7 or (iv) if an Event of Default has occurred, or any event which, after notice and/or lapse of time, would become an Event of Default, including any failure by the Company to timely issue Purchase Shares under this Agreement. Notwithstanding the forgoing, the Buyer may transfer Commitment Shares to a third party in order to settle a sale made by the Buyer where the Buyer reasonably expects the Company to deliver Purchase Shares to the Buyer under this Agreement so long as the Buyer maintains ownership of the same overall number of shares of Common Stock by "replacing" the Commitment Shares so transferred with Purchase Shares when the Purchase Shares are actually issued by the Company to the Buyer.

(g) Due Diligence. The Buyer shall have the right, from time to time as the Buyer may reasonably deem appropriate, to perform reasonable due diligence on the Company during normal business hours. The Company and its officers and employees shall provide information and reasonably cooperate with the Buyer in connection with any reasonable request by the Buyer related to the Buyer's due diligence of the Company, including, but not limited to, any such request made by the Buyer in connection with (i) the filing of the registration statement described in Section 4(a) hereof and (ii) the Commencement. Each party hereto agrees not to disclose any Confidential Information of the other party to any third party and shall not use the Confidential Information for any purpose

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other than in connection with, or in furtherance of, the transactions contemplated hereby. Each party hereto acknowledges that the Confidential Information shall remain the property of the disclosing party and agrees that it shall take all reasonable measures to protect the secrecy of any Confidential Information disclosed by the other party.

5. TRANSFER AGENT INSTRUCTIONS.

Immediately upon the execution of this Agreement, the Company shall deliver to the Transfer Agent a letter in the form as set forth as Exhibit E attached hereto with respect to the issuance of the Commitment Shares. On the Commencement Date, the Company shall cause any restrictive legend on the Commitment Shares and the Initial Purchase Shares to be removed and all of the remaining Purchase Shares to be issued under this Agreement shall be issued without any restrictive legend unless the Buyer expressly consents otherwise. The Company shall issue irrevocable instructions to the Transfer Agent, and any subsequent transfer agent, to issue Purchase Shares in the name of the Buyer for the Purchase Shares (the "Irrevocable Transfer Agent Instructions"). The Company warrants to the Buyer that no instruction other than the Irrevocable Transfer Agent Instructions expressly referred to in this Agreement, will be given by the Company to the Transfer Agent with respect to the Purchase Shares and that the Commitment Shares and the Purchase Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Registration Rights Agreement subject to the provisions of Section 4(e) in the case of the Commitment Shares.

6. CONDITIONS TO THE COMPANY'S RIGHT TO COMMENCE SALES OF SHARES OF COMMON STOCK UNDER THIS AGREEMENT.

The right of the Company hereunder to commence sales of the Purchase Shares is subject to the satisfaction of each of the following conditions on or before the Commencement Date (the date that the Company may begin sales):

(a) The Buyer shall have executed each of the Transaction Documents and delivered the same to the Company;

(b) A registration statement covering the sale of all of the Commitment Shares and Purchase Shares shall have been declared effective under the 1933 Act by the SEC and no stop order with respect to the registration statement shall be pending or threatened by the SEC.

7. CONDITIONS TO THE BUYER'S OBLIGATION TO MAKE PURCHASES OF SHARES OF COMMON STOCK.

The obligation of the Buyer to buy Purchase Shares under this Agreement is subject to the satisfaction of each of the following conditions on or before the Commencement Date (the date that the Company may begin sales) and once such conditions have been initially satisfied, there shall not be any ongoing obligation to satisfy such conditions after the Commencement has occurred:

(a) The Company shall have executed each of the Transaction Documents and delivered the same to the Buyer;

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(b) The Company shall have issued to the Buyer the Commitment Shares and the Initial Purchase Shares and shall have removed the restrictive transfer legend from the certificate representing the Commitment Shares and the Initial Purchase Shares;

(c) The Common Stock shall be authorized for quotation on the Principal Market, trading in the Common Stock shall not have been within the last 365 days suspended by the SEC or the Principal Market and the Purchase Shares and the Commitment Shares shall be approved for listing upon the Principal Market;

(d) The Buyer shall have received the opinions of the Company's legal counsel dated as of the Commencement Date substantially in the form of EXHIBIT A attached hereto;

(e) The representations and warranties of the Company shall be true and correct in all material respects (except to the extent that any of such representations and warranties is already qualified as to materiality in Section 3 above, in which case, such representations and warranties shall be true and correct without further qualification) as of the date when made and as of the Commencement Date as though made at that time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied with the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Commencement Date. The Buyer shall have received a certificate, executed by the CEO, President or CFO of the Company, dated as of the Commencement Date, to the foregoing effect in the form attached hereto as EXHIBIT B;

(f) The Board of Directors of the Company shall have adopted resolutions in the form attached hereto as EXHIBIT C which shall be in full force and effect without any amendment or supplement thereto as of the Commencement Date;

(g) As of the Commencement Date, the Company shall have reserved out of its authorized and unissued Common Stock, solely for the purpose of effecting purchases of Purchase Shares hereunder, 7,333,333 shares of Common Stock including the Initial Purchase Shares;

(h) The Irrevocable Transfer Agent Instructions, in form acceptable to the Buyer shall have been delivered to and acknowledged in writing by the Company and the Company's Transfer Agent;

(i) The Company shall have delivered to the Buyer a certificate evidencing the incorporation and good standing of the Company in the State of Nevada issued by the Secretary of State of the State of Nevada as of a date within ten (10) Business Days of the Commencement Date;

(j) The Company shall have delivered to the Buyer a certified copy of the Certificate of Incorporation as certified by the Secretary of State of the State of Nevada within ten (10) Business Days of the Commencement Date;

(k) The Company shall have delivered to the Buyer a secretary's certificate executed by the Secretary of the Company, dated as of the Commencement Date, in the form attached hereto as EXHIBIT D;

(l) A registration statement covering the sale of all of the Commitment Shares and Purchase Shares shall have been declared effective under the 1933 Act by the SEC and no stop order with respect to the registration statement shall be pending or threatened by the SEC. The Company shall have

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prepared and delivered to the Buyer a final and complete form of prospectus, dated and current as of the Commencement Date, to be used by the Buyer in connection with any sales of any Commitment Shares or any Purchase Shares, and to be filed by the Company one Business Day after the Commencement Date. The Company shall have made all filings under all applicable federal and state securities laws necessary to consummate the issuance of the Commitment Shares and the Purchase Shares pursuant to this Agreement in compliance with such laws;

(m) No Event of Default has occurred, or any event which, after notice

and/or lapse of time, would become an Event of Default has occurred;

(n) On or prior to the Commencement Date, the Company shall take all necessary action, if any, and such actions as reasonably requested by the Buyer, in order to render inapplicable any control share acquisition, business combination, shareholder rights plan or poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Certificate of Incorporation or the laws of the state of its incorporation which is or could become applicable to the Buyer as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and the Buyer's ownership of the Securities; and

(o) The Company shall have provided the Buyer with the information requested by the Buyer in connection with its due diligence requests made prior to, or in connection with, the Commencement, in accordance with the terms of Section 4(g) hereof.

8. INDEMNIFICATION.

In consideration of the Buyer's execution and delivery of the Transaction Documents and acquiring the Securities hereunder and in addition to all of the Company's other obligations under the Transaction Documents, the Company shall defend, protect, indemnify and hold harmless the Buyer and all of its affiliates, shareholders, officers, directors, employees and direct or indirect investors and any of the foregoing person's agents or other representatives (including, without limitation, those retained in connection with the transactions contemplated by this Agreement) (collectively, the "Indemnitees") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages, and expenses in connection therewith (irrespective of whether any such Indemnatee is a party to the action for which indemnification hereunder is sought), and including reasonable attorneys' fees and disbursements (the "Indemnified Liabilities"), incurred by any Indemnatee as a result of, or arising out of, or relating to (a) any misrepresentation or breach of any representation or warranty made by the Company in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, (b) any breach of any covenant, agreement or obligation of the Company contained in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, or (c) any cause of action, suit or claim brought or made against such Indemnatee and arising out of or resulting from the execution, delivery, performance or enforcement of the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, other than with respect to Indemnified Liabilities which directly and primarily result from the gross negligence or willful misconduct of the Indemnatee. To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

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9. EVENTS OF DEFAULT.

An "Event of Default" shall be deemed to have occurred at any time as any of the following events occurs:

(a) while any registration statement is required to be maintained effective pursuant to the terms of the Registration Rights Agreement, the effectiveness of such registration statement lapses for any reason (including, without limitation, the issuance of a stop order) or is unavailable to the Buyer for sale of all of the Registrable Securities (as defined in the Registration Rights Agreement) in accordance with the terms of the Registration Rights Agreement, and such lapse or unavailability continues for a period of five (5) consecutive Business Days or for more than an aggregate of twenty (20) Business Days in any 365-day period;

(b) the suspension from trading or failure of the Common Stock to be listed on the Principal Market for a period of three (3) consecutive Business Days;

(c) the delisting of the Company's Common Stock from the Principal Market, provided, however, that the Common Stock is not immediately thereafter trading on the New York Stock Exchange, the Nasdaq Global Market, the Nasdaq Capital Market, or the American Stock Exchange;

(d) the failure for any reason by the Transfer Agent to issue Purchase Shares to the Buyer within five (5) Business Days after the applicable Purchase Date which the Buyer is entitled to receive;

(e) the Company breaches any representation, warranty, covenant or other term or condition under any Transaction Document if such breach could have a Material Adverse Effect and except, in the case of a breach of a covenant which is reasonably curable, only if such breach continues for a period of at least five (5) Business Days;

(f) if any Person commences a proceeding against the Company pursuant to or within the meaning of any Bankruptcy Law ;

(g) if the Company pursuant to or within the meaning of any Bankruptcy Law; (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a Custodian of it or for all or substantially all of its property, (D) makes a general assignment for the benefit of its creditors, (E) becomes insolvent, or (F) is generally unable to pay its debts as the same become due; or

(h) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the Company in an involuntary case, (B) appoints a Custodian of the Company or for all or substantially all of its property, or (C) orders the liquidation of the Company or any Subsidiary.

In addition to any other rights and remedies under applicable law and this Agreement, including the Buyer termination rights under Section 11(k) hereof, so long as an Event of Default has occurred and is continuing, or if any event which, after notice and/or lapse of time, would become an Event of Default, has occurred and is continuing, or so long as the Purchase Price is below the Purchase Price Floor, the Buyer shall not be obligated to purchase any shares of Common Stock under this Agreement. If pursuant to or within the meaning of any Bankruptcy Law, the Company commences a voluntary case or any Person commences a proceeding against the Company, a Custodian is appointed for the Company or for all or substantially all of its property, or the Company makes a general assignment for the benefit of its creditors, (any of which would be an Event of

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Default as described in Sections 9(f), 9(g) and 9(h) hereof) this Agreement shall automatically terminate without any liability or payment to the Company without further action or notice by any Person. No such termination of this Agreement under Section 11(k) (i) shall affect the Company's or the Buyer's obligations under this Agreement with respect to pending purchases and the Company and the Buyer shall complete their respective obligations with respect to any pending purchases under this Agreement.

10. CERTAIN DEFINED TERMS.

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

(a) "1933 Act" means the Securities Act of 1933, as amended.

(b) "Available Amount" means initially Eight Million Four Hundred Thousand Dollars (\$8,400,000.00) in the aggregate which amount shall be reduced by the Purchase Amount each time the Buyer purchases shares of Common Stock pursuant to Section 1 hereof.

(c) "Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

(d) "Base Purchase Notice" shall mean an irrevocable written notice from the Company to the Buyer directing the Buyer to buy up to the Base Purchase Amount in Purchase Shares as specified by the Company therein at the applicable Purchase Price on the Purchase Date.

(e) "Block Purchase Amount" shall mean such Block Purchase Amount as specified by the Company in a Block Purchase Notice subject to Section 1(b) hereof.

(f) "Block Purchase Notice" shall mean an irrevocable written notice from the Company to the Buyer directing the Buyer to buy the Block Purchase Amount in Purchase Shares as specified by the Company therein at the Block Purchase Price as of the Purchase Date subject to Section 1 hereof.

(d) "Business Day" means any day on which the Principal Market is open for trading including any day on which the Principal Market is open for trading for a period of time less than the customary time.

(e) "Closing Sale Price" means, for any security as of any date, the last closing trade price for such security on the Principal Market as reported by the Principal Market, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing trade price of such security on the principal securities exchange or trading market where such security is listed or traded as reported by the Principal Market.

(f) "Confidential Information" means any information disclosed by either party to the other party, either directly or indirectly, in writing, orally or by inspection of tangible objects (including, without limitation, documents, prototypes, samples, plant and equipment), which is designated as "Confidential," "Proprietary" or some similar designation. Information communicated orally shall be considered Confidential Information if such information is confirmed in writing as being Confidential Information within ten

(10) business days after the initial disclosure. Confidential Information may also include information disclosed to a disclosing party by third parties.

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Confidential Information shall not, however, include any information which (i) was publicly known and made generally available in the public domain prior to the time of disclosure by the disclosing party; (ii) becomes publicly known and made generally available after disclosure by the disclosing party to the receiving party through no action or inaction of the receiving party; (iii) is already in the possession of the receiving party at the time of disclosure by the disclosing party as shown by the receiving party's files and records immediately prior to the time of disclosure; (iv) is obtained by the receiving party from a third party without a breach of such third party's obligations of confidentiality; (v) is independently developed by the receiving party without use of or reference to the disclosing party's Confidential Information, as shown by documents and other competent evidence in the receiving party's possession; or (vi) is required by law to be disclosed by the receiving party, provided that the receiving party gives the disclosing party prompt written notice of such requirement prior to such disclosure and assistance in obtaining an order protecting the information from public disclosure.

(g) "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

(h) "Maturity Date" means the date that is 500 Business Days (25 Monthly Periods) from the Commencement Date.

(i) "Monthly Period" means each successive 20 Business Day period commencing with the Commencement Date.

(j) "Person" means an individual or entity including any limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

(k) "Principal Market" means the Nasdaq OTC Bulletin Board; provided however, that in the event the Company's Common Stock is ever listed or traded on the Nasdaq Global Market, the Nasdaq Capital Market, the New York Stock Exchange or the American Stock Exchange, than the "Principal Market" shall mean such other market or exchange on which the Company's Common Stock is then listed or traded.

(l) "Purchase Amount" means, with respect to any particular purchase made hereunder, the portion of the Available Amount to be purchased by the Buyer pursuant to Section 1 hereof as set forth in a valid Base Purchase Notice or a valid Block Purchase Notice which the Company delivers to the Buyer.

(m) "Purchase Date" means with respect to any particular purchase made hereunder, the Business Day after receipt by the Buyer of a valid Base Purchase Notice or a valid Block Purchase Notice that the Buyer is to buy Purchase Shares pursuant to Section 1 hereof.

(n) "Purchase Price" means the lower of the (A) the lowest Sale Price of the Common Stock on the Purchase Date and (B) the arithmetic average of the three (3) lowest Closing Sale Prices for the Common Stock during the twelve (12) consecutive Business Days ending on the Business Day immediately preceding such Purchase Date (to be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split or other similar transaction).

(o) "Sale Price" means, any trade price for the shares of Common Stock on the Principal Market as reported by the Principal Market.

(q) "SEC" means the United States Securities and Exchange Commission.

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(r) "Transfer Agent" means the transfer agent of the Company as set forth in Section 11(f) hereof or such other person who is then serving as the transfer agent for the Company in respect of the Common Stock.

11. MISCELLANEOUS.

(a) Governing Law; Jurisdiction; Jury Trial. The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its shareholders. All other questions concerning the construction, validity, enforcement and interpretation of this Agreement and the other Transaction Documents shall be governed by the internal laws of the State of Illinois, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Illinois or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Illinois. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of Chicago, for

the adjudication of any dispute hereunder or under the other Transaction Documents or in connection herewith or therewith, or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(b) Counterparts. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original, not a facsimile signature.

(c) Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

(d) Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(e) Entire Agreement. With the exception of the Mutual Nondisclosure Agreement between the parties dated as of March 13, 2007, this Agreement supersedes all other prior oral or written agreements between the Buyer, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement, the other Transaction Documents and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer

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makes any representation, warranty, covenant or undertaking with respect to such matters. The Company acknowledges and agrees that it has not relied on, in any manner whatsoever, any representations or statements, written or oral, other than as expressly set forth in this Agreement.

(f) Notices. Any notices, consents or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt when delivered personally; (ii) upon receipt when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Telephone: 858-459-7800
Facsimile: 858-332-1739
Attention: Chief Executive Officer

With a copy to:

Richardson & Patel, LLP
10900 Wilshire Blvd., Suite 500
Los Angeles, CA 90404
Telephone: 310-208-1182
Facsimile: 310-208-1154
Attention: Nimish Patel, Esq.

If to the Buyer:

Fusion Capital Fund II, LLC
222 Merchandise Mart Plaza, Suite 9-112
Chicago, IL 60654
Telephone: 312-644-6644
Facsimile: 312-644-6244

Attention: Steven G. Martin

If to the Transfer Agent:

Computershare Trust Company
350 Indiana Street, #800
Golden, CO 80401
Telephone: (303) 262-0600 ext. 4761
Facsimile: (303) 262-0700
Attention: Sue Barron

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party three (3) Business Days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, and recipient facsimile number or (C) provided by a nationally recognized overnight

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delivery service, shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Buyer, including by merger or consolidation. The Buyer may not assign its rights or obligations under this Agreement.

(h) No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

(i) Publicity. The Buyer shall have the right to approve before issuance any press release, SEC filing or any other public disclosure made by or on behalf of the Company whatsoever with respect to, in any manner, the Buyer, its purchases hereunder or any aspect of this Agreement or the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of the Buyer, to make any press release or other public disclosure (including any filings with the SEC) with respect to such transactions as is required by applicable law and regulations so long as the Company and its counsel consult with the Buyer in connection with any such press release or other public disclosure at least two (2) Business Days prior to its release. The Buyer must be provided with a copy thereof at least two (2) Business Days prior to any release or use by the Company thereof. The Company agrees and acknowledges that its failure to fully comply with this provision constitutes a material adverse effect on its ability to perform its obligations under this Agreement.

(j) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Termination. This Agreement may be terminated only as follows:

(i) By the Buyer any time an Event of Default exists without any liability or payment to the Company. However, if pursuant to or within the meaning of any Bankruptcy Law, the Company commences a voluntary case or any Person commences a proceeding against the Company, a Custodian is appointed for the Company or for all or substantially all of its property, or the Company makes a general assignment for the benefit of its creditors, (any of which would be an Event of Default as described in Sections 9(f), 9(g) and 9(h) hereof) this Agreement shall automatically terminate without any liability or payment to the Company without further action or notice by any Person. No such termination of this Agreement under this Section 11(k)(i) shall affect the Company's or the Buyer's obligations under this Agreement with respect to pending purchases and the Company and the Buyer shall complete their respective obligations with respect to any pending purchases under this Agreement.

(ii) In the event that the Commencement shall not have occurred, the Company shall have the option to terminate this Agreement for any reason or for no reason without liability of any party to any other party.

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(iii) In the event that the Commencement shall not have occurred on or before July 1, 2007, due to the failure to satisfy the conditions set forth in Sections 6 and 7 above with respect to the Commencement, the nonbreaching party shall have the option to terminate this Agreement at the close of business on such date or thereafter without liability of any party to any other party.

(iv) If by the Maturity Date for any reason or for no reason the full Available Amount under this Agreement has not been purchased as provided for in Section 1 of this Agreement, by the Buyer without any liability or payment to the Company.

(v) At any time after the Commencement Date, the Company shall have the option to terminate this Agreement for any reason or for no reason by delivering notice (a "Company Termination Notice") to the Buyer electing to terminate this Agreement without any liability or payment to the Buyer. The Company Termination Notice shall not be effective until one (1) Business Day after it has been received by the Buyer.

(vi) This Agreement shall automatically terminate on the date that the Company sells and the Buyer purchases the full Available Amount as provided herein, without any action or notice on the part of any party.

Except as set forth in Sections 11(k)(i) (in respect of an Event of Default under Sections 9(f), 9(g) and 9(h)) and 11(k)(vi), any termination of this Agreement pursuant to this Section 11(k) shall be effected by written notice from the Company to the Buyer, or the Buyer to the Company, as the case may be, setting forth the basis for the termination hereof. The representations and warranties of the Company and the Buyer contained in Sections 2, 3 and 5 hereof, the indemnification provisions set forth in Section 8 hereof and the agreements and covenants set forth in Section 11, shall survive the Commencement and any termination of this Agreement. No termination of this Agreement shall affect the Company's or the Buyer's rights or obligations (i) under the Registration Rights Agreement which shall survive any such termination or (ii) under this Agreement with respect to pending purchases and the Company and the Buyer shall complete their respective obligations with respect to any pending purchases under this Agreement.

(l) No Financial Advisor, Placement Agent, Broker or Finder. The Company represents and warrants to the Buyer that it has not engaged any financial advisor, placement agent, broker or finder in connection with the transactions contemplated hereby. The Buyer represents and warrants to the Company that it has not engaged any financial advisor, placement agent, broker or finder in connection with the transactions contemplated hereby. The Company shall be responsible for the payment of any fees or commissions, if any, of any financial advisor, placement agent, broker or finder relating to or arising out of the transactions contemplated hereby. The Company shall pay, and hold the Buyer harmless against, any liability, loss or expense (including, without limitation, attorneys' fees and out of pocket expenses) arising in connection with any such claim.

(m) No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

(n) Remedies, Other Obligations, Breaches and Injunctive Relief. The Buyer's remedies provided in this Agreement shall be cumulative and in addition to all other remedies available to the Buyer under this Agreement, at law or in equity (including a decree of specific performance and/or other injunctive relief), no remedy of the Buyer contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit the Buyer's right to pursue actual damages for any failure by the

Company to comply with the terms of this Agreement. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

(o) Enforcement Costs. If: (i) this Agreement is placed by the Buyer in the hands of an attorney for enforcement or is enforced by the Buyer through any legal proceeding; or (ii) an attorney is retained to represent the Buyer in any bankruptcy, reorganization, receivership or other proceedings affecting creditors' rights and involving a claim under this Agreement; or (iii) an attorney is retained to represent the Buyer in any other proceedings whatsoever in connection with this Agreement, then the Company shall pay to the Buyer, as incurred by the Buyer, all reasonable costs and expenses including attorneys' fees incurred in connection therewith, in addition to all other amounts due hereunder.

(p) Failure or Indulgence Not Waiver. No failure or delay in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

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IN WITNESS WHEREOF, the Buyer and the Company have caused this Common Stock Purchase Agreement to be duly executed as of the date first written above.

THE COMPANY:

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

Name: James A. Joyce

Title: Chief Executive Officer

BUYER:

FUSION CAPITAL FUND II, LLC

BY: FUSION CAPITAL PARTNERS, LLC

BY: ROCKLEDGE CAPITAL CORPORATION

By: /s/ Joshua B. Scheinfeld

Name: Joshua B. Scheinfeld

Title: President

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SCHEDULES

Schedule 3(a)	Subsidiaries
Schedule 3(c)	Capitalization
Schedule 3(e)	Conflicts
Schedule 3(f)	1934 Act Filings
Schedule 3(g)	Material Changes
Schedule 3(h)	Litigation
Schedule 3(k)	Intellectual Property
Schedule 3(m)	Liens
Schedule 3(q)	Certain Transactions

EXHIBITS

Exhibit A	Form of Company Counsel Opinion
Exhibit B	Form of Officer's Certificate
Exhibit C	Form of Resolutions of Board of Directors of the Company
Exhibit D	Form of Secretary's Certificate
Exhibit E	Form of Letter to Transfer Agent

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DISCLOSURE SCHEDULES

Schedule 3(a) - Subsidiaries:

The company has four wholly-owned dormant subsidiaries; Aethlon, Inc.; Hemex, Inc.; Syngen Research, Inc. and Cell Activation, Inc.

Schedule 3(c) - Capitalization:

Outstanding debt:

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Warrants:

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Stock Options:

Agreements to register the sale of securities:

Under the terms of the Company's 10% Series A Convertible Notes, associated Registration Rights Agreements and Allonges (dated March 5, 2007; signed by the Company but, yet to be executed by the Noteholders) the Company is obligated to amend/or file a new registration statement with the SEC for the shares underlying the original SB-2 filing (January 2006) and Allonge shares by March 31, 2007.

Schedule 3(e) - No Conflicts:
None

Schedule 3(f) - 1934 Act Filings:
On August 1, 2006, the Company received a letter from the SEC questioning the treatment of its accounting for warrants issued with our 10% Series A Convertible Notes under EITF 00-19 within the Company's Form 10-KSB filed for the fiscal year ending March 31, 2006. Management and our auditors immediately responded and on August 29, 2006 we were notified by the Commission that their review was complete, and that we apparently had properly valued and disclosed the warrant obligation.

Schedule 3(g) - Absence of Certain Changes:
None

Schedule 3(h) - Litigation:
None

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Schedule 3(k) - Intellectual Property Rights:
No material intellectual property rights have expired over the prior two years, nor are any slated to run to term within the next two years.

Schedule 3(m) - Title:
None

Schedule 3(q) - Transactions with Affiliates:
None

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EXHIBIT A

FORM OF COMPANY COUNSEL OPINION

Capitalized terms used herein but not defined herein, have the meaning set forth in the Common Stock Purchase Agreement. Based on the foregoing, and subject to the assumptions and qualifications set forth herein, we are of the opinion that:

1. The Company is a corporation existing and in good standing under the laws of the State of Nevada. The Company is qualified to do business as a foreign corporation and is in good standing in the States of California.
2. The Company has the corporate power to execute and deliver, and perform its obligations under, each Transaction Document to which it is a party. The Company has the corporate power to conduct its business as, to the best of our knowledge, it is now conducted, and to own and use the properties owned and used by it.
3. The execution, delivery and performance by the Company of the Transaction Documents to which it is a party have been duly authorized by all necessary corporate action on the part of the Company. The execution and delivery of the Transaction Documents by the Company, the performance of the obligations of the Company thereunder and the consummation by it of the transactions contemplated therein have been duly authorized and approved by the Company's Board of Directors and no further consent, approval or authorization of the Company, its Board of Directors or its stockholders is required. The Transaction Documents to which the Company is a party have been duly executed and delivered by the Company and are the valid and binding obligations of the Company, enforceable against the Company in accordance with their terms except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, liquidation or similar laws relating to, or affecting creditor's rights and remedies.
4. The execution, delivery and performance by the Company of the Transaction Documents, the consummation by the Company of the transactions contemplated thereby including the offering, sale and issuance of the Commitment Shares, and the Purchase Shares in accordance with the terms and conditions of the Common Stock Purchase Agreement, and fulfillment and compliance with terms of the Transaction Documents, does not and shall not: (i) conflict with, constitute a breach of or default (or an event which, with the giving of notice or lapse of time or both, constitutes or could constitute a breach or a default), under (a) the Certificate of Incorporation or the Bylaws of the Company, (b) any material agreement, note, lease, mortgage, deed or other material instrument to which to our knowledge the Company is a party or by which the Company or any of its assets are bound, (ii) result in any violation of any statute, law, rule or regulation applicable to the Company, or (iii) to our knowledge, violate any order, writ, injunction or decree applicable to the Company or any of its subsidiaries.

5. The issuance of the Purchase Shares and Commitment Shares pursuant to the terms and conditions of the Transaction Documents has been duly authorized and the Commitment Shares and the Initial Purchase Shares have been validly issued, fully paid and non-assessable, to our knowledge, free of all taxes, liens, charges, restrictions, rights of first refusal and preemptive rights. 6,000,000 shares of Common Stock have been properly reserved for issuance under the Common Stock Purchase Agreement. When issued and paid for in accordance with the Common Stock Purchase Agreement, the Purchase Shares shall be validly issued, fully paid and non-assessable, to our knowledge, free of all taxes, liens, charges, restrictions, rights of first refusal and preemptive rights. To our knowledge, the execution and delivery of the Registration Rights Agreement do not, and the performance by the Company of its obligations thereunder shall not, give rise to any rights of any other person for the registration under the 1933 Act of any shares of Common Stock or other securities of the Company which have not been waived.

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6. As of the date hereof, the authorized capital stock of the Company consists of _____ shares of common stock, par value \$_____ per share, of which to our knowledge _____ shares are issued and outstanding. Except as set forth on Schedule 3(c) of the Common Stock Purchase Agreement, to our knowledge, there are no outstanding shares of capital stock or other securities convertible into or exchangeable or exercisable for shares of the capital stock of the Company.

7. Assuming the accuracy of the representations and your compliance with the covenants made by you in the Transaction Documents, the offering, sale and issuance of the Commitment Shares and the Initial Purchase Shares to you pursuant to the Transaction Documents is exempt from registration under the 1933 Act and the securities laws and regulations of the State of California.

8. Other than that which has been obtained and completed prior to the date hereof, no authorization, approval, consent, filing or other order of any federal or state governmental body, regulatory agency, or stock exchange or market, or any court, or, to our knowledge, any third party is required to be obtained by the Company to enter into and perform its obligations under the Transaction Documents or for the Company to issue and sell the Purchase Shares as contemplated by the Transaction Documents.

9. The Common Stock is registered pursuant to Section 12(g) of the 1934 Act. To our knowledge, since January 1, 2006, the Company has been in compliance with the reporting requirements of the 1934 Act applicable to it. To our knowledge, since January 1, 2006, the Company has not received any written notice from the Principal Market stating that the Company has not been in compliance with any of the rules and regulations (including the requirements for continued listing) of the Principal Market.

We further advise you that to our knowledge, except as disclosed on Schedule 3(h) in the Common Stock Purchase Agreement, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board or body, any governmental agency, any stock exchange or market, or self-regulatory organization, which has been threatened in writing or which is currently pending against the Company, any of its subsidiaries, any officers or directors of the Company or any of its subsidiaries or any of the properties of the Company or any of its subsidiaries.

In addition, we have participated in the preparation of the Registration Statement (SEC File #_____) covering the sale of the Purchase Shares, the Commitment Shares including the prospectus dated _____, contained therein and in conferences with officers and other representatives of the Company (including the Company's independent auditors) during which the contents of the Registration Statement and related matters were discussed and reviewed and, although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement, on the basis of the information that was developed in the course of the performance of the services referred to above, considered in the light of our understanding of the applicable law, nothing came to our attention that caused us to believe that the Registration Statement (other than the financial statements and schedules and the other financial and statistical data included therein, as to which we express no belief), as of their dates, contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

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EXHIBIT B

FORM OF OFFICER'S CERTIFICATE

This Officer's Certificate ("CERTIFICATE") is being delivered pursuant to Section 7(e) of that certain Common Stock Purchase Agreement dated as of March 21, 2007, ("COMMON STOCK PURCHASE AGREEMENT"), by and between AETHLON MEDICAL, INC., a Nevada corporation (the "COMPANY"), and FUSION CAPITAL FUND II, LLC (the "BUYER"). Terms used herein and not otherwise defined shall have the meanings ascribed to them in the Common Stock Purchase Agreement.

The undersigned, James W. Dorst, Chief Financial Officer of the Company, hereby certifies as follows:

1. I am the Chief financial Officer of the Company and make the statements contained in this Certificate;
2. The representations and warranties of the Company are true and correct in all material respects (except to the extent that any of such representations and warranties is already qualified as to materiality in Section 3 of the Common Stock Purchase Agreement, in which case, such representations and warranties are true and correct without further qualification) as of the date when made and as of the Commencement Date as though made at that time (except for representations and warranties that speak as of a specific date);
3. The Company has performed, satisfied and complied in all material respects with covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Commencement Date.
4. The Company has not taken any steps, and does not currently expect to take any steps, to seek protection pursuant to any Bankruptcy Law nor does the Company or any of its Subsidiaries have any knowledge or reason to believe that its creditors intend to initiate involuntary bankruptcy or insolvency proceedings. The Company is financially solvent and is generally able to pay its debts as they become due.

IN WITNESS WHEREOF, I have hereunder signed my name on this ____ day of _____.

/s/ James W. Dorst

James W. Dorst:
Chief Financial Officer

The undersigned as Secretary of AETHLON MEDICAL, INC., a Nevada corporation, hereby certifies that James A. Joyce is the duly elected, appointed, qualified and acting Secretary of Aethlon Medical, Inc. and that the signature appearing above is his genuine signature.

/s/ James A. Joyce

James A. Joyce

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EXHIBIT C-1

FORM OF COMPANY RESOLUTIONS
FOR SIGNING PURCHASE AGREEMENT

UNANIMOUS WRITTEN CONSENT OF
AETHLON MEDICAL, INC.

The undersigned, being all of the members of the Board of Directors of Aethlon Medical, Inc., a Nevada corporation (the "Corporation"), acting pursuant to the authority Granted by Section 78.315 of the Nevada General Corporation Law, do hereby adopt the following resolutions by written consent as of March 21, 2007:

WHEREAS, there has been presented to the Board of Directors of the Corporation a draft of the Common Stock Purchase Agreement (the "Purchase Agreement") by and between the Corporation and Fusion Capital Fund II, LLC ("Fusion"), providing for the purchase by Fusion of up to Eight Million Four Hundred Thousand Dollars (\$8,400,000) of the Corporation's common stock, par value \$0.001 (the "Common Stock"); and

WHEREAS, after careful consideration of the Purchase Agreement, the documents incident thereto and other factors deemed relevant by the Board of Directors, the Board of Directors has determined that it is advisable and in the best interests of the Corporation to engage in the transactions contemplated by the Purchase Agreement, including, but not limited to, the issuance of 1,050,000 shares of Common Stock to Fusion as a commitment fee (the "Commitment Shares") and the sale of shares of Common Stock to Fusion up to the available amount

under the Purchase Agreement (the "Purchase Shares").

TRANSACTION DOCUMENTS

NOW, THEREFORE, BE IT RESOLVED, that the transactions described in the Purchase Agreement are hereby approved and James A. Joyce and James W. Dorst (the "Authorized Officers") are severally authorized to execute and deliver the Purchase Agreement, and any other agreements or documents contemplated thereby including, without limitation, a registration rights agreement (the "Registration Rights Agreement") providing for the registration of the shares of the Company's Common Stock issuable in respect of the Purchase Agreement on behalf of the Corporation, with such amendments, changes, additions and deletions as the Authorized Officers may deem to be appropriate and approve on behalf of, the Corporation, such approval to be conclusively evidenced by the signature of an Authorized Officer thereon; and

FURTHER RESOLVED, that the terms and provisions of the Registration Rights Agreement by and among the Corporation and Fusion are hereby approved and the Authorized Officers are authorized to execute and deliver the Registration Rights Agreement (pursuant to the terms of the Purchase Agreement), with such amendments, changes, additions and deletions as the Authorized Officer may deem appropriate and approve on behalf of, the Corporation, such approval to be conclusively evidenced by the signature of an Authorized Officer thereon; and

FURTHER RESOLVED, that the terms and provisions of the Form of Transfer Agent Instructions (the "Instructions") are hereby approved and the Authorized Officers are authorized to execute and deliver the Instructions (pursuant to the terms of the Purchase Agreement), with such amendments, changes, additions and deletions as the Authorized Officers may deem appropriate and approve on behalf of, the Corporation, such approval to be conclusively evidenced by the signature of an Authorized Officer thereon; and

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EXECUTION OF PURCHASE AGREEMENT

FURTHER RESOLVED, that the Corporation be and it hereby is authorized to execute the Purchase Agreement providing for the purchase of common stock of the Corporation having an aggregate value of up to \$8,400,000.00; and

ISSUANCE OF COMMON STOCK

FURTHER RESOLVED, that the Corporation is hereby authorized to issue 1,050,000 shares of Common Stock to Fusion Capital Fund II, LLC as Commitment Shares and that upon issuance of the Commitment Shares pursuant to the Purchase Agreement, the Commitment Shares shall be duly authorized, validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof; and

FURTHER RESOLVED, that the Corporation is hereby authorized to issue shares of Common Stock upon the purchase of Purchase Shares up to the available amount under the Purchase Agreement in accordance with the terms of the Purchase Agreement and that, upon issuance of the Purchase Shares pursuant to the Purchase Agreement, the Purchase Shares will be duly authorized, validly issued, fully paid and nonassessable with no personal liability attaching to the ownership thereof; and

FURTHER RESOLVED, THAT THE CORPORATION SHALL INITIALLY RESERVE 7,333,333 SHARES OF COMMON STOCK FOR ISSUANCE AS PURCHASE SHARES UNDER THE PURCHASE AGREEMENT.

APPROVAL OF ACTIONS

FURTHER RESOLVED, that, without limiting the foregoing, the Authorized Officers are, and each of them hereby is, authorized and directed to proceed on behalf of the Corporation and to take all such steps as deemed necessary or appropriate, with the advice and assistance of counsel, to cause the Corporation to consummate the agreements referred to herein and to perform its obligations under such agreements; and

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed on behalf of and in the name of the Corporation, to take or cause to be taken all such further actions and to execute and deliver or cause to be executed and delivered all such further agreements, amendments, documents, certificates, reports, schedules, applications, notices, letters and undertakings and to incur and pay all such fees and expenses as in their judgment shall be necessary, proper or desirable to carry into effect the purpose and intent of any and all of the foregoing resolutions, and that all actions heretofore taken by any officer or director of the Corporation in connection with the transactions contemplated by the agreements described herein are hereby approved, ratified and confirmed in all respects.

IN WITNESS WHEREOF, the Board of Directors has executed and delivered this Consent effective as of March 21, 2007. This Written Consent may be executed in counterparts and with facsimile signatures with the effect as if all parties hereto had executed the same document. All counterparts shall be construed together and shall constitute a single Written Consent.

Dated as of March 21, 2007

DIRECTORS:

/s/ James A. Joyce

James A. Joyce

/s/ Franklyn S. Barry, Jr.

Franklyn S. Barry, Jr.

/s/ Edward G. Broenniman

Edward G. Broenniman

/s/ Richard H. Tullis

Richard H. Tullis

being all of the directors of AETHLON MEDICAL, INC., a Nevada corporation.

EXHIBIT C-2

FORM OF COMPANY RESOLUTIONS APPROVING REGISTRATION STATEMENT

UNANIMOUS WRITTEN CONSENT OF
AETHLON MEDICAL, INC.

The undersigned, being all of the members of the Board of Directors of Aethlon Medical, Inc., a Nevada corporation (the "Corporation"), acting pursuant to the authority Granted by Section 78.315 of the Nevada General Corporation Law, do hereby adopt the following resolutions by written consent as of March 21, 2007:

WHEREAS, there has been presented to the Board of Directors of the Corporation Common Stock Purchase Agreement (the "Purchase Agreement") by and among the Corporation and Fusion Capital Fund II, LLC ("Fusion"), providing for the purchase by Fusion of up to Eight Million Four Hundred Thousand Dollars (\$8,400,000) of the Corporation's common stock, par value \$0.001 (the "Common Stock"); and

WHEREAS, after careful consideration of the Purchase Agreement, the documents incident thereto and other factors deemed relevant by the Board of Directors, the Board of Directors has approved the Purchase Agreement and the transactions contemplated thereby and the Company has executed and delivered the Purchase Agreement to Fusion; and

WHEREAS, the management of the Corporation has prepared an initial draft of a Registration Statement on Form SB-2 (the "Registration Statement") in order to register the sale of the Purchase Shares and the Commitment Shares (collectively, the "Shares"); and

WHEREAS, the Board of Directors has determined to approve the Registration Statement and to authorize the appropriate officers of the Corporation to take all such actions as they may deem appropriate to effect the offering.

NOW, THEREFORE, BE IT RESOLVED, that the officers and directors of the Corporation be, and each of them hereby is, authorized and directed, with the assistance of counsel and accountants for the Corporation, to prepare, execute and file with the Commission the Registration Statement, which Registration Statement shall be filed substantially in the form presented to the Board of Directors, with such changes therein as the Chief Executive Officer of the

Corporation or any Vice President of the Corporation shall deem desirable and in the best interest of the Corporation and its shareholders (such officer's execution thereof including such changes shall be deemed to evidence conclusively such determination); and

FURTHER RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized and directed, with the assistance of counsel and accountants for the Corporation, to prepare, execute and file with the Commission all amendments, including post-effective amendments, and supplements to the Registration Statement, and all certificates, exhibits, schedules, documents and other instruments relating to the Registration Statement, as such officers shall deem necessary or appropriate (such officer's execution and filing thereof shall be deemed to evidence conclusively such determination); and

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FURTHER RESOLVED, that the execution of the Registration Statement and of any amendments and supplements thereto by the officers and directors of the Corporation be, and the same hereby is, specifically authorized either personally or by the Authorized Officers as such officer's or director's true and lawful attorneys-in-fact and agents; and

FURTHER RESOLVED, that the Authorized Officers are hereby designated as "Agent for Service" of the Corporation in connection with the Registration Statement and the filing thereof with the Commission, and the Authorized Officers hereby are authorized to receive communications and notices from the Commission with respect to the Registration Statement; and

FURTHER RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized and directed to pay all fees, costs and expenses that may be incurred by the Corporation in connection with the Registration Statement; and

FURTHER RESOLVED, that it is desirable and in the best interest of the Corporation that the Shares be qualified or registered for sale in various states; that the officers of the Corporation be, and each of them hereby is, authorized to determine the states in which appropriate action shall be taken to qualify or register for sale all or such part of the Shares as they may deem advisable; that said officers be, and each of them hereby is, authorized to perform on behalf of the Corporation any and all such acts as they may deem necessary or advisable in order to comply with the applicable laws of any such states, and in connection therewith to execute and file all requisite papers and documents, including, but not limited to, applications, reports, surety bonds, irrevocable consents, appointments of attorneys for service of process and resolutions; and the execution by such officers of any such paper or document or the doing by them of any act in connection with the foregoing matters shall conclusively establish their authority therefor from the Corporation and the approval and ratification by the Corporation of the papers and documents so executed and the actions so taken; and

FURTHER RESOLVED, that if, in any state where the securities to be registered or qualified for sale to the public, or where the Corporation is to be registered in connection with the public offering of the Shares, a prescribed form of resolution or resolutions is required to be adopted by the Board of Directors, each such resolution shall be deemed to have been and hereby is adopted, and the Secretary is hereby authorized to certify the adoption of all such resolutions as though such resolutions were now presented to and adopted by the Board of Directors; and

FURTHER RESOLVED, that the officers of the Corporation with the assistance of counsel be, and each of them hereby is, authorized and directed to take all necessary steps and do all other things necessary and appropriate to effect the listing of the Shares on the OTC Bulletin Board.

APPROVAL OF ACTIONS

FURTHER RESOLVED, that, without limiting the foregoing, the Authorized Officers are, and each of them hereby is, authorized and directed to proceed on behalf of the Corporation and to take all such steps as are deemed necessary or appropriate, with the advice and assistance of counsel, to cause the Corporation to take all such action referred to herein and to perform its obligations incident to the registration, listing and sale of the Shares; and

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed on behalf of and in the name of the Corporation, to take or cause to be taken all such further actions and to execute and deliver or cause to be executed and delivered all such further agreements, amendments, documents, certificates, reports, schedules, applications, notices, letters and undertakings and to incur and pay all such

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fees and expenses as in their judgment shall be necessary, proper or desirable

to carry into effect the purpose and intent of any and all of the foregoing resolutions, and that all actions heretofore taken by any officer or director of the Corporation in connection with the transactions contemplated by the agreements described herein are hereby approved, ratified and confirmed in all respects.

IN WITNESS WHEREOF, the Board of Directors has executed and delivered this Consent effective as of March 21, 2007. This Written Consent may be executed in counterparts and with facsimile signatures with the effect as if all parties hereto had executed the same document. All counterparts shall be construed together and shall constitute a single Written Consent.

Dated as of March 21, 2007

DIRECTORS:

/s/ James A. Joyce

James A. Joyce

/s/ Franklyn S. Barry, Jr.

Franklyn S. Barry, Jr.

/s/ Edward G. Broenniman

Edward G. Broenniman

/s/ Richard H. Tullis

Richard H. Tullis

being all of the directors of AETHLON MEDICAL, INC., a Nevada corporation.

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EXHIBIT D

FORM OF SECRETARY'S CERTIFICATE

This Secretary's Certificate ("Certificate") is being delivered pursuant to Section 7(k) of that certain Common Stock Purchase Agreement dated as of March 21, 2007, ("Common Stock Purchase Agreement"), by and between AETHLON MEDICAL, INC., a Nevada corporation (the "Company") and FUSION CAPITAL FUND II, LLC (the "Buyer"), pursuant to which the Company may sell to the Buyer up to Eight Million Four Hundred Thousand Dollars (\$8,400,000) of the Company's Common Stock, par value \$0.001 per share (the "Common Stock"). Terms used herein and not otherwise defined shall have the meanings ascribed to them in the Common Stock Purchase Agreement.

The undersigned, James A. Joyce, Secretary of the Company, hereby certifies as follows:

1. I am the Secretary of the Company and make the statements contained in this Secretary's Certificate.
2. Attached hereto as Exhibit A and Exhibit B are true, correct and complete copies of the Company's bylaws ("Bylaws") and Certificate of Incorporation ("Articles"), in each case, as amended through the date hereof, and no action has been taken by the Company, its directors, officers or shareholders, in contemplation of the filing of any further amendment relating to or affecting the Bylaws or Articles.
3. Attached hereto as Exhibit C are true, correct and complete copies of the resolutions duly adopted by the Board of Directors of the Company on March 21, 2007, at which a quorum was present and acting throughout. Such resolutions have not been amended, modified or rescinded and remain in full force and effect and such resolutions are the only resolutions adopted by the Company's Board of Directors, or any committee thereof, or the shareholders of the Company relating to or affecting (i) the entering into and performance of the Common Stock Purchase Agreement, or the issuance, offering and sale of the Purchase Shares and the Commitment Shares and (ii) and the performance of the Company of its obligation under the Transaction Documents as contemplated therein.

4. As of the date hereof, the authorized, issued and reserved

capital stock of the Company is as set forth on Exhibit D hereto.

IN WITNESS WHEREOF, I have hereunder signed my name on this ____ day of _____.

Secretary

The undersigned as _____ of _____, a _____ corporation, hereby certifies that _____ is the duly elected, appointed, qualified and acting Secretary of _____, and that the signature appearing above is his genuine signature.

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EXHIBIT E

FORM OF LETTER TO THE TRANSFER AGENT FOR THE ISSUANCE OF THE
COMMITMENTS SHARES AT SIGNING OF THE PURCHASE AGREEMENT

[COMPANY LETTERHEAD]

[DATE]

[TRANSFER AGENT]

Re: Issuance of Common Shares to Fusion Capital Fund II, LLC

Dear _____,

On behalf of AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), you are hereby instructed to issue AS SOON AS POSSIBLE 1,050,000 shares of our common stock in the name of FUSION CAPITAL FUND II, LLC. The share certificate should be dated [DATE OF THE COMMON STOCK PURCHASE AGREEMENT]. I have included a true and correct copy of a unanimous written consent executed by all of the members of the Board of Directors of the Company adopting resolutions approving the issuance of these shares. The shares should be issued subject to the following restrictive legend and NO OTHER LEGEND WHATSOEVER:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, UNLESS SOLD PURSUANT TO: (1) RULE 144 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (2) AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS.

The share certificate should be sent AS SOON AS POSSIBLE VIA OVERNIGHT MAIL to the following address:

Fusion Capital Fund II, LLC
222 Merchandise Mart Plaza, Suite 9-112
Chicago, IL 60654
Attention: Steven Martin

Thank you very much for your help. Please call me at _____ if you have any questions or need anything further.

AETHLON MEDICAL, INC., a Nevada corporation

BY: _____
[name]
[title]

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "AGREEMENT"), dated as of March 21, 2007, by and between AETHLON MEDICAL, INC., a Nevada corporation, (the "COMPANY"), and FUSION CAPITAL FUND II, LLC (together with it permitted assigns, the "BUYER"). Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Common Stock Purchase Agreement by and between the parties hereto, dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the "PURCHASE AGREEMENT").

WHEREAS:

A. The Company has agreed, upon the terms and subject to the conditions of the Purchase Agreement, to issue to the Buyer (i) up to Eight Million Four Hundred Thousand Dollars (\$8,400,000) of the Company's common stock, par value \$0.001 per share (the "COMMON STOCK") (the "PURCHASE SHARES"), and (ii) such number of shares of Common Stock as is required pursuant to Section 4(e) of the Purchase Agreement (the "COMMITMENT SHARES"); and

B. To induce the Buyer to enter into the Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "1933 ACT"), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Buyer hereby agree as follows:

1. DEFINITIONS.

As used in this Agreement, the following terms shall have the following meanings:

a. "INVESTOR" means the Buyer, any transferee or assignee thereof to whom a Buyer assigns its rights under this Agreement and who agrees to become bound by the provisions of this Agreement in accordance with Section 9 and any transferee or assignee thereof to whom a transferee or assignee assigns its rights under this Agreement and who agrees to become bound by the provisions of this Agreement in accordance with Section 9.

b. "PERSON" means any person or entity including any corporation, a limited liability company, an association, a partnership, an organization, a business, an individual, a governmental or political subdivision thereof or a governmental agency.

c. "REGISTER," "REGISTERED," and "REGISTRATION" refer to a registration effected by preparing and filing one or more registration statements of the Company in compliance with the 1933 Act and pursuant to Rule 415 under the 1933 Act or any successor rule providing for offering securities on a continuous basis ("RULE 415"), and the declaration or ordering of effectiveness of such registration statement(s) by the United States Securities and Exchange Commission (the "SEC").

d. "REGISTRABLE SECURITIES" means the Purchase Shares which have been, or which may from time to time be, issued or issuable upon purchases of the Available Amount under the Purchase Agreement (without regard to any limitation or restriction on purchases) and the Commitment Shares issued or issuable to the Investor and any shares of capital stock issued or issuable with respect to the Purchase Shares, the Commitment Shares or the Purchase Agreement as a result of any stock split, stock dividend, recapitalization, exchange or similar event or otherwise, without regard to any limitation on purchases under the Purchase Agreement.

e. "REGISTRATION STATEMENT" means the registration statement of the Company covering only the sale of the Registrable Securities.

2. REGISTRATION.

a. Mandatory Registration. The Company shall within ten (10) Business Days from the date hereof file with the SEC the Registration Statement. The Registration Statement shall register only the Registrable Securities and no other securities of the Company. The Investor and its counsel shall have a reasonable opportunity to review and comment upon such registration statement or amendment to such registration statement and any related prospectus prior to its filing with the SEC. Investor shall furnish all information reasonably requested by the Company for inclusion therein. The Company shall use its best efforts to have the Registration Statement or amendment declared effective by the SEC at the earliest possible date. The Company shall use reasonable best efforts to

keep the Registration Statement effective pursuant to Rule 415 promulgated under the 1933 Act and available for sales of all of the Registrable Securities at all times until the earlier of (i) the date as of which the Investor may sell all of the Registrable Securities without restriction pursuant to Rule 144(k) promulgated under the 1933 Act (or successor thereto) or (ii) the date on which (A) the Investor shall have sold all the Registrable Securities and no Available Amount remains under the Purchase Agreement (the "REGISTRATION PERIOD"). The Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

b. Rule 424 Prospectus. The Company shall, as required by applicable securities regulations, from time to time file with the SEC, pursuant to Rule 424 promulgated under the 1933 Act, the prospectus and prospectus supplements, if any, to be used in connection with sales of the Registrable Securities under the Registration Statement. The Investor and its counsel shall have a reasonable opportunity to review and comment upon such prospectus prior to its filing with the SEC. The Investor shall use its reasonable best efforts to comment upon such prospectus within one (1) Business Day from the date the Investor receives the final version of such prospectus.

c. Sufficient Number of Shares Registered. In the event the number of shares available under the Registration Statement is insufficient to cover all of the Registrable Securities, the Company shall amend the Registration Statement or file a new registration statement (a "NEW REGISTRATION STATEMENT"), so as to cover all of such Registrable Securities as soon as practicable, but in any event not later than ten (10) Business Days after the necessity therefor arises. The Company shall use its reasonable best efforts to cause such amendment and/or New Registration Statement to become effective as soon as practicable following the filing thereof.

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3. RELATED OBLIGATIONS.

With respect to the Registration Statement and whenever any Registrable Securities are to be registered pursuant to Section 2(b) including on any New Registration Statement, the Company shall use its reasonable best efforts to effect the registration of the Registrable Securities in accordance with the intended method of disposition thereof and, pursuant thereto, the Company shall have the following obligations:

a. The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to any registration statement and the prospectus used in connection with such registration statement, which prospectus is to be filed pursuant to Rule 424 promulgated under the 1933 Act, as may be necessary to keep the Registration Statement or any New Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities of the Company covered by the Registration Statement or any New Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in such registration statement.

b. The Company shall permit the Investor to review and comment upon the Registration Statement or any New Registration Statement and all amendments and supplements thereto at least two (2) Business Days prior to their filing with the SEC, and not file any document in a form to which Investor reasonably objects. The Investor shall use its reasonable best efforts to comment upon the Registration Statement or any New Registration Statement and any amendments or supplements thereto within two (2) Business Days from the date the Investor receives the final version thereof. The Company shall furnish to the Investor, without charge any correspondence from the SEC or the staff of the SEC to the Company or its representatives relating to the Registration Statement or any New Registration Statement.

c. Upon request of the Investor, the Company shall furnish to the Investor, (i) promptly after the same is prepared and filed with the SEC, at least one copy of such registration statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits, (ii) upon the effectiveness of any registration statement, a copy of the prospectus included in such registration statement and all amendments and supplements thereto (or such other number of copies as the Investor may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus, as the Investor may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by the Investor.

d. The Company shall use reasonable best efforts to (i) register and qualify the Registrable Securities covered by a registration statement under such other securities or "blue sky" laws of such jurisdictions in the United

States as the Investor reasonably requests, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(d), (y) subject itself to general taxation in any such jurisdiction, or (z) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify

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the Investor who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threatening of any proceeding for such purpose.

e. As promptly as practicable after becoming aware of such event or facts, the Company shall notify the Investor in writing of the happening of any event or existence of such facts as a result of which the prospectus included in any registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and promptly prepare a supplement or amendment to such registration statement to correct such untrue statement or omission, and deliver a copy of such supplement or amendment to the Investor (or such other number of copies as the Investor may reasonably request). The Company shall also promptly notify the Investor in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, and when a registration statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to the Investor by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC for amendments or supplements to any registration statement or related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a registration statement would be appropriate.

f. The Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of any registration statement, or the suspension of the qualification of any Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify the Investor of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

g. The Company shall (i) cause all the Registrable Securities to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (ii) secure designation and quotation of all the Registrable Securities on the Principal Market. The Company shall pay all fees and expenses in connection with satisfying its obligation under this Section.

h. The Company shall cooperate with the Investor to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to any registration statement and enable such certificates to be in such denominations or amounts as the Investor may reasonably request and registered in such names as the Investor may request.

i. The Company shall at all times provide a transfer agent and registrar with respect to its Common Stock.

j. If reasonably requested by the Investor, the Company shall (i) immediately incorporate in a prospectus supplement or post-effective amendment such information as the Investor believes should be included therein relating to the sale and distribution of Registrable Securities, including, without limitation, information with respect to the number of Registrable Securities being sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities; (ii) make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) supplement or make amendments to any registration statement.

k. The Company shall use its reasonable best efforts to cause the Registrable Securities covered by the any registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

l. Within one (1) Business Day after any registration statement which includes the Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel for the Company to deliver, to the transfer agent for such Registrable Securities (with copies to the Investor) confirmation that such registration statement has been declared effective by the SEC in the form attached hereto as Exhibit A. Thereafter, if requested by the Buyer at any time, the Company shall require its counsel to deliver to the Buyer a written confirmation whether or not the effectiveness of such registration statement has lapsed at any time for any reason (including, without limitation, the issuance of a stop order) and whether or not the registration statement is current and available to the Buyer for sale of all of the Registrable Securities.

m. The Company shall take all other reasonable actions necessary to expedite and facilitate disposition by the Investor of Registrable Securities pursuant to any registration statement.

4. OBLIGATIONS OF THE INVESTOR.

a. The Company shall notify the Investor in writing of the information the Company reasonably requires from the Investor in connection with any registration statement hereunder. The Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request.

b. The Investor agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of any registration statement hereunder.

c. The Investor agrees that, upon receipt of any notice from the Company of the happening of any event or existence of facts of the kind described in Section 3(f) or the first sentence of 3(e), the Investor will immediately discontinue disposition of Registrable Securities pursuant to any registration statement(s) covering such Registrable Securities until the Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(f) or the first sentence of 3(e). Notwithstanding anything to the contrary, the Company shall cause its transfer agent to promptly deliver shares of Common Stock without any restrictive legend in accordance with the terms of the Purchase Agreement in connection with any sale of Registrable Securities with respect to which an Investor has entered into a contract for sale prior to the Investor's receipt of a notice from the Company of the happening of any event of the kind described in Section 3(f) or the first sentence of 3(e) and for which the Investor has not yet settled.

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5. EXPENSES OF REGISTRATION.

All reasonable expenses, other than sales or brokerage commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, and fees and disbursements of counsel for the Company, shall be paid by the Company.

6. INDEMNIFICATION.

a. To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend the Investor, each Person, if any, who controls the Investor, the members, the directors, officers, partners, employees, agents, representatives of the Investor and each Person, if any, who controls the Investor within the meaning of the 1933 Act or the Securities Exchange Act of 1934, as amended (the "1934 ACT") (each, an "INDEMNIFIED PERSON"), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, attorneys' fees, amounts paid in settlement or expenses, joint or several, (collectively, "CLAIMS") incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("INDEMNIFIED DAMAGES"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in the Registration Statement, any New Registration Statement or any post-effective amendment

thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("BLUE SKY FILING"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to the Registration Statement or any New Registration Statement or (iv) any material violation by the Company of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, "VIOLATIONS"). The Company shall reimburse each Indemnified Person promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person expressly for use in connection with the preparation of the Registration Statement, any New Registration Statement or any such amendment thereof or supplement thereto, if such prospectus was timely made available by the Company pursuant to Section 3(c) or Section 3(e); (ii) with respect to any superceded prospectus, shall not inure to the benefit of any such person from whom the person asserting any such Claim purchased the Registrable Securities that are the subject thereof (or to the benefit of any person controlling such person) if the untrue statement or omission of material fact contained in the superceded prospectus was corrected in the revised prospectus, as then amended or supplemented, if such revised prospectus was timely made available by the Company pursuant to Section 3(c) or Section 3(e), and the Indemnified Person was

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promptly advised in writing not to use the incorrect prospectus prior to the use giving rise to a violation and such Indemnified Person, notwithstanding such advice, used it; (iii) shall not be available to the extent such Claim is based on a failure of the Investor to deliver or to cause to be delivered the prospectus made available by the Company, if such prospectus was timely made available by the Company pursuant to Section 3(c) or Section 3(e); and (iv) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investor pursuant to Section 9.

b. In connection with the Registration Statement or any New Registration Statement, the Investor agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement or any New Registration Statement, each Person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act (collectively and together with an Indemnified Person, an "INDEMNIFIED PARTY"), against any Claim or Indemnified Damages to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information about the Investor set forth on Exhibit B attached hereto and furnished to the Company by the Investor expressly for use in connection with such registration statement; and, subject to Section 6(d), the Investor will reimburse any legal or other expenses reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Investor, which consent shall not be unreasonably withheld; provided, further, however, that the Investor shall be liable under this Section 6(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to the Investor as a result of the sale of Registrable Securities pursuant to such registration statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Investor pursuant to Section 9.

c. Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party shall, if a Claim in respect

thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. The Indemnified Party or Indemnified Person shall cooperate fully with the indemnifying party in connection with any negotiation or defense of any such action or claim by the indemnifying party and shall furnish to the indemnifying party all information

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reasonably available to the Indemnified Party or Indemnified Person which relates to such action or claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person fully apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its written consent, provided, however, that the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such claim or litigation. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is prejudiced in its ability to defend such action.

d. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

e. The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

7. CONTRIBUTION.

To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law; provided, however, that: (i) no seller of Registrable Securities guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any seller of Registrable Securities who was not guilty of fraudulent misrepresentation; and (ii) contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities.

8. REPORTS AND DISCLOSURE UNDER THE SECURITIES ACTS.

With a view to making available to the Investor the benefits of Rule 144 promulgated under the 1933 Act or any other similar rule or regulation of the SEC that may at any time permit the Investor to sell securities of the Company to the public without registration ("RULE 144"), the Company agrees, at the Company's sole expense, to:

a. make and keep public information available, as those terms are understood and defined in Rule 144;

b. file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act so long as the Company remains subject to such requirements and the filing of such reports and other documents is required for the applicable provisions of Rule 144; and

c. furnish to the Investor so long as the Investor owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting and or disclosure provisions of Rule 144, the 1933 Act and the 1934 Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested to permit the Investor to sell such securities pursuant to Rule 144 without registration.

d. take such additional action as is requested by the Investor to enable the Investor to sell the Registrable Securities pursuant to Rule 144, including, without limitation, delivering all such legal opinions, consents, certificates, resolutions and instructions to the Company's Transfer Agent as may be requested from time to time by the Investor and otherwise fully cooperate with Investor and Investor's broker to effect such sale of securities pursuant to Rule 144.

The Company agrees that damages may be an inadequate remedy for any breach of the terms and provisions of this Section 8 and that Investor shall, whether or not it is pursuing any remedies at law, be entitled to equitable relief in the form of a preliminary or permanent injunctions, without having to post any bond or other security, upon any breach or threatened breach of any such terms or provisions.

9. ASSIGNMENT OF REGISTRATION RIGHTS.

The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Investor, including by merger or consolidation. The Investor may not assign its rights under this Agreement without the written consent of the Company, other than to an affiliate of the Investor controlled by Steven G. Martin or Joshua B. Scheinfeld.

10. AMENDMENT OF REGISTRATION RIGHTS.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Investor.

11. MISCELLANEOUS.

a. A Person is deemed to be a holder of Registrable Securities whenever such Person owns or is deemed to own of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more Persons with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

b. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

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If to the Company:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Telephone: 858-459-7800
Facsimile: 858-332-1739
Attention: Chief Executive Officer

With a copy to:

Richardson & Patel, LLP
10900 Wilshire Blvd., Suite 500
Los Angeles, CA 90404
Telephone: 310-208-1182
Facsimile: 310-208-1154
Attention: Nimish Patel, Esq.

If to the Investor:

Fusion Capital Fund II, LLC
222 Merchandise Mart Plaza, Suite 9-112
Chicago, IL 60654
Telephone: 312-644-6644
Facsimile: 312-644-6244

Attention: Steven G. Martin

or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party three (3) Business Days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (C) provided by a nationally recognized overnight delivery service, shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

c. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

d. The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of Illinois, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Illinois or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Illinois. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting the City of Chicago, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the

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venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HERewith OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

e. This Agreement, and the Purchase Agreement constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement and the Purchase Agreement supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

f. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of each of the parties hereto.

g. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

h. This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

i. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

k. This Agreement is intended for the benefit of the parties

hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

* * * * *

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IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be duly executed as of day and year first above written.

THE COMPANY:

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

Name: James A. Joyce

Title: Chief Executive Officer

BUYER:

FUSION CAPITAL FUND II, LLC

BY: FUSION CAPITAL PARTNERS, LLC

BY: ROCKLEDGE CAPITAL CORPORATION

By: /s/ Joshua B. Scheinfeld

Name: Joshua B. Scheinfeld

Title: President

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EXHIBIT A

TO REGISTRATION RIGHTS AGREEMENT

FORM OF NOTICE OF EFFECTIVENESS
OF REGISTRATION STATEMENT

[Date]

[TRANSFER AGENT]

Re: AETHLON MEDICAL:, INC.

Ladies and Gentlemen:

We are counsel to AETHLON MEDICAL, INC., a Nevada corporation (the "COMPANY"), and have represented the Company in connection with that certain Common Stock Purchase Agreement, dated as of _____, 2007 (the "PURCHASE AGREEMENT"), entered into by and between the Company and Fusion Capital Fund II, LLC (the "BUYER") pursuant to which the Company has agreed to issue to the Buyer shares of the Company's Common Stock, par value \$0.001 per share (the "COMMON STOCK"), in an amount up to Eight Million Four Hundred Dollars (\$8,400,000) (the "PURCHASE SHARES"), in accordance with the terms of the Purchase Agreement. In connection with the transactions contemplated by the Purchase Agreement, the Company has registered with the U.S. Securities & Exchange Commission the following shares of Common Stock:

- (1) 6,000,000 shares of Common Stock to be issued upon purchase from the Company by the Buyer from time to time (the "PURCHASE SHARES").
- (2) 1,050,000 shares of Common Stock which have been issued to the Buyer as a commitment fee (the "COMMITMENT SHARES").
- (3) 1,333,333 Purchase Shares of Common Stock previously issued to the Buyer (the "INITIAL PURCHASE Shares").

Pursuant to the Purchase Agreement, the Company also has entered into a Registration Rights Agreement, dated as of _____, with the Buyer (the

"Registration Rights Agreement") pursuant to which the Company agreed, among other things, to register the Purchase Shares, the Initial Purchase Shares and the Commitment Shares under the Securities Act of 1933, as amended (the "1933 Act"). In connection with the Company's obligations under the Purchase Agreement and the Registration Rights Agreement, on _____, the Company filed a Registration Statement (File No. 333-_____) (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") relating to the sale of the Purchase Shares, the Initial Purchase Shares and the Commitment Shares.

In connection with the foregoing, we advise you that: (1) a member of the SEC's staff has advised us by telephone that the SEC has entered an order declaring the Registration Statement effective under the 1933 Act at _____ P.M. on _____, 2007, (2) we have no knowledge, after telephonic inquiry of a member of the SEC's staff, that any stop order suspending its effectiveness has been issued or that any proceedings for that purpose are pending before, or threatened by, the SEC, (3) the Commitment Shares and the Initial Purchase Shares are available for sale under the 1933 Act pursuant to the Registration Statement and the restrictive legend on the Commitment Shares and the Initial Purchase Shares may be removed and (4) the Purchase Shares are available for sale under the 1933 Act pursuant to the Registration Statement and may be issued without any restrictive legend.

Very truly yours,

[Company Counsel]

By: _____

CC: Fusion Capital Fund II, LLC

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EXHIBIT B

TO REGISTRATION RIGHTS AGREEMENT

Information About The Investor Furnished To The Company By The Investor
Expressly For Use In Connection With The Registration Statement

As of the date of the Purchase Agreement, Fusion Capital beneficially owned 767,191 shares of common stock of the Company. Steven G. Martin and Joshua B. Scheinfeld, the principals of Fusion Capital, are deemed to be beneficial owners of all of the shares of common stock owned by Fusion Capital. Messrs. Martin and Scheinfeld have shared voting and investment power over the shares being offered under the prospectus filed with the SEC in connection with the transactions contemplated under the Purchase Agreement. Fusion Capital is not a licensed broker dealer or an affiliate of a licensed broker dealer.

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FORM OF
 ALLONGE TO
 10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "Note"), made by AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), payable to the order of Christian J. Hoffman III (the "Holder"), in the total principal amount of \$10,000.

1. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

1.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

1.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of \$.20 per Unit (the "Interest Payment Rate"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). The Company will pay the accrued Interest through February 15, 2007 by issuing 5,861 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of \$.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of \$.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."

1.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.

1.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

1.5 Paragraph 5.1 of the Note is hereby amended and restated

in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of \$.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of \$0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of \$0.001. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

1.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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11.1.2 Failure of the Company to pay Interest when due hereunder; or

11.1.3 Except for Events of Default set forth in Paragraphs 11.1.1 and 11.1.2, failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

2. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the

Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in A BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of \$0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above \$0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

26.8 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of the Notes, the Warrants and this Allonge. The Company will bear all reasonable costs associated with the preparation and implementation of this Allonge.

2.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

"Senior Indebtedness" means any Indebtedness of the Company, outstanding prior to the date of this Allonge, unless such Indebtedness is PARI PASSU with or contractually subordinate or junior in right of payment to the Notes, except Indebtedness to any Affiliate of the Company, which shall be junior and subordinate to the Notes.

"Subordinated Indebtedness of the Company" means any Indebtedness of the Company incurred after the date of this Allonge.

2.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

27. SENIOR SUBORDINATED INDEBTEDNESS.

27.1 This Note constitutes Senior Subordinated Indebtedness of the Company and is unsecured.

27.2 The Indebtedness evidenced by this Note and all of the Notes will be subordinated to the prior payment when due of the principal of, and premium, if any, and accrued and unpaid interest on, all existing Senior Indebtedness. The Notes will be senior to, in right of payment of principal of, premium, if any, and accrued and unpaid interest on, any Subordinated Indebtedness of the Company.

27.3 Upon any distribution of assets of the Company in any dissolution, winding up, liquidation or reorganization of the Company, all holders of Senior Indebtedness of the Company

must be paid in full before any payment or distribution is made with respect to the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

2.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

/s/ James A. Joyce

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:

By: /s/ Christian J. Hoffman

Christian J. Hoffman III

FORM OF
 ALLONGE TO
 10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "Note"), made by AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), payable to the order of Joel S. Aaronson, Patricia Green, Christina J. Bird, Co-Executors of the Estate of Allan S. Bird (the "Holder"), in the total principal amount of \$225,000.

1. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

1.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

1.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of \$.20 per Unit (the "Interest Payment Rate"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). The Company will pay the accrued Interest through February 15, 2007 by issuing 148,959 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of \$.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of \$.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."

1.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.

1.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

1.5 Paragraph 5.1 of the Note is hereby amended and restated

in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of \$.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of \$0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of \$0.001. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

1.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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11.1.2 Failure of the Company to pay Interest when due hereunder; or

11.1.3 Except for Events of Default set forth in Paragraphs 11.1.1 and 11.1.2, failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

2. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the

Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in A BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of \$0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above \$0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

26.8 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of the Notes, the Warrants and this Allonge. The Company will bear all reasonable costs associated with the preparation and implementation of this Allonge.

2.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

"Senior Indebtedness" means any Indebtedness of the Company, outstanding prior to the date of this Allonge, unless such Indebtedness is PARI PASSU with or contractually subordinate or junior in right of payment to the Notes, except Indebtedness to any Affiliate of the Company, which shall be junior and subordinate to the Notes.

"Subordinated Indebtedness of the Company" means any Indebtedness of the Company incurred after the date of this Allonge.

2.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

27. SENIOR SUBORDINATED INDEBTEDNESS.

27.1 This Note constitutes Senior Subordinated Indebtedness of the Company and is unsecured.

27.2 The Indebtedness evidenced by this Note and all of the Notes will be subordinated to the prior payment when due of the principal of, and premium, if any, and accrued and unpaid interest on, all existing Senior Indebtedness. The Notes will be senior to, in right of payment of principal of, premium, if any, and accrued and unpaid interest on, any Subordinated Indebtedness of the Company.

27.3 Upon any distribution of assets of the Company in any dissolution, winding up, liquidation or reorganization of the Company, all holders of Senior Indebtedness of the Company

must be paid in full before any payment or distribution is made with respect to the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

2.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

/s/ James A. Joyce

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:

By: _____
Holder

FORM OF
 ALLONGE TO
 10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "Note"), made by AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), payable to the order of Claypoole Capital, LLC (the "Holder"), in the total principal amount of \$5,000.

1. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

1.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

1.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of \$.20 per Unit (the "Interest Payment Rate"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). The Company will pay the accrued Interest through February 15, 2007 by issuing 2,938 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of \$.20 per share (the Exercise Price). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of \$.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."

1.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.

1.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

1.5 Paragraph 5.1 of the Note is hereby amended and restated in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of \$.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of \$0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of \$0.001. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

1.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

-2-

11.1.2 Failure of the Company to pay Interest when due hereunder; or

11.1.3 Except for Events of Default set forth in Paragraphs 11.1.1 and 11.1.2, failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

2. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the

Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in A BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of \$0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above \$0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

26.8 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of the Notes, the Warrants and this Allonge. The Company will bear all reasonable costs associated with the preparation and implementation of this Allonge.

2.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

"Senior Indebtedness" means any Indebtedness of the Company, outstanding prior to the date of this Allonge, unless such Indebtedness is PARI PASSU with or contractually subordinate or junior in right of payment to the Notes, except Indebtedness to any Affiliate of the Company, which shall be junior and subordinate to the Notes.

"Subordinated Indebtedness of the Company" means any Indebtedness of the Company incurred after the date of this Allonge.

2.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

27. SENIOR SUBORDINATED INDEBTEDNESS.

27.1 This Note constitutes Senior Subordinated Indebtedness of the Company and is unsecured.

27.2 The Indebtedness evidenced by this Note and all of the Notes will be subordinated to the prior payment when due of the principal of, and premium, if any, and accrued and unpaid interest on, all existing Senior Indebtedness. The Notes will be senior to, in right of payment of principal of, premium, if any, and accrued and unpaid interest on, any Subordinated Indebtedness of the Company.

27.3 Upon any distribution of assets of the Company in any dissolution, winding up, liquidation or reorganization of the Company, all holders of Senior Indebtedness of the Company must be paid in full before any payment or distribution is

made with respect to the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

2.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

/s/ James A. Joyce

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:
Claypoole Capital, LLC.

By: /s/ Christian J. Hoffmann III

Christian J. Hoffmann III

FORM OF
 ALLONGE TO
 10% SERIES A CONVERTIBLE NOTES

This Allonge (the "Allonge"), dated as of March 5, 2007, attached to and forming a part of certain 10% Series A Convertible Promissory Notes, dated in November and December, 2005 (collectively, the "Note"), made by AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), payable to the order of the Ellen R. Weiner Family Revocable Trust (the "Holder"), in the total principal amount of \$760,000.

1. Paragraph 1, "Interest," is hereby amended and restated in its entirety as follows:

1. INTEREST

1.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest after the date of the Allonge on a quarterly basis on the first day of April, July, October and on the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

1.2 Within five (5) business days of the execution date of this Allonge, the Company will pay accrued Interest through February 15, 2007. The Company will pay the Interest in units (the "Units") at the rate of \$.20 per Unit (the "Interest Payment Rate"). Each Unit is composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). The Company will pay the accrued Interest through February 15, 2007 by issuing 527,577 Units and will pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of \$.20 per share (the Exercise Price). If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant") for every two Class A Warrants exercised. Each Class B Warrant will be exercisable to purchase one share of Common Stock at a price equal to the greater of \$.20 per share or seventy-five percent (75%) of the average of the closing bid prices of the Common Stock for the five (5) trading days immediately preceding the date of the notice of conversion. The forms of the Class A Warrant and Class B Warrant are set forth as Exhibits B and C, respectively. The Class A Warrants and Class B Warrants are referred to as the "Warrants."

1.3 All Interest payable under the Note after the date of the Allonge will, at the option of the Holder, be payable in cash or Units, valued at the Interest Payment Rate, as such term is defined in this Note. The Company will pay any Interest that cannot be paid in full Units in cash.

1.4 Paragraph 3 of the Note is hereby amended and restated in its entirety as follows:

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 3, 2008 (the "Maturity Date"). At any time prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, without penalty, on ten (10) days' advance written notice to the Holder, subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion) redeemed. If the Company plans to pay the Note in full on or after the Maturity Date, it will give the Holder the opportunity to convert at the Conversion Price for a period of ten (10) days after delivery of written notice of the payment to the Holder. The Company may prepay this Note at anytime after issuance without penalty.

1.5 Paragraph 5.1 of the Note is hereby amended and restated

in its entirety as follows:

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into Units at any time after the Issue Date prior to the close of business on the Business Day preceding the Maturity Date at the rate of \$.20 per Unit (the "Conversion Price"), subject to adjustment as hereinafter provided. Each Unit is composed of one share of Common Stock and one Class A Warrant. Each Class A Warrant is exercisable to purchase one share of Common Stock at the Exercise Price. If the Holder exercises Class A Warrants on or before July 3, 2008, the Company will issue the Holder one Class B Warrant for every two Class A Warrants exercised. The Common Stock comprising the Units shall be deemed to have a value of \$0.199 per share and the Class A Warrant and Class B Warrant shall each be deemed to have a value of \$0.001. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

1.6 Paragraphs 11.1.2 and 11.1.3 are amended and restated in their entirety as follows:

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11.1.2 Failure of the Company to pay Interest when due hereunder; or

11.1.3 Except for Events of Default set forth in Paragraphs 11.1.1 and 11.1.2, failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

2. Paragraph 26, "Covenants of the Company," is hereby added as follows:

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Company does not have a sufficient number of authorized shares of its Common Stock to make all of the share issuances pursuant to the Note, the Warrants and this Allonge. The Company will use its best efforts to obtain shareholder approval to increase the number of authorized shares by an amount sufficient to satisfy the requirements of the Note, the Warrants and this Allonge, but not less than five (5) million shares, at its annual meeting of shareholders, which meeting will be held no later than March 31, 2007. The Company will reserve such number of shares of Common Stock as are required for issuance under the Notes, the Warrants and this Allonge;

26.2 The Class A Warrants will have a term expiring on January 2, 2011 and the Class B Warrants will have a term of three years from their respective dates of issuance. All Warrants will be assignable by their holders;

26.3 The Company will amend its Registration Statement No. 333-130915 and/or file a new registration statement with the SEC on or before March 31, 2007 to cover the shares of Common Stock that may be issued under the Notes, the Warrants and this Allonge, but not fewer than 20,000,000 shares. The Company will use its best efforts to have such amendment or new Registration Statement declared effective promptly and will cause such registration statement to remain effective while the Notes and Warrants are outstanding;

26.4 The Company will collaborate with the Holder to expand its Board of Directors by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Allonge. Such additional director will remain on the Board while the

Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to an observer at the Board meetings, which observer shall be included in all meetings of the Board;

26.5 The Company will hold Board of Directors meetings, whether formal or informal, at least once per month; and

26.6 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.7 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in A BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of \$0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above \$0.20 per share.

This right of first refusal in favor of the Holder will apply to all securities of the Company convertible into Common Stock and will expire upon the later of the payment of the Notes in full or exercise of all of the Warrants. This right of first refusal shall not apply to securities issuable under the Fusion funding facility; and

26.8 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of the Notes, the Warrants and this Allonge. The Company will bear all reasonable costs associated with the preparation and implementation of this Allonge.

2.1 The following definitions in Paragraph 24, "Definitions," are hereby amended and restated as follows:

"Maturity Date" means January 3, 2008.

"Senior Indebtedness" means any Indebtedness of the Company, outstanding prior to the date of this Allonge, unless such Indebtedness is PARI PASSU with or contractually subordinate or junior in right of payment to the Notes, except Indebtedness to any Affiliate of the Company, which shall be junior and subordinate to the Notes.

"Subordinated Indebtedness of the Company" means any Indebtedness of the Company incurred after the date of this Allonge.

2.2 Paragraph 27, "Senior Subordinated Indebtedness" is hereby added as follows:

27. SENIOR SUBORDINATED INDEBTEDNESS.

27.1 This Note constitutes Senior Subordinated Indebtedness of the Company and is unsecured.

27.2 The Indebtedness evidenced by this Note and all of the Notes will be subordinated to the prior payment when due of the principal of, and premium, if any, and accrued and unpaid interest on, all existing Senior Indebtedness. The Notes will be senior to, in right of payment of principal of, premium, if any, and accrued and unpaid interest on, any Subordinated Indebtedness of the Company.

27.3 Upon any distribution of assets of the Company in any dissolution, winding up, liquidation or reorganization of the

Company, all holders of Senior Indebtedness of the Company must be paid in full before any payment or distribution is made with respect to the Notes. The Company shall pay all principal and accrued and unpaid Interest on the Notes before it makes any payment or distribution to the holders of Subordinated Indebtedness.

2.3 In all other respects, the Note is confirmed, ratified, and approved and, as amended by this Allonge, shall continue in full force and effect.

IN WITNESS WHEREOF, the Company and Holder have caused this Allonge to be executed and delivered by their respective duly authorized officer and trustee on March 5, 2007, to be effective as of the date and year first above written.

AETHLON MEDICAL, INC.

/s/ James A. Joyce

James A. Joyce
Its: Chairman and CEO

Accepted and agreed to:
Ellen R. Weiner Family Revocable Trust

By: /s/ Ellen R. Weiner

Ellen R. Weiner

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (the "Agreement") is entered into as of November 29, 2007, by and among AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), and the parties who are signatories to this Agreement (collectively referred to as the "Holders").

WHEREAS, the Company and the Holders entered into a certain Amended and Restated 10% Series A Convertible Promissory Note (the "Note") in exchange for cancelling certain prior promissory notes ("Prior Notes") and allonges ("Allonges");

WHEREAS, in order to induce the Holders to amend the Prior Notes, the Company has entered into this Agreement to register the shares of Common Stock issuable upon exercise of the Class A Principal Warrants ("Class A Principal Warrants"), Class A Common Stock Purchase Warrants (the "Class A Warrants"), Class A-1 Common Stock Purchase Warrants (the "Class A-1 Warrants"), the Class B Common Stock Purchase Warrants (the "Class B Warrants") and the Class B-1 Common Stock Purchase Warrants (the "Class B-1 Warrants") under the Securities Act of 1933, as amended (the "Act") in accordance with the provisions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties hereto agree as follows:

1. DEFINITIONS.

As used in this Agreement, the following terms shall have the following meanings. Other capitalized terms in this Agreement will have the meanings set forth in the Notes and the Warrants, as the case may be.

1.1 "BUSINESS DAY" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York or the State of California are authorized or required by law or other government actions to close.

1.2 "EFFECTIVENESS DATE" means, with respect to the initial Registration Statement required to be filed hereunder as to shares of Common Stock underlying the Class A Principal Warrants, the Class A Warrants and the Class A-1 Warrants, the ninetieth (90th) calendar day following the Filing Date and, with respect to any additional Registration Statements which may be required pursuant to Section 3.3, the ninetieth (90th) calendar day following the date on which the Company first knows, or reasonably should have known, that such additional Registration Statement is required hereunder; PROVIDED, HOWEVER, if the Company is notified by the Commission that one of the above Registration Statements will not be reviewed or is no longer subject to further review and comments, the Effectiveness Date as to such Registration Statement shall be the tenth (10th) Trading Day following the date on which the Company is so notified if such date precedes the dates required above.

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1.3 "EFFECTIVENESS PERIOD" shall have the meaning set forth in Section 2.1.

1.4 "FILING DATE" means, with respect to the initial Registration Statement required to be filed hereunder as to shares of Common Stock underlying the Class A Principal Warrants, Class A Warrants and Class A-1 Warrants, March 31, 2008 and, with respect to any additional Registration Statements which may be required pursuant to Section 3.3, the thirtieth (30th) day following the issuance date of any of the other Warrants or such other date on which the Company first knows, or reasonably should have known that such additional Registration Statement is required hereunder.

1.5 "HOLDER" or "HOLDERS" means the holder or holders, as the case may be, from time to time of Registrable Securities.

1.6 "INDEMNIFIED PARTY" shall have the meaning set forth in Section 5.3.

1.7 "INDEMNIFYING PARTY" shall have the meaning set forth in Section 5.3.

1.8 "PROSPECTUS" means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by a Registration Statement, and all

other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

1.9 "REGISTRABLE SECURITIES" means all of the shares of Common Stock issuable upon the exercise of the Warrants together with any securities issued or issuable upon any stock split, dividend or other distribution recapitalization or similar event with respect to the foregoing.

1.10 "REGISTRATION STATEMENT" means the registration statements required to be filed hereunder and any additional registration statements contemplated by Section 3.3, including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

1.11 "RULE 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

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1.12 "RULE 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

1.13 "SPECIAL COUNSEL" means one special counsel for the Holders, the cost of whose services will be reimbursed by the Company pursuant to Section 4.

1.14 "WARRANTS" shall mean the Class A Principal Warrants, Class A Warrants, Class A-1 Warrants, Class B Warrants and Class B-1 Warrants issued to the Holders.

2. SHELF REGISTRATION.

2.1 On or prior to each Filing Date, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering the resale of all Registrable Securities applicable to such Filing Date for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on Form SB-2 or another appropriate form in accordance herewith) and shall contain (except if otherwise directed by the Holders) the "Plan of Distribution" in substantially the form attached hereto as EXHIBIT A. The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the applicable Effectiveness Date, and shall use its best efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two years after the expiration date of the Warrants or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k), as determined by the counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent and the affected Holders (the "EFFECTIVENESS PERIOD").

2.2 The Registration Statements to be filed hereunder shall include a number of shares of Common Stock equal to no less than the sum of 150% of the number of shares of Common Stock issuable upon exercise in full of the Registrable Securities subject to such Registration Statement.

2.3 The Company shall be subject to the provisions of Sections 2.4 if

2.3.1 a Registration Statement is not filed on or prior to its respective Filing Date (if the Company files such Registration Statement without affording the Holder the opportunity to review and comment on the same as required by Section 3.1 hereof, the Company shall not be deemed to have satisfied this Subsection 2.3.1); or

2.3.2 a Registration Statement filed hereunder is not declared effective by the Commission on or prior to its Effectiveness Date; or

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2.3.3 after a Registration Statement is filed with and declared effective by the Commission, such Registration Statement ceases to be effective as to all Registrable Securities to which it

is required to relate at any time prior to the expiration of the Effectiveness Period without being succeeded within ten (10) Business Days by an amendment to such Registration Statement or by a subsequent Registration Statement filed with and declared effective by the Commission; or

2.3.4 the Common Stock shall be delisted or suspended from trading on the New York Stock Exchange, American Stock Exchange, the Nasdaq Stock Market or the Nasdaq OTC Bulletin Board (each, a "SUBSEQUENT MARKET") for more than twenty (20) Business Days (which need not be consecutive Business Days); or

Any failure or breach set forth in this Section 2.3 is referred to as an "EVENT." The following are referred to as "Event Date": for purposes of Subsections 2.3.1 and 2.3.2, the date on which such Event occurs, or for purposes of Subsections 2.3.3 and 2.3.4, the date on which such ten (10) and twenty (20) Business Day periods are exceeded.

2.4 On an Event Date, the Company shall pay to each Holder, as liquidated damages and not as a penalty, an amount in cash equal to one percent (1.0%) of the original principal amount of the Notes of such Holder. On every month after the Event Date until the applicable Event is cured, the Company shall pay to each Holder, as liquidated damages and not as a penalty, an amount in cash equal to one and one-half percent (1.5%) of the original principal amount of the Notes. If the Warrants have been issued and are "in the money," the penalties shall be computed based on the value of any outstanding Warrants on an Event Date and on each month following an Event Date until the Event is cured. The value of the Warrants for such purposes shall be the difference between the closing price of the Common Stock on the Event Date (and after the Event Date, the average of the closing sales prices during the applicable month) and the exercise price multiplied by the number of shares of Common Stock issuable upon exercise of the Warrants. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven (7) days after the date payable, the Company will pay interest thereon at a rate of twelve (12%) per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. At the option of the Company, shares of Common Stock may be issued to the Holder in lieu of a cash payment for such liquidated damages based upon the Conversion Price then in effect, provided that such shares have been registered for resale by such Holder and the Company provides the Holder with at least five (5) Business Days' irrevocable notice prior to the date such payment is due. The liquidated damages pursuant to the terms hereof shall apply on a pro-rata basis for any portion of a month prior to the cure of an Event.

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3. REGISTRATION PROCEDURES. In connection with the Company's registration obligations hereunder, the Company shall:

3.1 Not less than five (5) Business Days prior to the filing of each Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall (i) furnish to the Holders and their Special Counsel copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders and their Special Counsel, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the reasonable opinion of respective counsel to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities and their Special Counsel shall reasonably object, provided the Company is notified of such objection no later than five (5) Business Days after the Holders have been so furnished copies of such documents and provided, further, that such objections relate to the selling shareholder information, the plan of distribution, any information relating to the Holders, either directly or indirectly, or the compliance under the Securities Act of such Registration Statement or Prospectus as to form.

3.2 (i) Prepare and file with the Commission such amendments, including post-effective amendments, to a Registration Statement and the Prospectus used in connection therewith as may be necessary to keep a Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented

or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible, and in any event within ten (10) days, to any comments received from the Commission with respect to a Registration Statement or any amendment thereto and as promptly as reasonably possible provide the Holders true and complete copies of all correspondence from and to the Commission relating to a Registration Statement; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by a Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in such Registration Statement as so amended or in such Prospectus as so supplemented.

3.3 File additional Registration Statements (i) upon the issuance of the Class B Warrants or Class B-1 Warrants or (ii) if the number of Registrable Securities at any time exceeds seventy-five percent (75%) of the number of shares of Common Stock then registered for the account of the Holders in all existing Registration Statements hereunder.

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3.4 Notify the Holders of Registrable Securities to be sold and their Special Counsel as promptly as reasonably possible (and, in the case of (i) (A) below, not less than five (5) Business Days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one Business Day following the day (i) (A) when a Prospectus or any Prospectus supplement or post-effective amendment to a Registration Statement is proposed to be filed; and (B) with respect to a Registration Statement or any post-effective amendment, when the same has become effective; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of a Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (iv) of the occurrence of any event or passage of time that makes the financial statements included in a Registration Statement ineligible for inclusion therein or any statement made in a Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to a Registration Statement, Prospectus or other documents so that, in the case of a Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.5 Promptly deliver to each Holder and their Special Counsel, without charge, as many copies of the Prospectus or Prospectuses, including each form of Prospectus, and each amendment or supplement thereto as such Persons may reasonably request. The Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

3.6 Prior to any public offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling Holders and their Special Counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

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3.7 Cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free, to the extent permitted by law, of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Holders may request.

3.8 Upon the occurrence of any event contemplated this Section 3, as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to a Registration Statement or a

supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither a Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.9 Comply with all applicable rules and regulations of the Commission.

3.10 Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

3.11 Furnish to each Holder and their Special Counsel, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

3.12 Notwithstanding anything herein to the contrary, if at any time or from time to time during the Effectiveness Period, the Company notifies the Holders in writing of the existence of a Potential Material Event (as defined below), the Holders shall not offer or sell any Securities from the time of the giving of notice with respect to a Potential Material Event until the Holders receive written notice from the Company that such Potential Material Event either has been disclosed to the public or no longer constitutes a Potential Material Event; PROVIDED, HOWEVER, that, subject to Subsections 3.12.1 and 3.12.2, the Company may not so suspend the right to such holders of Securities for more than sixty (60) calendar days in the aggregate during any twelve-month period, and if such period is exceeded, such period shall be deemed an "Event" and the Company shall be liable to the Holder for liquidated damages pursuant to Section 2(c); PROVIDED, FURTHER, subject to Subsections 3.12.1 and 3.12.2, the failure to maintain a Registration Statement for not more than sixty (60) calendar days in the aggregate during any twelve (12) month period as a result of a Potential Material Event shall not be deemed a breach of this Agreement, provided the Company timely pays the Holder such liquidated damages. The Company must give the Holders at least thirty (30) calendar days' prior written notice that such a blackout period (without indicating the nature of such blackout period) will occur and such notice must be acknowledged in writing by the Holders. Failure to provide the Holders with such notice shall constitute an Event during the entire applicable period that the Registration Statement is suspended. "Potential Material Event" means any of the following:

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3.12.1 The Board of Directors of the Company determines, in its good faith judgment, that the use of any Prospectus would require the disclosure of important information which the Company has a bona fide business purpose for preserving as confidential or the disclosure of which would impede the Company's ability to consummate a significant transaction, in which event such period may be extended for up to thirty (30) additional days in any twelve (12) month period;

3.12.2 Company consummates any business combination for purposes of Rule 3-05 or Article 11 of Regulation S-X under the Securities Act, in which event such restricted period may be extended until the date on which the Company has filed such reports or obtained the financial information required by Rule 3-05 or Article 11 of Regulation S-X to be included in the Registration Statement, but in no event more sixty (60) additional days in any twelve (12) month period;

3.12.3 After one year from the Closing Date, the Company files or proposes to file a registration statement in an underwritten primary equity offering initiated by the Company (other than any registration by the Company on Form S-8), which underwriters are reasonably acceptable to a majority in interest of the Holders, or a successor or substantially similar form, of (i) an employee stock option, stock purchase or compensation plan or of securities issued or issuable pursuant to any such plan, or (ii) a dividend reinvestment plan), in which event such restricted period may be extended for thirty (30) days prior to the effective date of the registration statement covering such underwritten primary equity offering and ending on the date specified by such managing underwriter in such written request to each Holder, which date shall be no more than thirty (30) days after such effective date, during

which the Holder agrees, if requested in writing by the managing underwriter or underwriters administering such offering, not to effect any offer, sale or distribution of Company securities (or any option or right to acquire Company securities;

4. REGISTRATION EXPENSES. All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the Nasdaq OTC Bulletin Board and any Subsequent Market on which the Common Stock is then listed for trading, and (B) in compliance with applicable state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky

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qualifications or exemptions of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as requested by the Holders)); (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses requested by the Holders); (iii) messenger, telephone and delivery expenses; (iv) fees and disbursements of counsel for the Company; and (v) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement; and (vi) and fees and expenses of the Special Counsel up to \$20,000. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder.

5. INDEMNIFICATION.

5.1 INDEMNIFICATION BY THE COMPANY. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in a Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (i) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in a Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (ii) in the case of an occurrence of an event of the type specified in Section 3.4(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6.5. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

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5.2 INDEMNIFICATION BY HOLDERS. Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising out of or based upon any untrue statement of a material fact contained in

any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in such Registration Statement or such Prospectus or to the extent that (i) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (ii) in the case of an occurrence of an event of the type specified in Section 3(d)(ii)-(vi), the use by such Holder of an outdated or defective Prospectus after the Company has notified such Holder in writing that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 6(e). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

5.3 CONDUCT OF INDEMNIFICATION PROCEEDINGS.

5.3.1 If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "INDEMNIFIED PARTY"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

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5.3.2 An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (i) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (ii) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (iii) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

5.3.3 All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten (10) Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

5.4 CONTRIBUTION.

5.4.1 If a claim for indemnification under Section 5.1 or 5.2 is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any

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action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5.3, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

5.4.2 The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5.4 were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5.4, no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

5.4.3 The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. MISCELLANEOUS.

6.1 AMENDMENTS AND WAIVERS. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Holders of at least two-thirds of the then outstanding Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; PROVIDED, HOWEVER, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

6.2 NO INCONSISTENT AGREEMENTS. Neither the Company nor any of its subsidiaries has entered, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities, that would have the effect of impairing the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as and to the extent specified in Schedule 6.2 hereto, neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person that have not been satisfied in full.

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6.3 NO PIGGYBACK ON REGISTRATIONS. Except as and to the extent specified in Schedule 6.3 hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right to any of its security holders.

6.4 COMPLIANCE. Each Holder covenants and agrees that it will

comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

6.5 DISCONTINUED DISPOSITION. Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Sections 3.4, such Holder will forthwith discontinue disposition of such Registrable Securities under a Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3.8, or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph.

6.6 PIGGY-BACK REGISTRATIONS. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each Holder written notice of such determination and, if within fifteen (15) days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Registrable Securities such holder requests to be registered, subject to customary underwriter cutbacks applicable to all Holders of registration rights; provided, that, the Company shall not be required to register any Registrable Securities pursuant to this Section 6.6 that are eligible for resale pursuant to Rule 144(k) promulgated under the Securities Act.

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6.7 NOTICES. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be delivered as set forth in the Purchase Agreement.

6.8 SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign their respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

6.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

6.10 GOVERNING LAW. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of San Diego, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Agreement, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorney's

fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

6.11 CUMULATIVE REMEDIES. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

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6.12 SEVERABILITY. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

6.13 HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

6.14 INDEPENDENT NATURE OF PURCHASERS' OBLIGATIONS AND RIGHTS. The obligations of each Purchaser hereunder is several and not joint with the obligations of any other Purchaser hereunder, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Purchaser shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

AETHLON MEDICAL, INC.

By: /s/ James Joyce

Name: James Joyce
Title: President and Chief Executive
Officer

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HOLDER SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT

Signature of Holder

\$ _____
Outstanding Principal Amount of Notes

Name of Holder

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EXHIBIT A

PLAN OF DISTRIBUTION

The Selling Stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the

shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling shares:

- o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately negotiated transactions;
- o short sales;
- o broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;
- o a combination of any such methods of sale; and
- o any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act of 1933, if available, rather than under this prospectus. Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Stockholders may from time to time pledge or grant a security interest in some or all of the Shares or Common Stock or Warrant owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of Selling Stockholders to include the pledgee, transferee or other successors in interest as Selling Stockholders under this prospectus.

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The Selling Stockholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The Selling Stockholders have informed the Company that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

The Company is required to pay all fees and expenses incident to the registration of the shares. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

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THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

WARRANT NO: _____

CLASS A
COMMON STOCK PURCHASE WARRANT
("CLASS A WARRANT")
OF

AETHLON MEDICAL, INC.

Aethlon Medical, Inc. (the "Company"), a Nevada corporation, hereby certifies that, for value received of \$.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the date hereof and before the Expiration Date (as defined below), to purchase from the Company _____ shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$0.20 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). The Warrant is being issued as a part of a Unit consisting of this Warrant and one share of Common Stock in consideration for accrued interest due under that certain Amended and Restated 10% Series A Convertible Note entered into between the Company and the Holder (the "Note").

1. TERMS OF THE WARRANT.

1.1 TIME OF EXERCISE. Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on January 3, 2008 (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., January 3, 2013 (the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease. If this Warrant is exercised in whole or in part on or before February 15, 2010, the Company will issue to the Holder one Class B Common Stock Purchase Warrant ("Class B Warrant") for every two Shares purchased under this Warrant.

1.2 MANNER OF EXERCISE.

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, together with the full Purchase Price for each Share to be purchased (i) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (ii) a manner acceptable to the Company.

1.2.2 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.3 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.4 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.5 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holders shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the Holder of this Warrant

shall fail to make any such request, such failure shall not affect the continuing obligations of the Company to afford to such Holder any such rights.

1.3 EXCHANGE OF WARRANT. This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 HOLDER AS OWNER. Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and

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payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 TRANSFER AND ASSIGNMENT. This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 METHOD FOR ASSIGNMENT. Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 RIGHTS OF HOLDER. Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

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1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company; then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 LOST WARRANT CERTIFICATE(S). Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully-paid and non-assessable.

1.10 LIMITATION ON EXERCISE RIGHTS. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the

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number of shares of Common Stock beneficially owned and those shares issuable upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any

specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A "Person" means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES PURCHASABLE UPON EXERCISE.

2.1 RECAPITALIZATION. The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Paragraph 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Paragraph 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

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2.2 MERGER OR CONSOLIDATION. In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation. and as an exchange for a larger or smaller number of shares, as the case may be.

2.3 NOTICE OF DISSOLUTION OR LIQUIDATION. Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.4 STATEMENT OF ADJUSTMENT. Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.5 NO FRACTIONAL SHARES. The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.5, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.6 NO CHANGE IN FORM REQUIRED. The form of Warrant need not be changed because of any change pursuant to this Section 2 in the Purchase Price or in the

number of Shares purchasable upon the exercise of a Warrant, may state the same Purchase Price and the same number of shares of Common Stock as are stated in the Warrants initially issued pursuant to the Agreement.

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3. REGISTRATION UNDER THE SECURITIES ACT OF 1933.

3.1 REGISTRATION AND LEGENDS. The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act, or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act") or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Securities Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 NO-ACTION LETTER. The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission"), stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no Registration Statement under which such shares are to be registered is required to be filed.

3.3 REGISTRATION RIGHTS. The Holder shall have the right, under the terms of a Registration Rights Agreement dated November 29, 2007 between the Holder and the Company, to cause the Company to register the Common Stock underlying this Warrant (the "Underlying Common Stock") in a Registration Statement under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "SEC").

3.4 RULE 144. If the Company (a) has or registers a class of securities under Section 12 of the Exchange Act or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as it requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

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3.5 AGREEMENTS. The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. RESERVATION OF SHARES. The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. SURVIVAL. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property) issuable on exercise hereof.

6. REMEDIES. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement

contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7. OTHER MATTERS.

7.1 BINDING EFFECT. All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 NOTICES. Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

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7.3 GOVERNING LAW. The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

7.4 PARTIES BOUND AND BENEFITTED. Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 HEADINGS. The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the 29th day of November, 2007.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chairman and Chief Executive Officer

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AETHLON MEDICAL, INC.

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

SUBSCRIPTION FORM

AETHLON MEDICAL, INC.
3030 BUNKER HILL STREET
SUITE 4000, SAN DIEGO, CA

The undersigned hereby irrevocably subscribes for the purchase of _____

shares of Common Stock (the "Shares"), pursuant to and in accordance with the terms and conditions of this Warrant, and herewith makes payment, covering the purchase of the Shares, which should be delivered to the undersigned at the address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

WARRANT NO: _____

CLASS A PRINCIPAL
COMMON STOCK PURCHASE WARRANT
("CLASS A PRINCIPAL WARRANT")
OF

AETHLON MEDICAL, INC.

Aethlon Medical, Inc. (the "Company"), a Nevada corporation, hereby certifies that, for value received of \$.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the date hereof and before the Expiration Date (as defined below), to purchase from the Company _____ shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$0.20 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). The Warrant is being issued in conjunction with that certain Amended and Restated 10% Series A Convertible Note entered into between the Company and the Holder (the "Note").

1. TERMS OF THE WARRANT.

1.1 TIME OF EXERCISE. Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on November 29, 2007 (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., November 29, 2012 (the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease. If this Warrant is exercised in whole or in part on or before February 15, 2010, the Company will issue to the Holder one Class B Common Stock Purchase Warrant ("Class B Warrant") for every two Shares purchased under this Warrant.

1.2 MANNER OF EXERCISE.

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, together with the full Purchase Price for each Share to be purchased (i) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (ii) a manner acceptable to the Company.

1.2.2 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.3 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.4 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.5 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holders shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the Holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligations of the Company to afford to such Holder any such rights.

1.3 EXCHANGE OF WARRANT. This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 HOLDER AS OWNER. Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and

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payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 TRANSFER AND ASSIGNMENT. This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 METHOD FOR ASSIGNMENT. Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 RIGHTS OF HOLDER. Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

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1.7.4 There shall be proposed a voluntary or involuntary

dissolution, liquidation or winding up of the Company; then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 LOST WARRANT CERTIFICATE(S). Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully-paid and non-assessable.

1.10 LIMITATION ON EXERCISE RIGHTS. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the

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number of shares of Common Stock beneficially owned and those shares issuable upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A "Person"

means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES PURCHASABLE UPON EXERCISE.

2.1 RECAPITALIZATION. The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Paragraph 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Paragraph 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

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2.2 MERGER OR CONSOLIDATION. In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation. and as an exchange for a larger or smaller number of shares, as the case may be.

2.3 NOTICE OF DISSOLUTION OR LIQUIDATION. Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.4 STATEMENT OF ADJUSTMENT. Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.5 NO FRACTIONAL SHARES. The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.5, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.6 NO CHANGE IN FORM REQUIRED. The form of Warrant need not be changed because of any change pursuant to this Section 2 in the Purchase Price or in the number of Shares purchasable upon the exercise of a Warrant, may state the same Purchase Price and the same number of shares of Common Stock as are stated in

the Warrants initially issued pursuant to the Agreement.

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3. REGISTRATION UNDER THE SECURITIES ACT OF 1933.

3.1 REGISTRATION AND LEGENDS. The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act, or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act") or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Securities Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 NO-ACTION LETTER. The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission"), stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no Registration Statement under which such shares are to be registered is required to be filed.

3.3 REGISTRATION RIGHTS. The Holder shall have the right, under the terms of a Registration Rights Agreement dated November 29, 2007 between the Holder and the Company, to cause the Company to register the Common Stock underlying this Warrant (the "Underlying Common Stock") in a Registration Statement under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "SEC").

3.4 RULE 144. If the Company (a) has or registers a class of securities under Section 12 of the Exchange Act or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as it requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

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3.5 AGREEMENTS. The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. RESERVATION OF SHARES. The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. SURVIVAL. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property) issuable on exercise hereof.

6. REMEDIES. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7. OTHER MATTERS.

7.1 BINDING EFFECT. All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 NOTICES. Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

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7.3 GOVERNING LAW. The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

7.4 PARTIES BOUND AND BENEFITTED. Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 HEADINGS. The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the 29th day of November, 2007.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chairman and Chief Executive Officer

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AETHLON MEDICAL, INC.

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

SUBSCRIPTION FORM

AETHLON MEDICAL, INC.
3030 BUNKER HILL STREET
SUITE 4000, SAN DIEGO, CA

The undersigned hereby irrevocably subscribes for the purchase of _____ shares of Common Stock (the "Shares"), pursuant to and in accordance with the terms and conditions of this Warrant, and herewith makes payment, covering the purchase of the Shares, which should be delivered to the undersigned at the

address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

WARRANT NO: _____

CLASS A-1
COMMON STOCK PURCHASE WARRANT
("CLASS A-1 WARRANT")
OF

AETHLON MEDICAL, INC.

Aethlon Medical, Inc. (the "Company"), a Nevada corporation, hereby certifies that, for value received of \$.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the date hereof and before the Expiration Date (as defined below), to purchase from the Company _____ shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$0.40 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). This Warrant is issued as part of a Unit consisting of this Warrant and one share of Common Stock. The Unit is being issued in consideration for liquidated damages and associated accrued interest due under that certain Amended and Restated 10% Series A Convertible Note entered into between the Company and the Holder (the "Note").

1. TERMS OF THE WARRANT.

1.1 TIME OF EXERCISE. Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on January 3, 2008 (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., January 3, 2013 (the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease. If this Warrant is exercised in whole or in part on or before February 15, 2010, the Company will issue to the Holder one Class B-1 Common Stock Purchase Warrant ("Class B-1 Warrant") for every two Shares purchased under this Warrant.

1.2 MANNER OF EXERCISE.

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, together with the full Purchase Price for each Share to be purchased (i) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (ii) a manner acceptable to the Company.

1.2.2 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.3 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.4 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.5 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holders shall continue to be entitled after such exercise in accordance

with the provisions of this Warrant, provided that if the Holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligations of the Company to afford to such Holder any such rights.

1.3 EXCHANGE OF WARRANT. This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 HOLDER AS OWNER. Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and

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payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 TRANSFER AND ASSIGNMENT. This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 METHOD FOR ASSIGNMENT. Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 RIGHTS OF HOLDER. Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company; then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 LOST WARRANT CERTIFICATE(S). Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully-paid and non-assessable.

1.10 LIMITATION ON EXERCISE RIGHTS. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the

number of shares of Common Stock beneficially owned and those shares issuable upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended

(the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A "Person" means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES PURCHASABLE UPON EXERCISE.

2.1 RECAPITALIZATION. The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Paragraph 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Paragraph 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

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2.2 MERGER OR CONSOLIDATION. In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation, and as an exchange for a larger or smaller number of shares, as the case may be.

2.3 NOTICE OF DISSOLUTION OR LIQUIDATION. Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.4 STATEMENT OF ADJUSTMENT. Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.5 NO FRACTIONAL SHARES. The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.5, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.6 NO CHANGE IN FORM REQUIRED. The form of Warrant need not be changed

because of any change pursuant to this Section 2 in the Purchase Price or in the number of Shares purchasable upon the exercise of a Warrant, may state the same Purchase Price and the same number of shares of Common Stock as are stated in the Warrants initially issued pursuant to the Agreement.

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3. REGISTRATION UNDER THE SECURITIES ACT OF 1933.

3.1 REGISTRATION AND LEGENDS. The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act, or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act") or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Securities Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 NO-ACTION LETTER. The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission"), stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no Registration Statement under which such shares are to be registered is required to be filed.

3.3 REGISTRATION RIGHTS. The Holder shall have the right, under the terms of a Registration Rights Agreement dated November 29, 2007 between the Holder and the Company, to cause the Company to register the Common Stock underlying this Warrant (the "Underlying Common Stock") in a Registration Statement under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "SEC").

3.4 RULE 144. If the Company (a) has or registers a class of securities under Section 12 of the Exchange Act or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as it requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

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3.5 AGREEMENTS. The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. RESERVATION OF SHARES. The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. SURVIVAL. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property) issuable on exercise hereof.

6. REMEDIES. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be

specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7. OTHER MATTERS.

7.1 BINDING EFFECT. All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 NOTICES. Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

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7.3 GOVERNING LAW. The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

7.4 PARTIES BOUND AND BENEFITTED. Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 HEADINGS. The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the 29th day of November, 2007.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chairman and Chief Executive Officer

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AETHLON MEDICAL, INC.

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

SUBSCRIPTION FORM

AETHLON MEDICAL, INC.
3030 BUNKER HILL STREET
SUITE 4000, SAN DIEGO, CA

The undersigned hereby irrevocably subscribes for the purchase of _____

shares of Common Stock (the "Shares"), pursuant to and in accordance with the terms and conditions of this Warrant, and herewith makes payment, covering the purchase of the Shares, which should be delivered to the undersigned at the address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

THIS NOTE AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE NOTE NOR SUCH SHARES OF COMMON STOCK MAY BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

AETHLON MEDICAL, INC.

10% SERIES A CONVERTIBLE NOTE

No. _____ \$ _____

FOR VALUE RECEIVED, Aethlon Medical, Inc., a Nevada corporation (the "Company"), promises to pay to _____, whose address is _____, or registered assigns (the "Holder"), the sum of _____ Dollars (\$ _____) in lawful money of the United States of America on or before the Maturity Date as defined herein, with all Interest thereon as defined and specified herein. This Note includes various advances (the "Advances") that the Holder has made to the Company since July 2005. This Note replaces promissory notes previously issued by the Company to the Holder prior to the Issue Date respecting certain of those Advances and provides documentation for other Advances for which no notes have yet been issued.

1. INTEREST. This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest will accrue on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all Interest on or before the Maturity Date. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

2. PAYMENTS. All payments under this Note shall first be credited against costs and expenses provided for in this Note, second to the payment of any penalties, third to the payment of accrued and unpaid Interest, if any, and the remainder shall be credited against principal. All payments due hereunder shall be payable in legal tender of the United States of America, and in same day funds delivered to Holder by cashier's check, certified check, bank wire transfer or any other means of guaranteed funds to the mailing address provided below, or at such other place as the Holder shall designate in writing for such purpose from time to time. If a payment under this Note otherwise would become due and payable on a Saturday, Sunday or legal holiday (any other day being a "Business Day"), the due date of the payment shall be extended to the next succeeding Business Day, and Interest, if any, shall be payable thereon during such extension.

3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on January 2, 2007 (the "Maturity Date"). At any time on or prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date, the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion thereof) redeemed. At any time after the Maturity Date, the Company shall have the right to repay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such repayment date. The Company may prepay this Note at any time after issuance without penalty.

4. EQUAL RANK. This Note represents one of a series of up to One Million Dollars (\$1,000,000) principal amount of 10% Series A Convertible Notes (the "Notes") issued or to be issued by the Company. All Notes rank equally and ratably without priority over one another.

5. Conversion of Note and Issuance of Warrants.

5.1 CONVERSION OF NOTE/CONVERSION PRICE. This Note is convertible, at the option of the Holder, into shares of the Company's Common Stock (the "Common Stock") at any time after the Issue Date prior to the close of business on the Business Day prior to the Maturity Date at the rate of \$.20 per share (the "Conversion Price"), subject to adjustment as hereinafter provided. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

5.2 ISSUANCE OF WARRANTS. Upon the conversion of this Note, the Company will issue to the Holder a Common Stock Purchase Warrant (the "Warrant") exercisable to purchase the same number of shares of Common Stock into which this Note would be convertible on the Issue Date. The Warrant is exercisable to purchase shares of Common Stock at the price of \$.20 per share and as otherwise specified in the Warrant.

5.3 LIMITATION ON CONVERSION RIGHTS. Notwithstanding any other provision of Paragraph 5 to the contrary, the Holder shall not be entitled to convert this Note, and any other outstanding Notes of this Series A issued to the Holder that is convertible into Common Stock (the "Related Notes") in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of this Note and all Related Notes with respect to which the determination of such proviso is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount of this Note and the Related Notes beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Paragraph, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most

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recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. If the foregoing 9.9% limitation is ever reached and the Holder desires to convert this Note or part thereof into equity, the Company will acknowledge the conversion in writing, but not issue the Holder any additional shares of Common Stock at that point. Under such circumstances the Holder will have the right to receive additional shares of Common Stock as a result of the conversion only at such point and to the extent that its beneficial ownership subsequently becomes less than 9.9% and such issuance will not cause the Holder's beneficial ownership to exceed 9.9%. Upon written notice to this effect given by the Holder, the Company will issue such additional shares in accordance with Paragraph 5.8, "Issuance of Certificate."

5.4 ADJUSTMENT BASED UPON STOCK DIVIDENDS, COMBINATION OF SHARES OR RECAPITALIZATION. The Conversion Price shall be adjusted in the event that the Company shall at any time (i) pay a stock dividend on the Common Stock; (ii) subdivide its outstanding Common Stock into a greater number of shares; (iii) combine its outstanding Common Stock into a smaller number of shares; (iv) issue by reclassification of its Common Stock any other special capital stock of the Company; or (v) distribute to all holders of Common Stock evidences of indebtedness or assets (excluding cash dividends) or rights or warrants to subscribe for Common Stock (other than those mentioned above). No adjustment of the Conversion Price will be required until cumulative adjustments amount to One Dollar (\$1.00) per Note or more. Upon the occurrence of an event requiring adjustment of the Conversion Price, and thereafter, the Holder, upon surrender of this Note for conversion, shall be entitled to receive the number of shares of Common Stock or other capital stock of the Company that the Holder would have owned or have been entitled to receive after the happening of any of the events described above had this Note been converted immediately prior to the happening of such event.

5.5 ADJUSTMENT BASED UPON MERGER OR CONSOLIDATION. In case of any consolidation or merger to which the Company is a party (other than a merger in which the Company is the surviving entity and which does not result in any reclassification of or change in the outstanding Common Stock of the Company), or in case of any sale or conveyance to another person, firm, or corporation of the property of the Company as an entirety or substantially as an entirety, the Holder shall have the right to convert this Note into the kind and amount of securities and property (including cash) receivable upon such consolidation, merger, sale or conveyance by the Holder of the number of shares of Common Stock into which such Note might have been converted immediately prior thereto.

5.6 Exercise of Conversion Privilege.

5.6.1 The Conversion Privilege provided for in this Note shall be exercisable by the Holder by written notice to the Company or its successor and the surrender of this Note in exchange for the number of shares (or other securities and property, including cash, in the event of an adjustment of the Conversion Price) into which this Note is convertible based upon the Conversion Price.

5.6.2 The Holder's conversion right set forth in this Paragraph 5.5 may be exercised at any time and from time to time but prior to payment in full of the principal amount of the accrued interest on this Note. Conversion rights will expire at the close of business on the Business Day prior to the Maturity Date or redemption date of this Note.

5.6.3 The Holder may exercise the right to convert all or any portion of the principal amount and accrued Interest on this Note by delivery of (i) this Note and (ii) a completed Conversion Notice in the form attached as Exhibit B on a Business Day to the Company's principal executive offices. Such conversion shall be deemed to have been made immediately prior to the close of business on the Business Day of such delivery a conversion notice (the "Conversion Date"), and the Holder shall be treated for all purposes as the record holder of the shares of Common Stock into which this Note is converted as of such date.

5.6.4 Upon conversion of the entire principal amount and accrued Interest of this Note and the delivery of shares of Common Stock upon conversion of this Note, except as otherwise provided in Paragraph 22, "Representations and Warranties to Survive Closing," the Company shall be forever released from all of its obligations and liabilities under this Note.

5.7 CORPORATE STATUS OF COMMON STOCK TO BE ISSUED. All Common Stock (or other securities in the event of an adjustment of the Conversion Price) which may be issued upon the conversion of this Note shall, upon issuance, be fully paid and nonassessable.

5.8 ISSUANCE OF CERTIFICATE. Upon the conversion of this Note, the Company shall, within five (5) Business Days of such conversion, issue to the Holder a certificate or certificates representing the number of shares of the Common Stock (or other securities in the event of an adjustment of the Conversion Price) to which the conversion relates.

6. STATUS OF HOLDER OF NOTE. This Note shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company or to any rights whatsoever except the rights herein expressed, and no dividends shall be payable or accrue in respect of this Note or the securities issuable upon the conversion hereof unless and until this Note shall be converted. Upon the conversion of this Note, the Holder shall, to the extent permitted by law, be deemed to be the holder of record of the shares of Common Stock and Warrants issuable upon such conversion, notwithstanding that the stock transfer books of the Company shall then be closed or that the certificates representing such shares of Common Stock and Warrants shall not then be actually delivered.

7. RESERVE OF SHARES OF COMMON STOCK. The Company shall reserve out of its authorized shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, a number of shares sufficient to enable it to comply with its obligation to issue shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, upon the conversion of this Note.

8. Transfer Restrictions; Exemption from Registration.

8.1 The Holder agrees that (i) this Note and the shares of Common Stock issuable upon conversion have not been registered under the Act and may not be sold or transferred without registration under the Act or unless an exemption from such registration is available; (ii) the Holder has acquired this Note and will acquire the Common Stock for its own account for investment purposes only and not with a view toward resale or distribution; and (iii) if a registration statement that includes the Common Stock is not effective at the time Common Stock is issued to Holder upon conversion under this Note, and the Common Stock is not exempt from registration under Rule 144, then the Common Stock shall be inscribed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR

APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

8.2 If an opinion of counsel of Holder provides that registration is not required for the proposed conversion or transfer of this Note or the proposed transfer of the shares of Common Stock issuable upon conversion and that the proposed conversion or transfer in the absence of registration would require the Company to take any action including executing and filing forms or other documents with the Securities and Exchange Commission (the "SEC") or any state securities agency, or delivering to the Holder any form or document in order to establish the right of the Holder to effectuate the proposed conversion or transfer, the Company agrees promptly, at its expense, to take any such action; and provided, further, that the Company will reimburse the Holder in full for any expenses (including but not limited to the fees and disbursements of such counsel, but excluding brokers' commissions) incurred by the Holder or owner of shares of Common Stock on his, her or its behalf in connection with such conversion or transfer of the Note or transfer of the shares of Common Stock.

9. Registration Rights.

The Holders of the Notes and Warrants or Common Stock issued to the Holder without an effective Registration Statement under the Act (the "Restricted Shares") shall have the right, under the terms of a Registration Rights Agreement between the Holder and the Company, to cause the Company register the Common Stock underlying the Notes and Warrants (the "Underlying Common Stock") or Restricted Shares in a Registration Statement under the Securities Act 1993, as amended ("Act"), filed by the Company with the SEC.

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10. Rule 144

If the Company (a) has or registers a class of securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder to enable the Holder to make sales pursuant to Rule 144.

11. DEFAULT. The Company shall perform its obligations and covenants hereunder and in each and every other agreement between the Company and Holder pertaining to the Indebtedness evidenced hereby. The following provisions shall apply upon failure of the Company so to perform.

11.1 EVENT OF DEFAULT. Any of the following events shall constitute an "Event of Default" hereunder:

11.1.1 Failure by the Company to pay principal of any of the Notes when due and payable on the Maturity Date;

11.1.2 Failure of the Company to pay Interest when due hereunder, which failure continues for a period of thirty (30) days after the due date of the amount involved; or

11.1.3 Failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

11.1.4 The entry of an order for relief under Federal Bankruptcy Code as to the Company or entry of any order appointing a receiver or trustee for the Company or approving a petition in reorganization or other similar relief under bankruptcy or similar laws in the United States of America or any other competent jurisdiction, and if such order, if involuntary, is not satisfied or withdrawn within sixty (60) days after entry thereof; or the filing of a petition by the Company seeking any of the foregoing, or consenting thereto; or the filing of a petition to take advantage of any debtor's act; or making a general assignment for the benefit of creditors; or admitting in writing inability to pay debts as they mature.

11.2 ACCELERATION. Upon any Event of Default (in addition to any other rights or remedies provided for under this Note), at the option of the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes

then outstanding, all sums evidenced hereby, including all principal, Interest, fees and all other amounts due hereunder, shall become immediately due and payable. If an Event of Default in the payment of principal or Interest should

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occur and be continuing with respect to the Note, any one or more holders of the Notes then outstanding may declare the principal of the Notes to be immediately due and payable. In the Event of a Default due to a breach of any other covenant or term, Holders representing twenty-five percent (25%) of the principal amount of the Notes may take action to accelerate the Notes.

11.3 NOTICE BY COMPANY. Upon the happening of any Event of Default specified in this paragraph that is not cured within the respective periods prescribed above, the Company will give prompt written notice thereof to the Holder of this Note.

11.4 NO WAIVER. Failure of the Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent Event of Default, or in the event of continuance of any existing Event of Default after demand or performance thereof.

11.5 DEFAULT INTEREST. Default Interest will accrue on an unpaid principal or Interest due hereunder at the rate of fifteen percent (15%) per annum upon the occurrence of any Event of Default until the Event of Default is cured.

11.6 PURSUIT OF ANY REMEDY. No Holder of a Note may pursue any remedy under the Notes unless (i) the Company shall have received written notice of a continuing Event of Default from the Holder and (ii) the Company shall have received a request from Holders of at least twenty-five percent (25%) of principal amount of the Notes to pursue such remedy. The Holders of fifty-one percent (51%) of principal amount of the Notes then outstanding have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Noteholders under the Notes.

12. Assignment, Transfer or Loss of the Note.

12.1 No Holder of this Note may assign, transfer, hypothecate or sell all or any part of this Note or in any way alienate or encumber the Note without the express written consent of the Company, the granting or denial of which shall be within the absolute discretion of the Company. Any attempt to effect such transfer without the consent of the Company shall be null and void. The Company has not registered this Note under the Act or the applicable securities laws of any state in reliance on exemptions from registration. Such exemptions depend upon the investment intent of the Holder at the time he acquires his Note. The Holder is acquiring this Note for his own account for investment purposes only and not with a view toward distribution or resale of such Note within the meaning of the Act and the applicable securities laws of any state. The Company shall be under no duty to register the Note or to comply with an exemption in connection with the sale, transfer or other disposition under the applicable laws and regulations of the Act or the applicable securities laws of any state. The Company may require the Holder to provide, at his expense, an opinion of counsel satisfactory to the Company to the effect that any proposed transfer or other assignment of the Note will not result in a violation of the applicable federal or state securities laws or any other applicable federal or state laws or regulations.

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12.2 All expenses, including reasonable legal fees incurred by the Company in connection with any permitted transfer, assignment or pledge of this Note will be paid by the Holder requesting such transfer, assignment or pledge.

12.3 Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or, in the case of any Note held by the original Noteholder, of an indemnity agreement reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Note to the Company at its principal office for cancellation, the Company at its expense will execute and deliver, in lieu thereof, a new Note of like tenor, dated the date to which interest hereunder shall have been paid on such lost, stolen, destroyed or mutilated Note.

12.4 Subject to Subparagraph 12.1 above, the Holder may, at his option, either in person or by duly authorized attorney, surrender this Note for registration of transfer at the principal office of the Company and, upon payment of any expenses associated with the transfer, receive in exchange therefor a Note or Notes, dated as of the date to which interest has been paid on the Note so surrendered, each in the principal amount of \$1,000 or any multiple thereof, for the same aggregate unpaid principal amount as the Note so surrendered and registered as payable to such person or persons as may be

designated by the Holder. Every Note surrendered for registration of transfer shall be duly endorsed or shall be accompanied by a written instrument of transfer duly executed by the Holder or his attorney duly authorized in writing. Every Note, so made and delivered by the Company in exchange for any Note surrendered, shall in all other respects be in the same form and have the same terms as the Note surrendered. No transfer of any Note shall be valid unless made in such manner at the principal office of the Company.

12.5 The Company may treat the person in whose name this Note is registered as the owner and Holder of this Note for the purpose of receiving payment of all principal of and all Interest on this Note, and for all other purposes whatsoever, whether or not such Note shall be overdue and, except for transfers effected in accordance with this subparagraph, the Company shall not be affected by notice to the contrary.

13. MODIFICATIONS AND AMENDMENTS. After notice given by the Company to the Holders of all Notes at the time outstanding, the Company may from time to time and at any time enter into an agreement or agreements supplemental to the provisions of this Note for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Notes or of modifying in any manner the rights of the Holders of the Notes; PROVIDED, HOWEVER, that no such supplemental agreement, modification or amendment may, without the consent of the holder of each Note then outstanding affected thereby, (i) reduce the percentage of principal amount of Notes whose Holders may consent to an amendment, supplement or waiver; (ii) reduce the rate or change the time for payment of interest, including Default Interest, on any Note; (iii) reduce the principal amount of any Note or change the Maturity Date of the Notes; (iv) make any Note payable in money other than that stated in the Note; (v) impair the right to institute suit for the enforcement of any payment of principal of, or premium, if any, or interest on, any Note; (vi) make any change in the percentage of principal amount of Notes necessary to waive compliance with certain provisions of the Note; or (vii) waive a continuing default or Event of

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Default in the payment of principal of, premium, if any, or Interest on the Notes. The modifications and amendments of the Notes may be made by the Company without the consent of any Holders of Notes in certain limited circumstances, including (a) to cure any ambiguity, omission, defect or inconsistency, (b) to provide for the assumption of the obligations of the Company under the Notes upon the merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company, or (c) to make any change that does not adversely affect the rights of any holder of Notes. The Holders of a majority in aggregate principal amount of the Notes then outstanding may waive any past default under the Notes, except a default in the payment of principal, premium, if any, or Interest. Promptly after execution by the Company and Holders of the Notes of a supplemental agreement pursuant to the provisions of this paragraph, the Company shall deliver a copy of such supplemental agreement to all Holders of the Notes at the time outstanding.

14. NOTICES. All notices provided for herein shall be validly given if in writing and delivered personally or sent by certified mail, postage prepaid, to the office of the Company or such other address as the Company may from time to time designate in writing sent by certified mail, postage prepaid, to the Holder at his address set forth below or such other address as the Holder may from time to time designate in writing to the Company by certified mail, postage prepaid.

15. USURY. All Interest, Default Interest, fees, charges, goods, things in action or any other sums or things of value, or other contractual obligations (collectively, the "Additional Sums") paid by the Company hereunder, whether pursuant to this Note or otherwise, with respect to the Indebtedness evidenced hereby, or any other document or instrument in any way pertaining to the Indebtedness, which, under the laws of the State of California may be deemed to be Interest with respect to such loan or Indebtedness, shall, for the purpose of any laws of the State of California, which may limit the maximum amount of Interest to be charged with respect to such loan or Indebtedness, be payable by the Company as, and shall be deemed to be, Interest and for such purposes only, the agreed upon and contracted rate of Interest shall be deemed to be increased by the Additional Sums. Notwithstanding any provision of this Note to the contrary, the total liability for payments in the nature of Interest under this Note shall not exceed the limits imposed by applicable law. The Company shall not assert a claim, and shall actively resist any attempts to compel it to assert a claim, respecting a benefit under any present or future usury laws against any Holder of this Note.

16. BINDING EFFECT. This Note shall be binding upon the parties hereto and their respective heirs, executors, administrators, representatives, successors and permitted assigns.

17. COLLECTION FEES. Except as otherwise provided herein, the Company shall pay all costs of collection, including reasonable attorneys' fees and all costs of suit and preparation for such suit (and whether at trial or appellate level), in the event the unpaid principal amount of this Note, or any payment of Interest is not paid when due, or in the event Holder is made party to any

litigation because of the existence of the Indebtedness evidenced by this Note, or if at any time Holder should incur any attorneys' fees in any proceeding under the Federal Bankruptcy Code (or other similar laws for the protection of debtors generally) in order to collect any Indebtedness hereunder or to preserve, protect or realize upon any security for, or guarantee or surety of, such Indebtedness whether suit be brought or not, and whether through courts of original jurisdiction, as well as in courts of appellate jurisdiction, or through a bankruptcy court or other legal proceedings.

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18. CONSTRUCTION. This Note shall be governed as to its validity, interpretation, construction, effect and in all other respects by and in accordance with the laws and interpretations thereof of the State of California. Unless the context otherwise requires, the use of terms in singular and masculine form shall include in all instances singular and plural number and masculine, feminine and neuter gender.

19. SEVERABILITY. In the event any one or more of the provisions contained in this Note or any future amendment hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Note or such other agreement, and in lieu of each such invalid, illegal or unenforceable provision there shall be added automatically as a part of this Note a provision as similar in terms to such invalid, illegal or unenforceable provision as may be possible and be valid, legal and enforceable.

20. ENTIRE AGREEMENT. This Note Agreement represents the entire agreement and understanding between the parties concerning the subject matter hereof and supersede all prior and contemporaneous agreements, understandings, representations and warranties with respect thereto.

21. GOVERNING LAW; JURISDICTION; JURY TRIAL. The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its shareholders. All other questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by the internal laws of the State of California, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of California or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of San Diego for the adjudication of any dispute hereunder or in connection herewith or therewith, or with any transaction contemplated hereby or discussed herein, or in any manner arising in connection with or related to the transactions contemplated hereby or involving the parties hereto whether at law or equity and under any contract, tort or any other claim whatsoever and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing or faxing a copy thereof to such party at the address for such notices as listed in this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.

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22. REPRESENTATIONS AND WARRANTIES TO SURVIVE CLOSING. All representations, warranties and covenants contained herein shall survive the execution and delivery of this Note and the issuance of any Conversion Shares upon the conversion hereof.

23. HEADINGS. The headings used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

24. Definitions.

"AFFILIATE" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"BOARD OF DIRECTORS" means, with respect to any Person, the Board of Directors of such Person or any committee of the Board of Directors of such Person duly authorized to act on behalf of the Board of Directors of such

Person.

"CAPITAL STOCK" means, with respect to any Person, any and all shares, interests, equity participations or other equivalents (however designated) of corporate stock or partnership interests and any and all warrants, options and rights with respect thereto (whether or not currently exercisable), including each class of common stock and preferred stock of such Person.

"GAAP" means generally accepted accounting principles as in effect in the United States of America as of the Issue Date.

"HOLDER" means a Person in whose name a Note is registered on the Company's books.

"INDEBTEDNESS" means, without duplication, with respect to any Person, (a) all obligations of such Person (i) in respect of borrowed money (whether or not the recourse of the lender is to the whole of the assets of such person or only to a portion thereof); (ii) evidenced by bonds, notes, debentures or similar instruments; (iii) representing the balance deferred and unpaid of the purchase price of any property or services (other than accounts payable or other obligations arising in the ordinary course of business); (iv) evidenced by bankers' acceptances or similar instruments issued or accepted by banks, (v) for the payment of money relating to a capitalized lease obligation under GAAP; or (vi) evidenced by a letter of credit or a reimbursement obligation of such Person with respect to any letter of credit; (b) all net obligations of such Person under interest rate swap obligations and foreign currency hedges; (c) all liabilities of others of the kind described in the preceding clauses (a) or (b) that such Person has guaranteed or that are otherwise its legal liability; (d) Indebtedness (as otherwise defined in this definition) of another Person secured by lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, the amount of such obligations being deemed to be the lesser of (1) the full amount of such obligations so secured, and (2) the fair market value of such asset, as determined in good faith by the Board of Directors of such Person, which determination shall be evidenced by a board resolution; and (e) any and all deferrals, renewals, extensions, refinancings and refundings (whether direct or indirect) of, or amendments, modifications or supplements to, any liability of the kind described in any of the preceding clauses (a), (b), (c), (d) or this clause (e), whether or not between or among the same parties.

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"ISSUE DATE" means the date on which the Note is originally issued.

"MATURITY DATE" means January 2, 2007.

"PERSON" means any individual, corporation, partnership, joint venture, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

A "SUBSIDIARY" of any Person means (i) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more subsidiaries of such Person or by such Person and one or more subsidiaries of such Person, (ii) a partnership in which such Person or a subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if such Person or its subsidiary is entitled to receive more than fifty percent (50%) of the assets of such partnership upon its dissolution, or (iii) any other Person (other than a corporation or partnership) in which such Person, directly or indirectly, at the date of determination thereof, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of directors or other governing body of such Person.

"SUBSIDIARY" means any subsidiary of the Company.

"VOTING STOCK" means, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holders thereof, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency to vote in the election of members of the Board of Directors or other governing body of such Person.

25. MISCELLANEOUS. Except as otherwise provided herein, the Company waives demand, diligence, presentment for payment and protest, notice of extension, dishonor, maturity and protest. Time is of the essence with respect to the performance of each and every covenant, condition, term and provision hereof.

IN WITNESS WHEREOF, this Note has been issued on the 2nd day of November, 2005.

AETHLON MEDICAL, INC.

By /s/ James A. Joyce

James A. Joyce

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Mailing Address of Holder:

Mailing Address of Company:

3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109

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EXHIBIT A

SCHEDULE OF ADVANCES

DATE	AMOUNT
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EXHIBIT B

CONVERSION NOTICE

(To be signed only upon conversion of this Note)

TO: AETHLON MEDICAL, INC.

The undersigned, the registered holder of the 10 % Series A Convertible Note (the "Note") of AETHLON MEDICAL, INC. (the "Company"), hereby surrenders the Note for conversion into shares of Common Stock of the Company (the "Common Stock") to the extent of \$_____ unpaid principal amount of the Note and \$_____ unpaid accrued Interest due under the Note, all in accordance with the provisions of such Note. The undersigned requests (i) that a certificate representing shares of Common Stock, bearing the appropriate legends, be issued to the undersigned, and (ii) if the unpaid principal amount so converted is less than the entire unpaid principal amount of the Note, that a new substitute note representing the portion of said unpaid principal amount that is not so converted be issued in accordance with the provisions of the Note.

(Signature and name of the registered holder)

Print Name

Dated: _____

THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

WARRANT NO: _____

CLASS B
COMMON STOCK PURCHASE WARRANT
("CLASS B WARRANT")
OF

AETHLON MEDICAL, INC.

Aethlon Medical, Inc. (the "Company"), a Nevada corporation, hereby certifies that, for value received of \$.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the date hereof and before the Expiration Date (as defined below), to purchase from the Company _____ shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$.60 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). This Warrant is issued pursuant to the exercise of that certain Class A Warrant issued to the Holder (the "Class A Warrant"). The exercise of the Class A Warrant in whole or in part on or before February 15, 2010 entitles the Holder to one Class B Warrant for every two shares of Common Stock purchased under the Class A Warrant.

1. TERMS OF THE WARRANT.

1.1 TIME OF EXERCISE. Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on _____, 20__ (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., _____, 20__ (five years from the date of issuance, the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease.

1.2 MANNER OF EXERCISE.

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, together with the full Purchase Price for each Share to be purchased (i) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (ii) a manner acceptable to the Company.

1.2.2 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.3 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.4 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.5 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holders shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the Holder of this Warrant shall fail to make any such request, such failure shall not affect the

continuing obligations of the Company to afford to such Holder any such rights.

1.3 EXCHANGE OF WARRANT. This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 HOLDER AS OWNER. Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and

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payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 TRANSFER AND ASSIGNMENT. This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 METHOD FOR ASSIGNMENT. Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 RIGHTS OF HOLDER. Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

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1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company; then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 LOST WARRANT CERTIFICATE(S). Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully-paid and non-assessable.

1.10 LIMITATION ON EXERCISE RIGHTS. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable

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upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any specified Person means any other Person directly or indirectly controlling or

controlled by or under common control with such specified Person. A "Person" means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES PURCHASABLE UPON EXERCISE.

2.1 RECAPITALIZATION. The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Paragraph 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Paragraph 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

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2.2 MERGER OR CONSOLIDATION. In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation. and as an exchange for a larger or smaller number of shares, as the case may be.

2.3 NOTICE OF DISSOLUTION OR LIQUIDATION. Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.4 STATEMENT OF ADJUSTMENT. Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.5 NO FRACTIONAL SHARES. The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.5, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.6 NO CHANGE IN FORM REQUIRED. The form of Warrant need not be changed because of any change pursuant to this Section 2 in the Purchase Price or in the number of Shares purchasable upon the exercise of a Warrant, may state the same

Purchase Price and the same number of shares of Common Stock as are stated in the Warrants initially issued pursuant to the Agreement.

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3. REGISTRATION UNDER THE SECURITIES ACT OF 1933.

3.1 REGISTRATION AND LEGENDS. The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act, or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act") or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Securities Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 NO-ACTION LETTER. The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission"), stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no Registration Statement under which such shares are to be registered is required to be filed.

3.3 REGISTRATION RIGHTS. The Holder shall have the right, under the terms of a Registration Rights Agreement dated November 29, 2007 between the Holder and the Company, to cause the Company to register the Common Stock underlying this Warrant (the "Underlying Common Stock") in a Registration Statement under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "SEC").

3.4 RULE 144. If the Company (a) has or registers a class of securities under Section 12 of the Exchange Act or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as it requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

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3.5 AGREEMENTS. The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. RESERVATION OF SHARES. The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. SURVIVAL. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property) issuable on exercise hereof.

6. REMEDIES. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms

hereof or otherwise.

7. OTHER MATTERS.

7.1 BINDING EFFECT. All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 NOTICES. Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

7.3 GOVERNING LAW. The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

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7.4 PARTIES BOUND AND BENEFITTED. Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 HEADINGS. The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the ____ day of _____, 20__.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chairman and Chief Executive Officer

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AETHLON MEDICAL, INC.

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

SUBSCRIPTION FORM

AETHLON MEDICAL, INC.
3030 BUNKER HILL STREET
SUITE 4000, SAN DIEGO, CA

The undersigned hereby irrevocably subscribes for the purchase of _____ shares of Common Stock (the "Shares"), pursuant to and in accordance with the terms and conditions of this Warrant, and herewith makes payment, covering the

purchase of the Shares, which should be delivered to the undersigned at the address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

THESE SECURITIES MAY NOT BE OFFERED OR SOLD UNLESS AT THE TIME OF SUCH OFFER OR SALE, THE PERSON MAKING SUCH OFFER OR SALE DELIVERS A PROSPECTUS MEETING THE REQUIREMENTS OF SECTION 10 OF THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), FORMING A PART OF A REGISTRATION STATEMENT, OR POST-EFFECTIVE AMENDMENT THERETO, WHICH IS EFFECTIVE UNDER SAID ACT, UNLESS IN THE OPINION OF COUNSEL TO THE CORPORATION, SUCH OFFER AND SALE IS EXEMPT FROM THE PROVISIONS OF SECTION 5 OF SAID ACT.

WARRANT NO: _____

CLASS B-1
COMMON STOCK PURCHASE WARRANT
("CLASS B-1 WARRANT")
OF

AETHLON MEDICAL, INC.

Aethlon Medical, Inc. (the "Company"), a Nevada corporation, hereby certifies that, for value received of \$.001 per Warrant, _____ (the "Holder"), whose address is _____, is entitled, subject to the terms set forth below at any time or from time to time after the date hereof and before the Expiration Date (as defined below), to purchase from the Company _____ shares (the "Shares") of Common Stock, \$.001 par value, at a price of \$0.40 per Share (the purchase price per Share, as adjusted from time to time pursuant to the provisions hereunder set forth, is referred to in this Warrant as the "Purchase Price"). This Warrant is issued pursuant to the exercise of that certain Class A-1 Warrant issued to the Holder on _____ (the "Class A-1 Warrant"). The exercise of the Class A-1 Warrant, in whole or in part, on or before February 15, 2010 entitles the Holder to one Class B-1 Warrant for every two shares of Common Stock purchased under the Class A-1 Warrant.

1. TERMS OF THE WARRANT.

1.1 TIME OF EXERCISE. Subject to the provisions of Sections 1.5, "Transfer and Assignment," and 3.1, "Registration and Legends," this Warrant may be exercised at any time and from time to time after 9:00 a.m., P.S.T., on _____, 20__ (the "Exercise Commencement Date"), but no later than 5:00 p.m., P.S.T., _____, 20__ (five years from the date of issuance, the "Expiration Date"), at which point it shall become void and all rights under this Warrant shall cease.

1.2 MANNER OF EXERCISE.

1.2.1 Upon compliance with and subject to the conditions set forth in this Warrant, the Holder may exercise this Warrant, in whole or in part, upon surrender of this Warrant with the form of subscription attached hereto duly executed to the Company at its corporate office at the address indicated in this Warrant, together with the full Purchase Price for each Share to be purchased (i) in lawful money of the United States, or by certified check, bank draft or postal or express money order payable in United States dollars to the order of the Company or (ii) a manner acceptable to the Company.

1.2.2 Upon receipt of this Warrant with the form of subscription duly executed and accompanied by payment of the aggregate Purchase Price for the Shares for which this Warrant is then being exercised, the Company shall cause to be issued certificates or other evidence of ownership, for the total number of whole Shares for which this Warrant is being exercised in such denominations as are required for delivery to the Holder, and the Company shall thereupon deliver such documents to the Holder or its nominee.

1.2.3 If the Holder exercises this Warrant with respect to fewer than all of the Shares that may be purchased under this Warrant, the Company shall execute a new Warrant for the balance of the Shares that may be purchased upon exercise of this Warrant and deliver such new Warrant to the Holder.

1.2.4 The Company covenants and agrees that it will pay when due and payable any and all taxes which may be payable in respect of the issue of this Warrant, or the issue of any Shares upon the exercise of this Warrant. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of this Warrant or of the Shares in a name other than that of the Holder at the time of surrender, and until the payment of such tax, the Company shall not be required to issue such Shares.

1.2.5 The Company shall, at the time of any exercise of all or part of this Warrant, upon the request of the Holder hereof, acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holders shall continue to be entitled after such exercise in accordance with the provisions of this Warrant, provided that if the Holder of this Warrant

shall fail to make any such request, such failure shall not affect the continuing obligations of the Company to afford to such Holder any such rights.

1.3 EXCHANGE OF WARRANT. This Warrant may be split-up, combined or exchanged for another Warrant or Warrants of like tenor to purchase a like aggregate number of Shares. If the Holder desires to split-up, combine or exchange this Warrant, it shall make such request in writing delivered to the Company at its corporate office and shall surrender this Warrant and any other Warrants to be so split-up, combined or exchanged, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Holder to purchase upon exercise a fraction of a Share. The Company may require the Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants. The term "Warrant" as used herein includes any Warrants issued in substitution for or replacement of this Warrant, or into which this Warrant may be divided or exchanged.

1.4 HOLDER AS OWNER. Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Holder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for the purpose of any exercise hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Irrespective of the date of issue and delivery of certificates for any Shares issuable upon the exercise of the Warrant, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the Shares represented thereby on the date on which all or a portion of the Warrant surrendered in connection with the subscription therefor was surrendered and

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payment of the purchase price was tendered. No surrender of all or a portion of the Warrant on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive Shares upon such surrender as the record holder of such Shares on such date, but such person or persons shall be constituted the record holder or holders of such Shares at the close of business on the next succeeding date on which the stock transfer books are opened. Each person holding any Shares received upon exercise of Warrant shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such Shares.

1.5 TRANSFER AND ASSIGNMENT. This Warrant may not be sold, hypothecated, exercised, assigned or transferred except in accordance with and subject to the provisions of the Securities Act of 1933, as amended (the "Act"), including limiting such transfers to Accredited Investors as that term is defined under Regulation D of the Act.

1.6 METHOD FOR ASSIGNMENT. Any assignment permitted under this Warrant shall be made by surrender of this Warrant to the Company at its principal office with the form of assignment attached hereto duly executed and funds sufficient to pay any transfer tax. In such event, the Company shall, without charge, execute and deliver a new Warrant in the name of the assignee designated in such instrument of assignment and this Warrant shall promptly be canceled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the corporate office of the Company together with a written notice signed by the Holder, specifying the names and denominations in which such new Warrants are to be issued.

1.7 RIGHTS OF HOLDER. Nothing contained in this Warrant shall be construed as conferring upon the Holder the right to vote or consent or receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of this Warrant and prior to its exercise, any of the following shall occur:

1.7.1 The Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

1.7.2 The Company shall offer to the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

1.7.3 There shall be proposed any capital reorganization or reclassification of the Common Stock, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity; or

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1.7.4 There shall be proposed a voluntary or involuntary dissolution, liquidation or winding up of the Company; then, in any one or more of said cases, the Company shall cause to be mailed to the Holder, at the earliest practicable time (and, in any event, not less than thirty (30) days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken to determine the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, or entitled to vote on such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Purchase Price and the kind and amount of the Common Stock and other securities and property deliverable upon exercise of this Warrant. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger, dissolution, liquidation or winding up, as the case may be (on which date, in the event of voluntary or involuntary dissolution, liquidation or winding up of the Company, the right to exercise this Warrant shall terminate). Without limiting the obligation of the Company to provide notice to the holder of actions hereunder, it is agreed that failure of the Company to give notice shall not invalidate such action of the Company.

1.8 LOST WARRANT CERTIFICATE(S). Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction of reasonably satisfactory indemnification, including a surety bond if required by the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will cause to be executed and delivered a new Warrant of like tenor and date. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not this Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

1.9 COVENANTS OF THE COMPANY. The Company covenants and agrees as follows:

1.9.1 At all times it shall reserve and keep available for the exercise of this Warrant into Common Stock such number of authorized shares of Common Stock as are sufficient to permit the exercise in full of this Warrant into Common Stock; and

1.9.2 All Shares issued upon exercise of the Warrant shall be duly authorized, validly issued and outstanding, fully-paid and non-assessable.

1.10 LIMITATION ON EXERCISE RIGHTS. Notwithstanding any other provision of Section 1 to the contrary, the Holder shall not be entitled to exercise this Warrant and any other Warrant (the "Related Warrants") issued by the Company to the Holder or convert any of the Notes issued by the Company to the Holder into Common Stock in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable

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upon conversion of all Notes and Related Warrants with respect to which the determination of such provision is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount(s) of all Notes and the Related Warrants beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Section, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K, as the case may be, or (b) more recent public announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of this Warrant, an "Affiliate" of any

specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. A "Person" means any individual, corporation, partnership, joint venture, trust, estate or unincorporated organization.

2. ADJUSTMENT OF PURCHASE PRICE AND NUMBER OF SHARES PURCHASABLE UPON EXERCISE.

2.1 RECAPITALIZATION. The number of Shares purchasable on exercise of this Warrant and the Purchase Price therefor shall be subject to adjustment from time to time in the event that the Company shall: (i) pay a dividend in, or make a distribution of, shares of Common Stock; (ii) subdivide its outstanding shares of Common Stock into a greater number of shares; (iii) combine its outstanding shares of Common Stock into a smaller number of shares; or (iv) spin-off a subsidiary by distributing, as a dividend or otherwise, shares of the subsidiary to its stockholders. In any such case, the total number of shares purchasable on exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive, at the same aggregate purchase price, the number of shares of Common Stock that the Holder would have owned or would have been entitled to receive immediately following the occurrence of any of the events described above had this Warrant been exercised in full immediately prior to the occurrence (or applicable record date) of such event. An adjustment made pursuant to this Paragraph 2 shall, in the case of a stock dividend or distribution, be made as of the record date and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of any adjustment pursuant to this Paragraph 2, the Holder shall become entitled to receive shares of two or more classes of series of securities of the Company, the Board of Directors of the Company shall equitably determine the allocation of the adjusted purchase price between or among shares or other units of such classes or series and shall notify the Holder of such allocation.

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2.2 MERGER OR CONSOLIDATION. In the event of any reorganization or recapitalization of the Company or in the event the Company consolidates with or merges into another entity or transfers all or substantially all of its assets to another entity, then and in each such event, the Holder, on exercise of this Warrant as provided herein, at any time after the consummation of such reorganization, recapitalization, consolidation, merger or transfer, shall be entitled, and the documents executed to effectuate such event shall so provide, to receive the stock or other securities or property to which the Holder would have been entitled upon such consummation if the Holder had exercised this Warrant immediately prior thereto. In such case, the terms of this Warrant shall survive the consummation of any such reorganization, recapitalization, consolidation, merger or transfer and shall be applicable to the shares of stock or other securities or property receivable on the exercise of this Warrant after such consummation. and as an exchange for a larger or smaller number of shares, as the case may be.

2.3 NOTICE OF DISSOLUTION OR LIQUIDATION. Except as otherwise provided in Section 2.2, "Merger or Consolidation," in the case of any sale or conveyance of all or substantially all of the assets of the Company in connection with a plan of complete liquidation of the Company, or in the case of the dissolution, liquidation or winding-up of the Company, all rights under this Warrant shall terminate on a date fixed by the Company, such date so fixed to be not earlier than the date of the commencement of the proceedings for such dissolution, liquidation or winding-up and not later than thirty (30) days after such commencement date. Notice of such termination of purchase rights shall be given to the Holder at least thirty (30) days prior to such termination date.

2.4 STATEMENT OF ADJUSTMENT. Any adjustment pursuant to the provisions of this Section 2 shall be made on the basis of the number of Shares which the Holder would have been entitled to acquire by exercise of this Warrant immediately prior to the event giving rise to such adjustment and, as to the Purchase Price in effect immediately prior to the rise to such adjustment. Whenever any such adjustment is required to be made, the Company shall forthwith determine the new number of Shares which the Holder hereof shall be entitled to purchase hereunder and/or such new Purchase Price and shall prepare, retain on file and transmit to the Holder within ten (10) days after such preparation a statement describing in reasonable detail the method used in calculating such adjustment.

2.5 NO FRACTIONAL SHARES. The Company shall not issue any fraction of a Share in connection with the exercise of this Warrant, and in any case where the Holder would, except for the provisions of this Section 2.5, be entitled under the terms of this Warrant to receive a fraction of a Share upon such exercise, the Company shall upon the exercise and receipt of the Purchase Price, issue the largest number of whole Shares purchasable upon exercise of this Warrant. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a Share to which the Holder would otherwise be entitled. The Holder, by the acceptance of this Warrant, expressly waives his right to receive a certificate for any fraction of a Share upon exercise hereof.

2.6 NO CHANGE IN FORM REQUIRED. The form of Warrant need not be changed because of any change pursuant to this Section 2 in the Purchase Price or in the

number of Shares purchasable upon the exercise of a Warrant, may state the same Purchase Price and the same number of shares of Common Stock as are stated in the Warrants initially issued pursuant to the Agreement.

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3. REGISTRATION UNDER THE SECURITIES ACT OF 1933.

3.1 REGISTRATION AND LEGENDS. The Holder understands that (i) the Company has not registered the Warrant or the Shares under the Act, or the applicable securities laws of any state in reliance on exemptions from registration and (ii) such exemptions depend upon the Holder's investment intent at the time the Holder acquires the Warrant or the Shares. The Holder therefore represents and warrants that it is acquiring the Warrant, and will acquire the Shares, for the Holder's own account for investment and not with a view to distribution, assignment, resale or other transfer of the Warrant or the Shares. Because the Warrant and the Shares are not registered, the Holder is aware that the Holder must hold them indefinitely unless they are registered under the Act and any applicable securities laws or the Holder must obtain exemptions from such registration. Upon exercise, in part or in whole, of this Warrant, the Shares shall bear the following legend:

The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act") or any applicable state securities laws, and they may not be offered for sale, sold, transferred, pledged or hypothecated without an effective registration statement under the Securities Act and under any applicable state securities laws, or an opinion of counsel, satisfactory to the company, that an exemption from such registration is available.

3.2 NO-ACTION LETTER. The Company agrees that it will be satisfied that no post-effective amendment or new registration is required for the public sale of the Shares if it shall be presented with a letter from the Staff of the Securities and Exchange Commission (the "Commission"), stating in effect that, based upon stated facts which the Company shall have no reason to believe are not true in any material respect, the Staff will not recommend any action to the Commission if such Shares are offered and sold without delivery of a prospectus, and that, therefore, no Registration Statement under which such shares are to be registered is required to be filed.

3.3 REGISTRATION RIGHTS. The Holder shall have the right, under the terms of a Registration Rights Agreement dated November 29, 2007 between the Holder and the Company, to cause the Company to register the Common Stock underlying this Warrant (the "Underlying Common Stock") in a Registration Statement under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "SEC").

3.4 RULE 144. If the Company (a) has or registers a class of securities under Section 12 of the Exchange Act or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as it requested by the Holder as will enable the Holder to make sales pursuant to Rule 144.

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3.5 AGREEMENTS. The agreements in this Section shall continue in effect regardless of the exercise and surrender of this Warrant.

4. RESERVATION OF SHARES. The Company shall at all times reserve, for the purpose of issuance on exercise of this Warrant such number of shares of Common Stock or such class or classes of capital stock or other securities as shall from time to time be sufficient to comply with this Warrant and the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized and unissued Common Stock or such other class or classes of capital stock or other securities to such number as shall be sufficient for that purpose.

5. SURVIVAL. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Warrant and any investigation at any time made by or on behalf of any parties hereto and the exercise, sale and purchase of this Warrant (and any other securities or property) issuable on exercise hereof.

6. REMEDIES. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance or compliance with any of the terms of this Warrant, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement

contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7. OTHER MATTERS.

7.1 BINDING EFFECT. All the covenants and provisions of this Warrant by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

7.2 NOTICES. Notices or demands pursuant to this Warrant to be given or made by the Holder to or on the Company shall be sufficiently given or made if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed, until another address is designated in writing by the Company, as follows:

Aethlon Medical, Inc.
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109
Attn: President

Notices to the Holder provided for in this Warrant shall be deemed given or made by the Company if sent by certified or registered mail, return receipt requested, postage prepaid, and addressed to the Holder at the Holder's last known address as it shall appear on the books of the Company.

7.3 GOVERNING LAW. The validity, interpretation and performance of this Warrant shall be governed by the laws of the State of California.

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7.4 PARTIES BOUND AND BENEFITTED. Nothing in this Warrant expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the Company and the Holder any right, remedy or claim under promise or agreement hereof, and all covenants, conditions, stipulations, promises and agreements contained in this Warrant shall be for the sole and exclusive benefit of the Company and its successors and of the Holder, its successors and, if permitted, its assignees.

7.5 HEADINGS. The Article headings herein are for convenience only and are not part of this Warrant and shall not affect the interpretation thereof.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the ____ day of _____, 20__.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Chairman and Chief Executive Officer

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AETHLON MEDICAL, INC.

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ the within Warrant and the rights represented thereby, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Warrant on the books of the Company, with full power of substitution.

Dated: _____

Signed: _____

Print Name: _____

SUBSCRIPTION FORM

AETHLON MEDICAL, INC.
3030 BUNKER HILL STREET
SUITE 4000, SAN DIEGO, CA

The undersigned hereby irrevocably subscribes for the purchase of _____ shares of Common Stock (the "Shares"), pursuant to and in accordance with the

terms and conditions of this Warrant, and herewith makes payment, covering the purchase of the Shares, which should be delivered to the undersigned at the address stated below, and, if such number of Shares shall not be all of the Shares purchasable hereunder, then a new Warrant of like tenor for the balance of the remaining Shares purchasable under this Warrant be delivered to the undersigned at the address stated below.

The undersigned agrees that: (1) the undersigned will not offer, sell, transfer or otherwise dispose of any such Shares, unless either (a) a registration statement, or post-effective amendment thereto, covering such Shares have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), and such sale, transfer or other disposition is accompanied by a prospectus meeting the requirements of Section 10 of the Act forming a part of such registration statement, or post-effective amendment thereto, which is in effect under the Act covering the Shares to be so sold, transferred or otherwise disposed of, or (b) counsel to Aethlon Medical, Inc. (the "Company") satisfactory to the undersigned has rendered an opinion in writing and addressed to the Company that such proposed offer, sale, transfer or other disposition of the Shares is exempt from the provisions of Section 5 of the Act in view of the circumstances of such proposed offer, sale, transfer or other disposition; (2) the Company may notify the transfer agent for its Common Stock that the certificates for the Common Stock acquired by the undersigned are not to be transferred unless the transfer agent receives advice from the Company that one or both of the conditions referred to in (1)(a) and (1)(b) above have been satisfied; and (3) the Company may affix the legend set forth in Section 3.1 of this Warrant to the certificates for Shares hereby subscribed for, if such legend is applicable.

Dated: _____

Signed: _____

Address: _____

THIS NOTE AND THE UNITS ISSUABLE UPON CONVERSION OF THE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE NOTE NOR SUCH UNITS MAY BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND UNDER ANY APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

AETHLON MEDICAL, INC.

AMENDED AND RESTATED
10% SERIES A CONVERTIBLE NOTE

No. _____ \$ _____

FOR VALUE RECEIVED, Aethlon Medical, Inc., a Nevada corporation (the "Company"), promises to pay to _____, or registered assigns (the "Holder"), the sum _____ in lawful money of the United States of America on or before the Maturity Date as defined herein, with all Interest thereon as defined and specified herein. This Note includes various advances (the "Advances") that the Holder has made to the Company since July 2005. This Note is issued in exchange for those certain promissory notes previously issued by the Company to the Holder prior to the Issue Date (the "Prior Notes"), and all amendments to the Prior Notes, including that certain allonge entered into between the Company and the Holder on March 5, 2007 (the "Allonge").

1. INTEREST AND LIQUIDATED DAMAGES.

1.1 This Note shall bear interest ("Interest") equal to ten percent (10%) per annum on the unpaid principal balance, computed on a three hundred sixty (360)-day year, during the term of the Note. Interest accrues on each Advance commencing on the date of the Advance, as set forth on Exhibit A to this Note. The Company shall pay all accrued Interest on a quarterly basis on the fifteenth day of January, April, July and October of each year until the Maturity Date, when all accrued but unpaid Interest will be due and payable. In no event shall the rate of Interest payable on this Note exceed the maximum rate of Interest permitted to be charged under applicable law.

1.2 On January 3, 2008, the Company will pay accrued Interest and Default Interest through December 31, 2007. The Company will pay the Interest in units ("Units") at the rate of \$0.20 per Unit (the "Interest Payment Rate"). Each Unit shall be composed of one share of the Company's Common Stock and one Class A Common Stock Purchase Warrant (the "Class A Warrant"). The Company shall pay the accrued Interest and Default Interest by issuing _____ Units and shall pay all accrued Interest thereafter in Units at the Interest Payment Rate. Each Class A Warrant will be exercisable to purchase one share of Common Stock at a price of \$0.20 per share (the "Exercise Price"). If the Holder exercises Class A Warrants on or before February 15, 2010, the Company will issue the Holder one Class B Common Stock Purchase Warrant (the "Class B Warrant"), for every two Class A Warrants exercised. No half Class B Warrants will be issued. Each Class B Warrant will be exercisable to purchase one share of Common Stock at an exercise price of \$0.60 per share. The Class A Warrant and Class B Warrant are set forth as Exhibit C and Exhibit D, respectively.

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1.3 All Interest accrued under this Note after December 31, 2007 will, at the option of the Company, be payable in cash or in Units, valued at the Interest Payment Rate, as such term is defined in this Note. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the fair market value of the Common Stock as quoted as the closing bid price of the Common Stock on the date of conversion.

1.4 On January 3, 2008, the Company will pay the liquidated damages ("Liquidated Damages") due under the Registration Rights Agreement through November 29, 2007. The Company will pay the Liquidated Damages in units ("Damages Units") at the rate of \$0.40 per Damages Unit (the "Damages Interest Payment Rate"). Each Damages Unit shall be composed of one share of the Company's Common Stock and one Class A-1 Common Stock Purchase Warrant (the "Class A-1 Warrant"). The Company shall pay the Liquidated Damages and all interest accrued on the Liquidated Damages by issuing _____ Units. Each Class A-1 Warrant will be exercisable to purchase one share of Common Stock at a price of \$0.40 per share (the "Damages Exercise Price"). If the Holder exercises Class A-1 Warrants on or before February 15, 2010, the Company will issue the Holder one Class B-1 Common Stock Purchase Warrant (the "Class B-1 Warrant"), for every two Class A-1 Warrants exercised. No half Class B-1 Warrants will be issued. Each Class B-1 Warrant will be exercisable to purchase one share of Common Stock at an exercise price of \$0.40 per share. The forms of Class A-1

Warrant and Class B-1 Warrant are set forth as Exhibit E and Exhibit F, respectively. The Class A-1 Warrants together with the Class A Principal Warrants, Class A Warrants, the Class B Warrants and the Class B-1 Warrants are referred to collectively as the "Warrants."

1.5 Concurrent herewith, the Company will issue to the Holder one Class A Warrant (the "Class A Principal Warrant"). The Class A Principal Warrant will be exercisable to purchase a total of _____ shares of Common Stock on the same terms and conditions as set forth in 1.2 above regarding the Class A Warrant. The Class A Principal Warrant is set forth as Exhibit G.

1.6 SERIES OF NOTES. This Note has been issued in exchange for certain Prior Notes issued to the Holder as follows: _____. This Note is one of a Series of Notes issued by the Company as of the date hereof in exchange for the surrender of prior notes outstanding by Holder.

2. PAYMENTS. All payments under this Note shall first be credited against costs and expenses provided for in this Note, second to the payment of any penalties, third to the payment of accrued and unpaid Interest, if any, and the remainder shall be credited against principal. All cash payments due hereunder shall be payable in legal tender of the United States of America, and in same day funds delivered to Holder by cashier's check, certified check, bank wire transfer or any other means of guaranteed funds to the mailing address provided below, or at such other place as the Holder shall designate in writing for such purpose from time to time. If a payment under this Note otherwise would become due and payable on a Saturday, Sunday or legal holiday (any other day being a "Business Day"), the due date of the payment shall be extended to the next succeeding Business Day, and Interest, if any, shall be payable thereon during such extension.

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3. PRE-PAYMENTS AND MATURITY DATE. This Note shall be due and payable in full, including all accrued Interest thereon, on February 15, 2009 (the "Maturity Date"). At any time on or prior to the Maturity Date, the Company shall have the right to prepay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such prepayment date and provided that on such prepayment date, the Company will pay in respect of the redeemed Note cash equal to the face amount plus accrued Interest on the Note (or portion thereof) redeemed. At any time after the Maturity Date, the Company shall have the right to repay this Note, in whole or in part, on ten (10) days' advance notice to the Holder and subject to the right of the Holder to convert in advance of such repayment date. The Company may prepay this Note at any time after issuance without penalty.

4. EQUAL RANK. This Note represents one of a series of One Million Dollars (\$1,000,000) principal amount of 10% Series A Convertible Notes (the "Notes") issued or to be issued by the Company. All Notes rank equally and ratably without priority over one another.

5. CONVERSION OF NOTE AND ISSUANCE OF WARRANTS.

5.1 The principal amount of this Note is convertible, at the option of the Holder, into shares of the Company's Common Stock (the "Common Stock") at any time after the Issue Date prior to the close of business on the Business Day prior to the Maturity Date at the rate of \$0.20 per share (the "Conversion Price"), subject to adjustment as hereinafter provided. No fractional shares will be issued. In lieu thereof, the Company will pay cash for fractional share amounts equal to the Fair Market Value of the Common Stock on the date of conversion.

5.2 INTENTIONALLY OMITTED.

5.3 LIMITATION ON CONVERSION RIGHTS. Notwithstanding any other provision of Paragraph 5 to the contrary, the Holder shall not be entitled to convert this Note, in excess of that number of shares of Common Stock which, upon giving effect to such conversion, would cause the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates to exceed 9.9% of the outstanding shares of the Common Stock following such conversion. For purposes of the foregoing provision, the aggregate number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock beneficially owned and those shares issuable upon conversion of this Note and all Related Notes with respect to which the determination of such proviso is being made, but shall exclude the number of shares of Common Stock that would be issuable upon (i) conversion of the remaining principal amount of this Note and the Related Notes beneficially owned by the Holder and its Affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company into Common Stock beneficially owned by the Holder and its Affiliates that are subject to a limitation on conversion or exercise analogous to the limitation contained in this Note. For purposes of this Paragraph, in determining the number of outstanding shares of Common Stock the Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most

announcement by the Company or (c) any other written communication by the Company or its Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the reasonable written or oral request of the Holder, the Company shall promptly confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to any conversions, exercises or purchases by the Holder since the date as of which such number of outstanding shares of Common Stock was reported. Except as otherwise set forth herein, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. If the foregoing 9.9% limitation is ever reached and the Holder desires to convert this Note or part thereof into equity, the Company will acknowledge the conversion in writing, but not issue the Holder any additional shares of Common Stock at that point. Under such circumstances the Holder will have the right to receive additional shares of Common Stock as a result of the conversion only at such point and to the extent that its beneficial ownership subsequently becomes less than 9.9% and such issuance will not cause the Holder's beneficial ownership to exceed 9.9%. Upon written notice to this effect given by the Holder, the Company will issue such additional shares in accordance with Paragraph 5.8, "Issuance of Certificate."

5.4 ADJUSTMENT BASED UPON STOCK DIVIDENDS, COMBINATION OF SHARES OR RECAPITALIZATION. The Conversion Price shall be adjusted in the event that the Company shall at any time (i) pay a stock dividend on the Common Stock; (ii) subdivide its outstanding Common Stock into a greater number of shares; (iii) combine its outstanding Common Stock into a smaller number of shares; (iv) issue by reclassification of its Common Stock any other special capital stock of the Company; or (v) distribute to all holders of Common Stock evidences of indebtedness or assets (excluding cash dividends) or rights or warrants to subscribe for Common Stock (other than those mentioned above). No adjustment of the Conversion Price will be required until cumulative adjustments amount to One Dollar (\$1.00) per Note or more. Upon the occurrence of an event requiring adjustment of the Conversion Price, and thereafter, the Holder, upon surrender of this Note for conversion, shall be entitled to receive the number of shares of Common Stock or other capital stock of the Company that the Holder would have owned or have been entitled to receive after the happening of any of the events described above had this Note been converted immediately prior to the happening of such event.

5.5 ADJUSTMENT BASED UPON MERGER OR CONSOLIDATION. In case of any consolidation or merger to which the Company is a party (other than a merger in which the Company is the surviving entity and which does not result in any reclassification of or change in the outstanding Common Stock of the Company), or in case of any sale or conveyance to another person, firm, or corporation of the property of the Company as an entirety or substantially as an entirety, the Holder shall have the right to convert this Note into the kind and amount of securities and property (including cash) receivable upon such consolidation, merger, sale or conveyance by the Holder of the number of Units into which such Note might have been converted immediately prior thereto.

5.6 Exercise of Conversion Privilege.

5.6.1 The Conversion Privilege provided for in this Note shall be exercisable by the Holder by written notice to the Company or its successor and the surrender of this Note in exchange for the number of shares (or other securities and property, including cash, in the event of an adjustment of the Conversion Price) into which this Note is convertible based upon the Conversion Price.

5.6.2 The Holder's conversion right set forth in this Paragraph 5 may be exercised at any time and from time to time but prior to payment in full of the principal amount and the accrued interest on this Note. Conversion rights will expire at the close of business on the Business Day prior to the Maturity Date or redemption date of this Note.

5.6.3 The Holder may exercise the right to convert all or any portion of the principal amount and accrued Interest on this Note by delivery of (i) this Note and (ii) a completed Conversion Notice in the form attached as Exhibit B on a Business Day to the Company's principal executive offices. Such conversion shall be deemed to have been made immediately prior to the close of business on the Business Day of such delivery a conversion notice (the "Conversion Date"), and the Holder shall be treated for all purposes as the record holder of the Units into which this Note is converted as of such date.

5.6.4 Upon conversion of the entire principal amount and accrued Interest of this Note and the delivery of Units upon conversion of this Note, except as otherwise provided in Paragraph 22, "Representations and

Warranties to Survive Closing," the Company shall be forever released from all of its obligations and liabilities under this Note.

5.7 CORPORATE STATUS OF COMMON STOCK TO BE ISSUED. All Units (or other securities in the event of an adjustment of the Conversion Price) which may be issued upon the conversion of this Note shall, upon issuance, be fully paid and nonassessable.

5.8 ISSUANCE OF CERTIFICATE. Upon the conversion of this Note, the Company shall, within five (5) Business Days of such conversion, issue to the Holder a certificate or certificates representing the number of Units (or other securities in the event of an adjustment of the Conversion Price) to which the conversion relates.

6. STATUS OF HOLDER OF NOTE. This Note shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company or to any rights whatsoever except the rights herein expressed, and no dividends shall be payable or accrue in respect of this Note or the securities issuable upon the conversion hereof unless and until this Note shall be converted. Upon the conversion of this Note, the Holder shall, to the extent permitted by law, be deemed to be the holder of record of the shares of Common Stock and Warrants issuable upon such conversion, notwithstanding that the stock transfer books of the Company shall then be closed or that the certificates representing such shares of Common Stock and Warrants shall not then be actually delivered.

7. RESERVE OF SHARES OF COMMON STOCK. The Company shall reserve out of its authorized shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, a number of shares sufficient to enable it to comply with its obligation to issue shares of Common Stock, and other securities in the event of an adjustment of the Conversion Price, upon the conversion of this Note.

8. TRANSFER RESTRICTIONS; EXEMPTION FROM REGISTRATION.

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8.1 The Holder agrees that (i) this Note and the Units issuable upon conversion have not been registered under the Act and may not be sold or transferred without registration under the Act or unless an exemption from such registration is available; (ii) the Holder has acquired this Note and will acquire the Common Stock for its own account for investment purposes only and not with a view toward resale or distribution; and (iii) if a registration statement that includes the Common Stock is not effective at the time Common Stock is issued to Holder upon conversion under this Note, and the Common Stock is not exempt from registration under Rule 144, then the Common Stock shall be inscribed with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF HOLDER'S COUNSEL, IN A CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

8.2 If an opinion of counsel of Holder provides that registration is not required for the proposed conversion or transfer of this Note or the proposed transfer of the shares of Units issuable upon conversion and that the proposed conversion or transfer in the absence of registration would require the Company to take any action including executing and filing forms or other documents with the Securities and Exchange Commission (the "SEC") or any state securities agency, or delivering to the Holder any form or document in order to establish the right of the Holder to effectuate the proposed conversion or transfer, the Company agrees promptly, at its expense, to take any such action; and provided, further, that the Company will reimburse the Holder in full for any expenses (including but not limited to the fees and disbursements of such counsel, but excluding brokers' commissions) incurred by the Holder or owner of Units on his, her or its behalf in connection with such conversion or transfer of the Note or transfer of the Units.

9. Registration Rights.

The Holder shall have the right, under the terms of a Registration Rights Agreement dated November 29, 2007, the "New Registration Rights Agreement" between the Holder and the Company, to cause the Company to register the Common Stock underlying the Warrants (the "Underlying Common Stock") in a Registration Statement under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "SEC").

10. Rule 144

If the Company (a) has or registers a class of securities under Section

12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or (b) has or commences to file reports under Section 13 or 15(d) of the Exchange Act, then, at the request of any Holder who proposes to sell securities in compliance with Rule 144 of the SEC, the Company will (i) forthwith furnish to such holder a written statement of compliance with the filing requirements of the SEC as set forth in Rule 144, as such rules may be amended from time to time and (ii) make available to the public and such Holder such information and take such other action as is requested by the Holder to enable the Holder to make sales pursuant to Rule 144.

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11. DEFAULT. The Company shall perform its obligations and covenants hereunder and in each and every other agreement between the Company and Holder pertaining to the Indebtedness evidenced hereby. The following provisions shall apply upon failure of the Company so to perform.

11.1 EVENT OF DEFAULT. Any of the following events shall constitute an "Event of Default" hereunder:

11.1.1 Failure by the Company to pay principal of any of this Note when due and payable on the Maturity Date;

11.1.2 Failure of the Company to pay Interest when due hereunder; or

11.1.3 Except as set forth in Paragraphs 11.1.1 and 11.1.2, failure of the Company to perform any of the covenants, conditions, provisions or agreements contained herein, or in any other agreement between the Company and Holder, which failure continues for a period of thirty (30) days after notice of default has been given to the Company by the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding; provided, however, that if the nature of the Company's obligation is such that more than thirty (30) days are required for performance, then an Event of Default shall not occur if the Company commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion; or

11.1.4 The entry of an order for relief under Federal Bankruptcy Code as to the Company or entry of any order appointing a receiver or trustee for the Company or approving a petition in reorganization or other similar relief under bankruptcy or similar laws in the United States of America or any other competent jurisdiction, and if such order, if involuntary, is not satisfied or withdrawn within sixty (60) days after entry thereof; or the filing of a petition by the Company seeking any of the foregoing, or consenting thereto; or the filing of a petition to take advantage of any debtor's act; or making a general assignment for the benefit of creditors; or admitting in writing inability to pay debts as they mature.

11.2 ACCELERATION. Upon any Event of Default (in addition to any other rights or remedies provided for under this Note), at the option of the Holders of not less than twenty-five percent (25%) of the principal amount of the Notes then outstanding, all sums evidenced hereby, including all principal, Interest, fees and all other amounts due hereunder, shall become immediately due and payable. If an Event of Default in the payment of principal or Interest should occur and be continuing with respect to the Note, any one or more holders of the Notes then outstanding may declare the principal of the Notes to be immediately due and payable. In the Event of a Default due to a breach of any other covenant or term, Holders representing twenty-five percent (25%) of the principal amount of the Notes may take action to accelerate the Notes.

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11.3 NOTICE BY COMPANY. Upon the happening of any Event of Default specified in this paragraph that is not cured within the respective periods prescribed above, the Company will give prompt written notice thereof to the Holder of this Note.

11.4 NO WAIVER. Failure of the Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent Event of Default, or in the event of continuance of any existing Event of Default after demand or performance thereof.

11.5 DEFAULT INTEREST. Default Interest will accrue on an unpaid principal or Interest due hereunder at the rate of fifteen percent (15%) per annum upon the occurrence of any Event of Default until the Event of Default is cured.

11.6 PURSUIT OF ANY REMEDY. No Holder of a Note may pursue any remedy under the Notes unless (i) the Company shall have received written notice of a continuing Event of Default from the Holder and (ii) the Company shall have received a request from Holders of at least twenty-five percent (25%) of principal amount of the Notes to pursue such remedy. The Holders of fifty-one percent (51%) of principal amount of the Notes then outstanding have the right

to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Noteholders under the Notes.

12. Assignment, Transfer or Loss of the Note.

12.1 No Holder of this Note may assign, transfer, hypothecate or sell all or any part of this Note or in any way alienate or encumber the Note without the express written consent of the Company, the granting or denial of which shall be within the absolute discretion of the Company. Any attempt to effect such transfer without the consent of the Company shall be null and void. The Company has not registered this Note under the Act or the applicable securities laws of any state in reliance on exemptions from registration. Such exemptions depend upon the investment intent of the Holder at the time he acquires his Note. The Holder is acquiring this Note for his own account for investment purposes only and not with a view toward distribution or resale of such Note within the meaning of the Act and the applicable securities laws of any state. The Company shall be under no duty to register the Note or to comply with an exemption in connection with the sale, transfer or other disposition under the applicable laws and regulations of the Act or the applicable securities laws of any state. The Company may require the Holder to provide, at his expense, an opinion of counsel satisfactory to the Company to the effect that any proposed transfer or other assignment of the Note will not result in a violation of the applicable federal or state securities laws or any other applicable federal or state laws or regulations.

12.2 All expenses, including reasonable legal fees incurred by the Company in connection with any permitted transfer, assignment or pledge of this Note will be paid by the Holder requesting such transfer, assignment or pledge.

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12.3 Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Company may determine (or, in the case of any Note held by the original Noteholder, of an indemnity agreement reasonably satisfactory to the Company), or, in the case of any such mutilation, upon the surrender of such Note to the Company at its principal office for cancellation, the Company at its expense will execute and deliver, in lieu thereof, a new Note of like tenor, dated the date to which interest hereunder shall have been paid on such lost, stolen, destroyed or mutilated Note.

12.4 Subject to Subparagraph 12.1 above, the Holder may, at his option, either in person or by duly authorized attorney, surrender this Note for registration of transfer at the principal office of the Company and, upon payment of any expenses associated with the transfer, receive in exchange therefor a Note or Notes, dated as of the date to which interest has been paid on the Note so surrendered, each in the principal amount of \$1,000 or any multiple thereof, for the same aggregate unpaid principal amount as the Note so surrendered and registered as payable to such person or persons as may be designated by the Holder. Every Note surrendered for registration of transfer shall be duly endorsed or shall be accompanied by a written instrument of transfer duly executed by the Holder or his attorney duly authorized in writing. Every Note, so made and delivered by the Company in exchange for any Note surrendered, shall in all other respects be in the same form and have the same terms as the Note surrendered. No transfer of any Note shall be valid unless made in such manner at the principal office of the Company.

12.5 The Company may treat the person in whose name this Note is registered as the owner and Holder of this Note for the purpose of receiving payment of all principal of and all Interest on this Note, and for all other purposes whatsoever, whether or not such Note shall be overdue and, except for transfers effected in accordance with this subparagraph, the Company shall not be affected by notice to the contrary.

13. MODIFICATIONS AND AMENDMENTS. After notice given by the Company to the Holders of all Notes at the time outstanding, the Company may from time to time and at any time enter into an agreement or agreements supplemental to the provisions of this Note for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Notes or of modifying in any manner the rights of the Holders of the Notes; PROVIDED, HOWEVER, that no such supplemental agreement, modification or amendment may, without the consent of the holder of each Note then outstanding affected thereby, (i) reduce the percentage of principal amount of Notes whose Holders may consent to an amendment, supplement or waiver; (ii) reduce the rate or change the time for payment of interest, including Default Interest, on any Note; (iii) reduce the principal amount of any Note or change the Maturity Date of the Notes; (iv) make any Note payable in money other than that stated in the Note; (v) impair the right to institute suit for the enforcement of any payment of principal of, or premium, if any, or interest on, any Note; (vi) make any change in the percentage of principal amount of Notes necessary to waive compliance with certain provisions of the Note; or (vii) waive a continuing default or Event of Default in the payment of principal of, premium, if any, or Interest on the

Notes. The modifications and amendments of the Notes may be made by the Company without the consent of any Holders of Notes in certain limited circumstances, including (a) to cure any ambiguity, omission, defect or inconsistency, (b) to

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provide for the assumption of the obligations of the Company under the Notes upon the merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company, or (c) to make any change that does not adversely affect the rights of any holder of Notes. The Holders of a majority in aggregate principal amount of the Notes then outstanding may waive any past default under the Notes, except a default in the payment of principal, premium, if any, or Interest. Promptly after execution by the Company and Holders of the Notes of a supplemental agreement pursuant to the provisions of this paragraph, the Company shall deliver a copy of such supplemental agreement to all Holders of the Notes at the time outstanding.

14. NOTICES. All notices provided for herein shall be validly given if in writing and delivered personally or sent by certified mail, postage prepaid, to the office of the Company or such other address as the Company may from time to time designate in writing sent by certified mail, postage prepaid, to the Holder at his address set forth below or such other address as the Holder may from time to time designate in writing to the Company by certified mail, postage prepaid.

15. USURY. All Interest, Default Interest, fees, charges, goods, things in action or any other sums or things of value, or other contractual obligations (collectively, the "Additional Sums") paid by the Company hereunder, whether pursuant to this Note or otherwise, with respect to the Indebtedness evidenced hereby, or any other document or instrument in any way pertaining to the Indebtedness, which, under the laws of the State of California may be deemed to be Interest with respect to such loan or Indebtedness, shall, for the purpose of any laws of the State of California, which may limit the maximum amount of Interest to be charged with respect to such loan or Indebtedness, be payable by the Company as, and shall be deemed to be, Interest and for such purposes only, the agreed upon and contracted rate of Interest shall be deemed to be increased by the Additional Sums. Notwithstanding any provision of this Note to the contrary, the total liability for payments in the nature of Interest under this Note shall not exceed the limits imposed by applicable law. The Company shall not assert a claim, and shall actively resist any attempts to compel it to assert a claim, respecting a benefit under any present or future usury laws against any Holder of this Note.

16. BINDING EFFECT. This Note shall be binding upon the parties hereto and their respective heirs, executors, administrators, representatives, successors and permitted assigns.

17. COLLECTION FEES. Except as otherwise provided herein, the Company shall pay all costs of collection, including reasonable attorneys' fees and all costs of suit and preparation for such suit (and whether at trial or appellate level), in the event the unpaid principal amount of this Note, or any payment of Interest is not paid when due, or in the event Holder is made party to any litigation because of the existence of the Indebtedness evidenced by this Note, or if at any time Holder should incur any attorneys' fees in any proceeding under the Federal Bankruptcy Code (or other similar laws for the protection of debtors generally) in order to collect any Indebtedness hereunder or to preserve, protect or realize upon any security for, or guarantee or surety of, such Indebtedness whether suit be brought or not, and whether through courts of original jurisdiction, as well as in courts of appellate jurisdiction, or through a bankruptcy court or other legal proceedings.

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18. CONSTRUCTION. This Note shall be governed as to its validity, interpretation, construction, effect and in all other respects by and in accordance with the laws and interpretations thereof of the State of California. Unless the context otherwise requires, the use of terms in singular and masculine form shall include in all instances singular and plural number and masculine, feminine and neuter gender.

19. SEVERABILITY. In the event any one or more of the provisions contained in this Note or any future amendment hereto shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Note or such other agreement, and in lieu of each such invalid, illegal or unenforceable provision there shall be added automatically as a part of this Note a provision as similar in terms to such invalid, illegal or unenforceable provision as may be possible and be valid, legal and enforceable.

20. ENTIRE AGREEMENT. This Note Agreement represents the entire agreement and understanding between the parties concerning the subject matter hereof and supersede all prior and contemporaneous agreements, understandings, representations and warranties with respect thereto.

21. GOVERNING LAW; JURISDICTION; JURY TRIAL. The corporate laws of the State of Nevada shall govern all issues concerning the relative rights of the Company and its shareholders. All other questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by the internal laws of the State of California, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of California or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of San Diego for the adjudication of any dispute hereunder or in connection herewith or therewith, or with any transaction contemplated hereby or discussed herein, or in any manner arising in connection with or related to the transactions contemplated hereby or involving the parties hereto whether at law or equity and under any contract, tort or any other claim whatsoever and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing or faxing a copy thereof to such party at the address for such notices as listed in this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.

22. REPRESENTATIONS AND WARRANTIES TO SURVIVE CLOSING. All representations, warranties and covenants contained herein shall survive the execution and delivery of this Note and the issuance of any Conversion Shares upon the conversion hereof.

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23. HEADINGS. The headings used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

24. DEFINITIONS.

"AFFILIATE" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"BOARD OF DIRECTORS" means, with respect to any Person, the Board of Directors of such Person or any committee of the Board of Directors of such Person duly authorized to act on behalf of the Board of Directors of such Person.

"CAPITAL STOCK" means, with respect to any Person, any and all shares, interests, equity participations or other equivalents (however designated) of corporate stock or partnership interests and any and all warrants, options and rights with respect thereto (whether or not currently exercisable), including each class of common stock and preferred stock of such Person.

"FAIR MARKET VALUE" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is publicly traded and is then listed on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading;

(b) if such Common Stock is quoted on the NASDAQ National Market or the NASDAQ Capital Market, its closing price on the NASDAQ National Market or the NASDAQ Capital Market, respectively, on the date of determination;

(c) if such Common Stock is not listed on a national securities exchange or quoted on the NASDAQ National Market or the NASDAQ Capital Market, but is traded in the over-the-counter market, the average of the bid and ask prices for a share of Common Stock on the most recent date on which the Common Stock was publicly traded;

(d) if none of the foregoing is applicable, by the Committee in good faith.

"GAAP" means generally accepted accounting principles as in effect in the United States of America as of the Issue Date.

"HOLDER" means a Person in whose name a Note is registered on the Company's books.

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"INDEBTEDNESS" means, without duplication, with respect to any Person, (a) all obligations of such Person (i) in respect of borrowed money (whether or not the recourse of the lender is to the whole of the assets of such person or only to a portion thereof); (ii) evidenced by bonds, notes, debentures or similar instruments; (iii) representing the balance deferred and unpaid of the purchase price of any property or services (other than accounts payable or other obligations arising in the ordinary course of business); (iv) evidenced by bankers' acceptances or similar instruments issued or accepted by banks, (v) for the payment of money relating to a capitalized lease obligation under GAAP; or (vi) evidenced by a letter of credit or a reimbursement obligation of such Person with respect to any letter of credit; (b) all net obligations of such Person under interest rate swap obligations and foreign currency hedges; (c) all liabilities of others of the kind described in the preceding clauses (a) or (b) that such Person has guaranteed or that are otherwise its legal liability; (d) Indebtedness (as otherwise defined in this definition) of another Person secured by lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, the amount of such obligations being deemed to be the lesser of (1) the full amount of such obligations so secured, and (2) the fair market value of such asset, as determined in good faith by the Board of Directors of such Person, which determination shall be evidenced by a board resolution; and (e) any and all deferrals, renewals, extensions, refinancings and refundings (whether direct or indirect) of, or amendments, modifications or supplements to, any liability of the kind described in any of the preceding clauses (a), (b), (c), (d) or this clause (e), whether or not between or among the same parties.

"ISSUE DATE" means the date on which the Note is originally issued.

"MATURITY DATE" means February 15, 2009.

"PERSON" means any individual, corporation, partnership, joint venture, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

"SENIOR INDEBTEDNESS" means any Indebtedness of the Company, outstanding prior to the date of this Note, unless such Indebtedness is PARI PASSU with or contractually subordinate or junior in right to payment of this Note, except Indebtedness to any Affiliate of the Company, which shall be junior and subordinate to this Note.

"SUBORDINATED INDEBTEDNESS OF THE COMPANY" means any Indebtedness of the Company incurred after the date of this Note.

A "SUBSIDIARY" of any Person means (i) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more subsidiaries of such Person or by such Person and one or more subsidiaries of such Person, (ii) a partnership in which such Person or a subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if such Person or its subsidiary is entitled to receive more than fifty percent (50%) of the assets of such partnership upon its dissolution, or (iii) any other Person (other than a corporation or partnership) in which such Person, directly or indirectly, at the date of determination thereof, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of directors or other governing body of such Person.

"SUBSIDIARY" means any subsidiary of the Company.

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"VOTING STOCK" means, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holders thereof, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency to vote in the election of members of the Board of Directors or other governing body of such Person.

25. MISCELLANEOUS. Except as otherwise provided herein, the Company waives demand, diligence, presentment for payment and protest, notice of extension, dishonor, maturity and protest. Time is of the essence with respect to the performance of each and every covenant, condition, term and provision hereof.

26. COVENANTS OF THE COMPANY. The Company covenants to perform the following:

26.1 The Warrants will have a term expiring five years from their respective date of issuance. Each Warrant will have a term of five years from its respective date of issuance. All Warrants will be assignable by their

holders.

26.2 The Company will collaborate with the Holder to expand its Board of Directors (the "Board") by appointing or electing one additional director who has background in life sciences that the Holder may designate after the date of this Note. Such additional director will remain on the Board while the Notes are outstanding. If the Holder elects not to designate such a person for appointment or election to the Board, the Holder will be entitled to be an observer at the Board meetings, which observer shall be included in all meetings of the Board.

26.3 The Company will hold Board meetings, whether formal or informal, at least once per month.

26.4 The Company will give written notice to the Holder within three (3) Business Days of the Company's receipt of any proposed financing and disclose its terms and conditions. The Company will consult with Holder respecting the proposed financing before it concludes such financing.

26.5 The Company grants the Holder the right, for a period of seven (7) Business Days after the Company gives written notice to the Holder, to purchase any of the Company's securities at the same price and on the same terms and conditions at any time that the Company proposes to sell to a third party in a BONA FIDE transaction or a series of transactions in an amount up to

(i) all of the securities proposed to be sold if the Company proposes to sell its Common Stock at a price of \$0.20 per share or less; and

(ii) the principal amount of the Note converted and total purchase price of the Common Stock for the Warrants exercised if the Company proposes to sell its Common Stock at a price above \$0.20 per share.

26.6 The Company will pay all of the fees and related costs of legal counsel of the Holder before January 3, 2008.

26.7 The Company will execute such other documents as may be necessary or appropriate to carry out the provisions of this Note and the Warrants. The Company will bear all reasonable costs associated with the preparation and implementation of this Note and the Warrants.

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27. SENIOR SUBORDINATED INDEBTEDNESS.

27.1 This Note constitutes Senior Subordinated Indebtedness of the Company and is unsecured.

27.2 The Indebtedness evidenced by this Note and all of the Notes will be subordinated to the prior payment when due of the principal of, and premium, if any, and accrued and unpaid interest on, all existing Senior Indebtedness. This Note will be senior to, in right of payment of principal of, premium, if any, and accrued and unpaid interest on, any Subordinated Indebtedness of the Company.

27.3 Upon any distribution of assets of the Company in any dissolution, winding up, liquidation or reorganization of the Company, all holders of Senior Indebtedness of the Company must be paid in full before any payment or distribution is made with respect to this Note. The Company shall pay all principal or distribution to the holders of Subordinated Indebtedness.

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IN WITNESS WHEREOF, this Note has been issued on the 29 day of November, 2007.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

James A. Joyce
Its Chairman and CEO

Accepted and agreed to:

By: _____

Mailing Address of Holder:

Mailing Address of Company:
3030 Bunker Hill Street
Suite 4000
San Diego, CA 92109

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EXHIBIT A

SCHEDULE OF ADVANCES

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EXHIBIT B

CONVERSION NOTICE

(To be signed only upon conversion of this Note)

TO: AETHLON MEDICAL, INC.

The undersigned, the registered holder of the 10 % Series A Convertible Note (the "Note") of AETHLON MEDICAL, INC. (the "Company"), hereby surrenders the Note for conversion into shares of Common Stock of the Company (the "Common Stock") to the extent of \$_____ unpaid principal amount of the Note and \$_____ unpaid accrued Interest due under the Note, all in accordance with the provisions of such Note. The undersigned requests (i) that a certificate representing the shares, bearing the appropriate legends, be issued to the undersigned, and (ii) if the unpaid principal amount so converted is less than the entire unpaid principal amount of the Note, that a new substitute note representing the portion of said unpaid principal amount that is not so converted be issued in accordance with the provisions of the Note.

(Signature and name of the registered holder)

Print Name

Dated: _____

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EXHIBIT C

CLASS A WARRANT

[Attached hereto]

19

EXHIBIT D

FORM OF CLASS B WARRANT

[Attached hereto]

20

EXHIBIT E

CLASS A-1 WARRANT

[Attached hereto]

21

EXHIBIT F

FORM OF CLASS B-1 WARRANT

[Attached hereto]

22

EXHIBIT G

FORM OF CLASS A PRICIPAL WARRANT

[Attached hereto]

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AETHLON MEDICAL, INC.

SUBSCRIPTION AGREEMENT

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY ISSUING THE UNITS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE UNITS BEING OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

THESE UNITS AND THE UNDERLYING SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

SUBSCRIPTION AGREEMENT

The undersigned (hereinafter "SUBSCRIBER") hereby confirms its subscription for the purchase of Units comprised of shares of Common Stock, par value \$.001 per share ("Common Stock"), of AETHLON MEDICAL, INC., a Nevada corporation (the "COMPANY"), and warrants exercisable for Common Stock ("Warrants"), on the terms described below.

The Units, the Common Stock, the Warrants and the shares issuable upon exercise of the Warrants ("Warrant Shares") are sometimes referred to collectively herein as the "SECURITIES."

In connection with this subscription, Subscriber and the Company agree as follows:

A. Subscription of the Subscriber.

1. Purchase of Units. The undersigned (the "Subscriber") hereby irrevocably agrees, represents and warrants with, to and for the benefit of the Company, that such Subscriber is executing this Agreement in connection with the subscription by the Subscriber for _____ units of the Company ("Units"), with each Unit consisting of (i) two shares of Common Stock of the Company and (ii) one Warrant to purchase one share of Common Stock of the Company for an exercise price of \$0.50 per share, at a price per Unit of \$1.00, resulting in the aggregate purchase price set forth on the Subscriber's signature page hereto (the "Offering Price"). The Common Stock and the Warrants (and the Warrant Shares) are sometimes referred to hereinafter collectively as the "Underlying Stock". The Subscriber understands that the Company is relying upon the accuracy and completeness of the information contained herein in complying with its obligations under federal and state securities and other applicable laws. Subject to the terms and conditions of this Agreement, upon execution and delivery hereof by the Subscriber, the Subscriber hereby agrees to purchase the Units of the Company pursuant to the transaction hereof, and against concurrent delivery of the purchase price for such Units. The date upon which the final subscription is accepted by the Company and the full Offering Price has been tendered to the Company, shall be known as the "Closing Date."

2. Offering. This offering of the Units (the "Offering") is being made to a limited group of investors, all of whom shall represent to the Company pursuant to this Agreement that they are "accredited investors," as that term is defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act") or who have otherwise been qualified as investors by the Company. All of the Units offered hereby are being sold by the Company. The Company is offering Units for the consideration set forth herein. The Company may sell less than all of the Units, and shall be entitled to accept subscriptions and receive the Offering Price for each subscription prior to the entire Offering being subscribed for. The Offering is being made on a "best efforts" basis. The minimum subscription amount is \$25,000.

B. Representations and Warranties of the Subscriber. The Subscriber hereby represents and warrants to the Company as of the date hereof:

1. Place of Business. The principal place of business address set forth below is such Subscriber's true and correct principal place of business and is the only jurisdiction in which an offer to sell the Units was made to such Subscriber and such Subscriber has no present intention of moving its principal place of business to or of becoming a resident of any other state or

jurisdiction.

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2. Sale or Transfer of the Units and Underlying Stock. The Subscriber understands that neither the Units nor any of the Underlying Stock has been registered under the Securities Act, or under the laws of any other jurisdiction. The Subscriber understands and agrees that transfer or sale of the Units and the Underlying Stock may be restricted or prohibited unless they are subsequently registered under the Securities Act and, where required, under the laws of other jurisdictions or an exemption from registration is available. The Subscriber will not offer, sell, transfer or assign its Units or Underlying Stock or any interest therein in contravention of this Agreement, the Securities Act or any state or federal law. The Subscriber understands and acknowledges that, because of the substantial restrictions on the transferability of the Units and Underlying Stock, it may not be possible for the Subscriber to liquidate the Subscriber's investment in the Company readily, even in the case of an emergency.

3. Representation of Accredited Investor Status, Investment Experience and Ability to Bear Risk. Subscriber acknowledges that the Offering has not been registered with the Securities and Exchange Commission because the Company is relying on an exemption from registration under Section 4(2) of the Securities Act and Regulation D promulgated thereunder. SUBSCRIBER BELIEVES THAT AT THE TIME OF THE SALE OF THE UNITS TO SUBSCRIBER, SUBSCRIBER (OR, IF SUBSCRIBER IS A CORPORATION, LIMITED LIABILITY COMPANY OR TRUST, EACH OF ITS EQUITY OWNERS) QUALIFIES AS AN "ACCREDITED INVESTOR" (AS DEFINED UNDER RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT) USING THE FOLLOWING QUALIFICATION FACTORS (CHECK ALL APPROPRIATE ITEMS):

☐ \$1,000,000 NET WORTH TEST:

I, Subscriber, am a natural person and my individual net worth, or joint net worth with my spouse (if any), INCLUSIVE of home, furnishings and automobiles, at the time of this purchase is in excess of \$1,000,000.

☐ \$200,000 INDIVIDUAL/\$300,000 JOINT ANNUAL INCOME TEST:

I, Subscriber, am a natural person and my individual annual gross income (exclusive of my spouse's income) has been in excess of \$200,000 in each of the two most recent tax years, and I reasonably expect individual annual gross income (exclusive of my spouse's income) to be in excess of \$200,000 for the current tax year; or I am a natural person and my joint annual gross income (including my spouse's annual gross income) has been in excess of \$300,000 in each of the two most recent tax years, and I reasonably expect our joint annual gross incomes to be in excess of \$300,000 for the current tax year.

("INCOME" under this test is defined as adjusted gross income for federal income tax purposes PLUS (i) deductions for long-term capital gains under the Internal Revenue Code; (ii) deductions for depletion under section 611 et seq. of the Code; (iii) any exclusion for interest received on tax-exempt securities; and (iv) any losses of a Company allocated to the individual limited partners of the Company as reported on Form 1040).

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☐ BANK OR INVESTMENT COMPANY TEST:

Subscriber is a bank as defined in section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act, whether acting in its individual or fiduciary capacity; or is a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; or is an insurance company as defined in section 2(13) of the Securities Act; or is any investment company registered under the Investment Corporation Act of 1940, or a business development company as defined in section 2(a)(48) of that Act; or is a Small Business Investment Corporation licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; is a plan established and maintained by a state, its political subdivision, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; or is an employee benefit plan within the meaning of the employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors.

☐ PRIVATE BUSINESS DEVELOPMENT CORPORATION TEST:

Subscriber is a private business development company as defined in section 202(a)(22) of the Investment Advisors Act of 1940.

☐ IRC SECTION 501(C)(3) ORGANIZATION TEST:

Subscriber is an organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or Company, not formed for the specific purpose of acquiring the securities being offered, with total assets in excess of \$5,000,000.

☐ DIRECT RELATIONSHIP TO ISSUER TEST:

Subscriber is a director, executive officer, partner or manager of the Company of the securities being offered or sold, or any director, executive officer or manager of a partner or partner of that issuer.

☐ \$5,000,000 NONINVESTMENT TRUST TEST:

Subscriber is a trust with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring the securities being offered, whose purchase is directed by a "sophisticated person" as described in section 230.506(b)(2)(ii).

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☐ EQUITY ENTITY COMPRISED OF ACCREDITED INVESTORS TEST:

Subscriber is any equity entity in which all of the equity owners are accredited investors as defined above. Subscriber has had one of the persons responsible for overseeing and/or managing one or more of Subscriber's financial accounts complete the attestation in Section D hereof in order to verify the information in this Section B:

Yes _____ No _____

In addition, Subscriber is knowledgeable and experienced with respect to the financial and business activities contemplated by the Company and is capable of evaluating the risks and merits of investing in the Units and, in making a decision to proceed with this investment, has not relied upon any representations, warranties or agreements, other than those set forth in this Agreement and can bear the economic risk of an investment in the Company for an indefinite period of time, and can afford to suffer the complete loss thereof.

4. Own Advice. In connection with the Subscriber's investment in the Company, the Subscriber has carefully considered and has, to the extent the Subscriber believes such discussion necessary, discussed with the Subscriber's professional legal, tax and financial advisers (the "Investment Advisors") the suitability of an investment in the Units for the Subscriber's particular tax and financial situation and the Subscriber has determined that the Units are a suitable investment for the Subscriber.

5. Company History; Risks. The Subscriber represents and warrants that the Subscriber is aware (i) that the Company has limited operating history; (ii) that the Units involve a substantial degree of risk of loss of the Subscriber's entire investment and that there is no assurance of any income from the Subscriber's investment; and (iii) that any federal and/or state income tax benefits which may be available to the Subscriber, if any, may be lost through the adoption of new laws or regulations, to changes to existing laws and regulations and to changes in the interpretation of existing laws and regulations. The Subscriber further represents that the Subscriber is relying solely on the Subscriber's own conclusions or the advice of the Subscriber's Investment Advisors with respect to tax aspects of any investment in the Units.

6. Inquiries. The Subscriber and its Investment Advisors have been given access to, and prior to the execution of this Agreement, have been provided with an opportunity to ask questions of, and receive answers from, the Company officers concerning the Company and the terms and conditions of the Offering and the Units, and to obtain any other information which the Subscriber and the Subscriber's Investment Advisors required with respect to the Company and an investment in the Company in order to evaluate such investment and verify the accuracy of all information furnished to the Subscriber and its Investment Advisors regarding the Company. All such questions, if asked, were answered satisfactorily and all information or documents provided were found to be satisfactory. Neither the Subscriber nor its Investment Advisors have been furnished any offering literature on which they have relied on other this Agreement and the Subscriber and its Investment Advisors have relied only on this Agreement. At no time was the Subscriber presented with or solicited by any leaflet, public promotion meeting, newspaper or magazine article, radio or television advertisement or any other form of general advertising or general solicitation.

7. Authority. The Subscriber is authorized and has full right and power to subscribe for the Units and to perform the Subscriber's obligations pursuant to the provisions of this Agreement; the person signing this Agreement and any other instrument executed and delivered herewith on behalf of such Subscriber has been duly authorized by such entity and has full power and authority to do so. If the Subscriber is a corporation, partnership, unincorporated association or other entity, the person signing this agreement has the legal capacity to authorize, deliver and be bound by this Subscription Agreement and to take all actions required pursuant hereto and further certifies that all necessary approvals of directors, shareholders or otherwise have been given and obtained; and if the Subscriber is an individual, it is of the full age of majority in the jurisdiction in which the Subscriber is resident and is legally competent to execute, deliver and be bound by this Subscription Agreement and take all action pursuant hereto.

8. No Default. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and thereby will not conflict with, or result in any violation of or default pursuant to, any provision of any governing instrument applicable to the Subscriber, or any agreement or other instrument to which the Subscriber is a party or by which the Subscriber or any of the Subscriber's properties are bound or any permit, franchise, judgment, decree, statute, rule or regulation applicable to the Subscriber or any of the Subscriber's business or properties.

9. ERISA. If the Subscriber is an employee benefit plan subject to ERISA, then such Subscriber acknowledges that such Subscriber has been informed of and understands the operations and business of the Company, and represents that such Subscriber's investment in the Company (i) is permissible under the documents and instruments governing such plan; (ii) satisfies the diversification requirements of ERISA; (iii) is prudent considering all the facts and circumstances, including the fact that there is no trading market for the Units or the Underlying Stock; and (iv) is not a "prohibited transaction" within the meaning of Section 406 of ERISA.

10. Purchase Entirely For Own Account. This Agreement is made with the Subscriber in reliance upon the Subscriber's representations to the Company, which by the Subscriber's execution of this Agreement, the Subscriber hereby confirms, that the Units issuable to the Subscriber will be acquired for investment for the Subscriber's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Subscriber has no present intention of selling, granting any participation in, or otherwise distributing the same. The Subscriber represents and warrants that the Subscriber has no contract, understanding, agreement or arrangement with any person to sell or transfer or pledge to such person or anyone else any of the Units for which the Subscriber hereby subscribes (in whole or in part) or any interest therein; and the Subscriber represents and warrants that the Subscriber has no present plans to enter into any such contract, undertaking, agreement or arrangement.

The Subscriber represents and warrants that the funds representing the Aggregate Subscription Price which will be advanced by the Subscriber hereunder will not represent proceeds of crime and the Subscriber acknowledges that the Company or the Placement Agents may in the future be required by law to disclose the Subscriber's name and other information relating to this Subscription Agreement and the Subscriber's subscription hereunder, on a confidential basis, and to the best of the Subscriber's knowledge (i) none of the subscription funds to be provided by the Subscriber (a) have been or will be derived from or related to any activity that is deemed criminal under the laws of the United States of America, or any other jurisdiction, or (b) are being tendered on behalf of a person or entity who has not been identified to the Subscriber, and (ii) it shall promptly notify the Company and the Placement Agents if the Subscriber discovers that any of such representations ceases to be true, and to provide the Company and the Placement Agents with appropriate information in connection therewith.

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The Subscriber represents and warrants that the current structure of this transaction and all transactions and activities contemplated hereunder is not a plan or scheme to evade the registration provisions of the Securities Act.

The Subscriber acknowledges that:

- (i) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Units or the Underlying Stock; and
- (ii) there is no government or other insurance covering the Units or Underlying Stock; and
- (iii) there are risks associated with the purchase of the Units; and
- (iv) there are restrictions on the Subscriber's ability to resell the Units and the Underlying Stock and it is the responsibility of the Subscriber to find out what those restrictions are and to comply with

them before selling the Units and the Underlying Stock; and

- (v) the Company has advised the Subscriber that the Company is relying on an exemption from the requirements to provide the Subscriber with a prospectus and to sell securities through a person or company registered to sell securities under applicable securities laws and, as a consequence of acquiring the Units pursuant to this exemption, certain protections, rights and remedies provided by applicable securities laws, including statutory rights of rescission or damages, will not be available to the Subscriber.

The Subscriber represents and warrants that it has not received nor does it expect to receive any financial assistance from the Company, directly or indirectly, in respect of the Subscriber's purchase of the Units.

The Subscriber represents and warrants that neither the Company nor the Placement Agents, nor any of their respective directors, officers, employees or representatives, have made any representations (oral or written) to the Subscriber regarding the future value of the Units or the Underlying Stock.

The Subscriber acknowledges that (i) the Company may complete secured or unsecured debt financings or equity financings in the future in order to develop the Company's business and to fund its ongoing development, (ii) there is no assurance that such financings will be available and, if available, on reasonable terms, (iii) any such future financings may have a dilutive effect on current security holders, including the Subscriber, and (iv) if such future financings are not available, the Company may be unable to fund its ongoing development and the lack of capital resources may result in the failure of its business.

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The Subscriber acknowledges that the Placement Agents, their respective affiliates and their respective directors, officers, employees and companies with which they are associated may, from time to time, have a long or short position or deal as principal in the securities of the Company.

C. Representations and Warranties of the Company.

1. Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing, in good standing under the laws of the State of Nevada and has all requisite corporate power and corporate authority to carry on its business as now conducted and as proposed to be conducted. The Company is duly qualified to transact business and is in good standing in the State of Nevada. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, except where the failure to be so qualified would not have a material adverse effect on the Company.

2. Finders Fees. A finder's fee of up to 7% of the amounts subscribed for may be paid to anyone acting as a finder in this Offering. Such fee, if any, shall be payable one-half in cash and one-half in Units.

3. Capitalization. As of consummation of the transactions contemplated hereby and immediately thereafter, the authorized capital stock of the Company shall consist of 100,000,000 shares of common stock, par value \$0.001 per share (the "Common Stock"), of which (i) _____ shares shall be issued and outstanding, (ii) shares are reserved for issuance upon exercise of outstanding warrants, options and other convertible securities, and (iii) _____ shares shall be reserved for issuance upon the exercise of the Warrants. All such issued and outstanding shares have been duly authorized and validly issued and have been offered, issued, sold, and delivered by the Company in compliance with applicable federal and state securities laws.

4. Authorization. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Agreement and all other agreements contemplated hereby and thereby and to issue the Units and the Underlying Stock in accordance with the terms hereof. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement and all other agreements and obligations contemplated hereby and thereby, the performance of all obligations of the Company hereunder and thereunder, and the authorization, issuance (or reservation for issuance), sale and delivery of the Common Stock to be issued hereunder has been taken. This Agreement constitutes valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by general principles of equity, including concepts of materiality, reasonableness, good faith and fair dealing and by the possible unavailability of specific performance, injunctive relief or other equitable remedies.

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5. No Violation. The Company's execution, delivery and performance of this Agreement and all other agreements contemplated hereby and thereby and the consummation of the transactions contemplated hereby and thereby will not with or without the giving of notice or the lapse of time or both (A) violate any provision of law, statute, rule or regulation to which the Company is subject, (B) violate any order, judgment or decree applicable to it, or (C) conflict with or result in a breach or default under any term or condition of its applicable governing instruments or any agreement or other instrument to which it is a party or by which it is bound.

6. Valid Issuance of Common Stock. The Common Stock being issued hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and will be free of preemptive rights and restrictions on transfer other than restrictions on transfer under this Agreement and applicable state and federal securities laws. Assuming the truth and accuracy of the representations and warranties of each of the Subscribers for the Company's capital stock under agreements similar to this Agreement, the issuance of the Units hereunder shall be exempt from registration under the Securities Act and any applicable state securities laws.

7. Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the valid execution of this Agreement and the consummation of the transactions contemplated by this Agreement except for filings pursuant to applicable state and federal securities laws which allow filings to be made following the Closing but in no event later than 15 days after the consummation of the transactions contemplated hereby. The Company (a) is not a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) does not engage in any dealings or transactions with any such Person. The Company is in compliance, in all material respects, with the USA Patriot Act.

8. Use of Proceeds. The proceeds from the sale of Units will be available for the Company's general corporate purposes. Up to 7% of the proceeds may be paid for finders fees which will be paid one-half in cash and one-half in Units at the Offering Price.

9. No Subsidiaries. The Company has four dormant wholly-owned subsidiaries, Aethlon, Inc, Cell Activation, Inc., Syngen Research, Inc. and Hemex, Inc.

10. Registration Rights

(a) Subject to the terms and limitations hereof, the Company shall file a registration statement on Form SB-2 or other appropriate registration document under the Securities Act (the "Registration Statement") for resale of the Common Stock and Warrant Shares underlying the Warrants (the "Registrable Securities") and shall use its reasonable best efforts to maintain the Registration Statement effective so long as any of the Warrants are outstanding (the "Effectiveness Period"). The Company shall file such Registration Statement no later than sixty (60) days after the completion of the Offering (the "Closing Date"); provided, however, the Company will not be obligated to register more than 33% of its issued and outstanding shares of Common Stock on such registration statement. If the number of shares of Common Stock and the Warrant Shares exceeds such 33% limitation, the Company will cut back the number of shares being registered in order for it to adhere to such 33% limitation, and such cut back will be applied

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to the holders of the Units on a pro rata basis. The Company shall also use its best efforts to ensure that such Registration Statement is declared effective within one hundred and eighty (180) calendar days from the Closing Date. If the event the Registration Statement is not declared effective within one hundred and eighty (180) calendar days from the Closing Date (the "Effective Date"), the Subscriber will be entitled to receive from the Company, without additional consideration, additional shares of Common Stock equal to two percent (2%) of the shares of Common Stock sold in the Offering for each 30-day period (or portion thereof) after which the Effective Date has passed and the Registration Statement remains without effectiveness. No "penalty shares" shall accrue or be issuable if at such time the Registrable Securities may be resold pursuant to Rule 144 under the Act.

(b) Notwithstanding the foregoing, the Company shall not be obligated to effect any registration of the Registrable Securities or take any other action pursuant to this Section 10: (i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act, or (ii) during any period in which the Company suspends the rights of a Subscriber after giving the Subscriber written notification of a Potential Material Event (defined below) pursuant to subsection (i) below.

(c) Except as otherwise expressly set forth, the Company shall bear all expenses incurred by the Company in compliance with the registration obligation of the Company, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company incurred in connection with any registration, qualification or compliance pursuant to this Subscription Agreement and all underwriting discounts, selling commissions and expense allowances applicable to the sale of any securities by the Company for its own account in any registration. All underwriting discounts, selling commissions and expense allowances applicable to the sale by Subscriber of Registrable Securities and all fees and disbursements of counsel for the Subscriber shall be borne by the Subscriber.

(d) To the extent permitted by law the Company will indemnify each Subscriber, each of its officers, directors, agents, employees and partners, and each person controlling such Subscriber, with respect to each registration, qualification or compliance effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter, and their respective counsel against all claims, losses, damages and liabilities (or actions, proceedings or settlements in respect thereof) arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document prepared by the Company (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or (ii) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and subject to the provisions of subsection (g) below, will reimburse each such Subscriber, each of its officers, directors, agents, employees and partners, and each person controlling such Subscriber, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses as they are reasonably incurred in connection with

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investigating and defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement (or alleged untrue statement) or omission (or alleged omissions) based upon written information furnished to the Company by (or on behalf of) such Subscriber or underwriter, or if the person asserting any such loss, claim, damage or liability (or action or proceeding in respect thereof) did not receive a copy of an amended preliminary prospectus or the final prospectus (or the final prospectus as amended and supplemented) at or before the written confirmation of the sale of such Registrable Securities to such person because of the failure of the Subscriber or underwriter to so provide such amended preliminary or final prospectus (or the final prospectus as amended and supplemented); provided, however, that the indemnity agreement contained in this subsection shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by the Subscriber, any such partner, officer, director, employee, agent or controlling person of such Subscriber, or any such underwriter or any person who controls any such underwriter; provided, however, that the obligations of the Company hereunder shall be limited to an amount equal to the portion of net proceeds represented by the Registrable Securities pursuant to this Agreement.

(e) To the extent permitted by law, each Subscriber whose Registrable Securities are included in any registration, qualification or compliance effected pursuant to this Subscription Agreement will indemnify the Company, and its directors, officers, agents, employees and each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of the Securities Act and the rules and regulations thereunder, each other such Subscriber and each of their officers, directors, partners, agents and employees, and each person controlling such Subscriber, and their respective counsel against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and such Subscribers, directors, officers, partners, persons, underwriters or control persons for any legal or any other expenses as they are reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular

or other document in reliance upon and in conformity with written information furnished to the Company by such Subscriber; provided, however, that the obligations of any Subscriber hereunder shall be limited to an amount equal to the net proceeds to such Subscriber from Registrable Securities sold under such registration statement, prospectus, offering circular or other document as contemplated herein; provided, further, that the indemnity agreement contained in this subsection shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Subscriber, which consent shall not be unreasonably withheld or delayed.

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(f) Each party entitled to indemnification under this Section (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense; and provided further that if any Indemnified Party reasonably concludes that there may be one or more legal defenses available to it that are not available to the Indemnifying Party, or that such claim or litigation involves or could have an effect on matters beyond the scope of this Agreement, then the Indemnified Party may retain its own counsel at the expense of the Indemnifying Party; and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement unless and only to the extent that such failure to give notice results in material prejudice to the Indemnifying Party. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

(g) If the indemnification provided for in this Section is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(h) The Registrable Securities, and any related benefits to the Subscriber hereunder may be transferred or assigned by the Subscriber to a permitted transferee or assignee, provided that the Company is given written notice of such transfer or assignment, stating the name and address of said transferee or assignee and identifying the Registrable Securities with respect to which such registration rights are being transferred or assigned; provided further that the transferee or assignee of such Registrable Securities shall be deemed to have assumed the obligations of the Subscriber under this Agreement by the acceptance of such assignment and shall, upon request from the Company, evidence such assumption by delivery to the Company of a written agreement assuming such obligations of the Subscriber.

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(i) Subscriber covenants and agrees that such Subscriber will comply with the prospectus delivery requirements of the Securities Act as applicable to such Subscriber in connection with sales of Registrable Securities pursuant to the registration statement required hereunder.

11. No Stock Agreements. There is not in effect on the date hereof any agreement to which the Company or (to its knowledge) any holders of equity securities of the Company is a party relating to the voting, transfer or sale of such securities.

D. Legend. The certificate representing the Underlying Stock and the Warrants

issued by the Company shall bear the following (or similar) legends:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THESE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED UNLESS PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR EXEMPTION THEREFROM.

E. Indemnification. The Subscriber agrees to indemnify and hold harmless the Company and its officers, managers, members, employees, agents and affiliates against any and all loss, liability, claim, damage and expense whatsoever (including without limitation any and all expenses reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representation or warranty or breach or failure by the Subscriber to comply with any covenant agreement made by the Subscriber herein. The Company agrees to indemnify and hold harmless the Subscriber and its officers, managers, members, employees, agents and affiliates against any and all loss, liability, claim, damage and expense whatsoever (including without limitation any and all expenses reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representation or warranty or breach or failure to comply with any covenant agreement made by the Company herein.

F. Modification. Neither this Agreement nor any provision hereof shall be waived, modified, discharged or terminated except by an instrument in writing signed by the party against whom any such waiver, modification, discharge or termination is sought.

G. Assignability. This Agreement and the rights and obligations hereunder are not transferable or assignable by the Subscriber.

H. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada, without regard to principles of conflicts of law.

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I. Survival of Representations and Warranties. All representations and warranties made by the Subscriber in this Agreement shall survive the execution and delivery of this Agreement, as well as any investigation at any time made by or on behalf of the Company and the issue and sale of the Units and Underlying Stock.

J. Reliance. The Subscriber understands and acknowledges that the Subscriber's representations, warranties, acknowledgements and agreements in this Agreement will be relied upon by the Company in determining the Subscriber's suitability as a purchaser of Units.

K. Further Assurances. The Subscriber agrees to provide, if requested, any additional information that may be requested or required to determine the Subscriber's eligibility to purchase the Units.

L. Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

M. Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

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IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date set forth on this signature page.

Class and number of Units Subscribed for: _____

Aggregate Purchase Price: _____

Print Name of Company, Limited
Liability Company, Corporation
or Trust

Print Name of Authorized
Representative

By: _____
Signature of Authorized

Capacity of Authorized

Representative

Representative

Date: _____

Address: _____

SUBSCRIPTION ACCEPTED:

AETHLON MEDICAL, INC., a Nevada corporation

By: /s/ James A. Joyce

Name: James A. Joyce

Title: CEO

Date: _____, 2007

THIS WARRANT AND THE COMMON SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THIS WARRANT AND THE COMMON SHARES ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO AETHLON MEDICAL, INC. THAT SUCH REGISTRATION IS NOT REQUIRED.

Right to Purchase _____ of shares of
Common Stock of Aethlon Medical, Inc. (subject
to adjustment as provided herein)

COMMON STOCK PURCHASE WARRANT

No. _____ Issue Date: _____

AETHLON MEDICAL, INC., a corporation organized under the laws of the State of Nevada (the "Company"), hereby certifies that, for value received, or its assigns (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time after the Issue Date until 5:00 p.m., P.S.T. on the thridanniversary of the Issue Date (the "Expiration Date"), up to fully paid and nonassessable shares of the common stock of the Company (the "Common Stock"), at a per share purchase price of \$0.50. The aforescribed purchase price per share, as adjusted from time to time as herein provided, is referred to herein as the "Purchase Price." The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein. The Company may reduce the Purchase Price without the consent of the Holder.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include Aethlon Medical, Inc. and any corporation which shall succeed or assume the obligations of Aethlon Medical, Inc. hereunder.

(b) The term "Common Stock" includes (a) the Company's Common Stock and (b) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

1. Exercise of Warrant.

1.1. Number of Shares Issuable upon Exercise. From and after the Issue Date through and including the Expiration Date, the Holder hereof shall be entitled to receive, upon exercise of this Warrant in whole in accordance with the terms of subsection 1.2 or upon exercise of this Warrant in part in accordance with subsection 1.3, shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

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1.2. Full Exercise. This Warrant may be exercised in full by the Holder hereof by delivery of an original or facsimile copy of the form of subscription attached as Exhibit A hereto (the "Subscription Form") duly executed by such Holder and surrender of the original Warrant within seven (7) days of exercise, to the Company at its principal office or at the office of its Warrant Agent (as provided hereinafter), accompanied by payment, in cash, wire transfer or by certified or official bank check payable to the order of the Company, in the amount obtained by multiplying the number of shares of Common Stock for which this Warrant is then exercisable by the Purchase Price then in effect or by cashless exercise in the manner set forth in Section 2.

1.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by surrender of this Warrant in the manner and at the place provided in subsection 1.2 except that the amount payable by the Holder on such partial exercise shall be the amount obtained by multiplying (a) the number of whole shares of Common Stock designated by the Holder in the Subscription Form by (b) the Purchase Price then in effect. On any such partial exercise, the Company, at its expense, will forthwith issue and deliver to or upon the order of the Holder hereof a new Warrant of like tenor, in the name of the Holder hereof or as such Holder (upon payment by such Holder of any applicable transfer taxes) may request, the whole number of shares of Common Stock for which such

Warrant may still be exercised.

1.4. Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the Holder hereof acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such Holder any such rights.

1.5. Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the Holder of the Warrants pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

1.6 Delivery of Stock Certificates, etc. on Exercise. The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such shares as aforesaid. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within five (5) days thereafter, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder hereof, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and nonassessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash equal to such fraction.

2. Registration Rights. The Company shall file a registration statement on Form SB-2 or other appropriate registration form under the Securities Act (the "Registration Statement") for the registration of the shares of Common Stock underlying this Warrant (the "Warrant Shares") and shall use its reasonable best efforts to maintain the Registration Statement effective so long as this Warrant is outstanding (the "Effectiveness Period"). The Company shall file such Registration Statement no later than sixty (60) days after August 13, 2007; provided, however, the Company will not be obligated to register more than 33% of its issued and outstanding shares of Common Stock on such registration statement. If the number of shares of Common Stock and the Warrant Shares proposed to be registered thereunder exceeds such 33% limitation, the Company

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will cut back the number of shares being registered in order for it to adhere to such 33% limitation, and such cut back will be applied to the holders of the shares being registered (including the Holder hereof) on a pro rata basis. The Company shall also use its best efforts to ensure that such Registration Statement is declared effective within one hundred and eighty (180) calendar days from August 13, 2007. Except as otherwise expressly set forth, the Company shall bear all expenses incurred by the Company in compliance with this registration obligation of the Company, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company incurred in connection with any registration, qualification or compliance concerning the Warrant Shares.

3. Adjustment for Reorganization, Consolidation, Merger, etc.

3.1. Reorganization, Consolidation, Merger, etc. In case at any time or from time to time, the Company shall (a) effect a reorganization, (b) consolidate with or merge into any other person or (c) transfer all or substantially all of its properties or assets to any other person under any plan or arrangement contemplating the dissolution of the Company, then, in each such case, as a condition to the consummation of such a transaction, proper and adequate provision shall be made by the Company whereby the Holder of this Warrant, on the exercise hereof as provided in Section 1, at any time after the consummation of such reorganization, consolidation or merger or the effective date of such dissolution, as the case may be, shall receive, in lieu of the Common Stock (or Other Securities) issuable on such exercise prior to such consummation or such effective date, the stock and other securities and property (including cash) to which such Holder would have been entitled upon such consummation or in connection with such dissolution, as the case may be, if such Holder had so exercised this Warrant, immediately prior thereto, all subject to further adjustment thereafter as provided in Section 4.

3.2. Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, prior to such dissolution, shall at its expense deliver or cause to be delivered the stock and other securities and property (including cash, where

applicable) receivable by the Holder of the Warrants after the effective date of such dissolution pursuant to this Section 3 to a bank or trust company (a "Trustee") having its principal office in Los Angeles, California, as trustee for the Holder of the Warrants.

3.3. Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the Other Securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any Other Securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the transaction described in this Section 3, then only in such event will the Company's securities and property (including cash, where applicable) receivable by the Holder of the Warrants be delivered to the Trustee as contemplated by Section 3.2.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such event, the Purchase Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Purchase Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Purchase Price then in effect. The

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Purchase Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the Holder of this Warrant shall thereafter, on the exercise hereof as provided in Section 1, be entitled to receive shall be adjusted to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4) be issuable on such exercise by a fraction of which (a) the numerator is the Purchase Price that would otherwise (but for the provisions of this Section 4) be in effect, and (b) the denominator is the Purchase Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrants, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of the Warrant and any Warrant Agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, etc. Issuable on Exercise of Warrant; Financial Statements. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrants, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant. This Warrant entitles the Holder hereof to receive copies of all financial and other information distributed or required to be distributed to the holders of the Company's Common Stock.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "Transferor"). On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of Exhibit B attached hereto (the "Transferor Endorsement Form") and together with an opinion of counsel reasonably satisfactory to the Company that the transfer of this Warrant will be in compliance with applicable securities laws, the Company at its expense, but with payment by the Transferor of any applicable transfer taxes, will issue and deliver to or on the order of the Transferor thereof a new Warrant or Warrants of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant

so surrendered by the Transferor. No such transfers shall result in a public distribution of the Warrant.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense, twice only, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

9. Warrant Agent. The Company may, by written notice to the Holder of the Warrant, appoint an agent (a "Warrant Agent") for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such Warrant Agent.

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10. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

11. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company to: Aethlon Medical, Inc., 3030 Bunker Hill Street, Suite 4000, San Diego, California 92109, FAX (858) 332-1739, with a copy by facsimile only to: Richardson & Patel LLP, 10900 Wilshire Boulevard, Suite 500, Los Angeles, CA 90024, Attn: Nimish Patel, Esq., telecopier: (310) 208-1154, (ii) if to the Holder, to the address and facsimile number listed on the first paragraph of this Warrant.

12. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Warrant shall be construed and enforced in accordance with and governed by the laws of California. Any dispute relating to this Warrant shall be adjudicated in City of Los Angeles in the State of California. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

AETHLON MEDICAL, INC.

By: /s/ James A. Joyce

Name: James A. Joyce

Title: Chairman and Chief Executive Officer

Witness:

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EXHIBIT A

FORM OF SUBSCRIPTION
(to be signed only on exercise of Warrant)

TO: AETHLON MEDICAL, INC.

The undersigned, pursuant to the provisions set forth in the attached Warrant (No.____), hereby irrevocably elects to purchase (check applicable box):

_____ shares of the Common Stock covered by such Warrant.

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant, which is \$_____. Such payment takes the form of (check applicable box or boxes):

_____ \$_____ in lawful money of the United States

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____.

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an exemption from registration under the Securities Act.

Dated: _____

Signature: _____
(Signature must conform to name of holder as specified on the face of the Warrant)

Address: _____

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EXHIBIT B

FORM OF TRANSFEROR ENDORSEMENT
(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of AETHLON MEDICAL, INC. to which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of AETHLON MEDICAL, INC. with full power of substitution in the premises.

Transferees	Percentage Transferred	Number Transferred
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----

Dated: _____, _____

(Signature must conform to name of holder as specified on the face of the warrant)

Signed in the presence of:

(Name)

(address)

ACCEPTED AND AGREED:
[TRANSFEREE]

(address)

(Name)

SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (this "AGREEMENT"), is dated as of January __, 2008, by and among Aethlon Medical, Inc., a Nevada corporation (the "COMPANY"), and the subscribers identified on the signature page hereto (each a "SUBSCRIBER" and collectively "SUBSCRIBERS").

WHEREAS, the Company and the Subscribers are executing and delivering this Agreement in reliance upon an exemption from securities registration afforded by the provisions of Section 4(2), Section 4(6) and/or Regulation D ("REGULATION D") as promulgated by the United States Securities and Exchange Commission (the "COMMISSION") under the Securities Act of 1933, as amended (the "1933 ACT").

WHEREAS, the parties desire that, upon the terms and subject to the conditions contained herein, the Company shall issue and sell to the Subscribers, as provided herein, and the Subscribers, in the aggregate, shall purchase for up to \$200,000 (the "PURCHASE PRICE") up to \$220,000 (the "PRINCIPAL AMOUNT") of principal amount of promissory notes of the Company ("NOTE" or "NOTES"), a form of which is annexed hereto as EXHIBIT A; and share purchase warrants (the "WARRANTS"), in the form annexed hereto as EXHIBIT B, to purchase shares of the Company's \$.001 par value Common Stock (the "COMMON STOCK" and the "WARRANT SHARES") during the period and at the per share purchase price set forth in the Warrants (the "EXERCISE PRICE"). The Notes, the Warrants and the Warrant Shares are collectively referred to herein as the "SECURITIES."

NOW, THEREFORE, in consideration of the mutual covenants and other agreements contained in this Agreement the Company and the Subscribers hereby agree as follows:

1. Closing Date. The "CLOSING DATE" shall be the date that the Purchase Price is transmitted by wire transfer or otherwise credited to or for the benefit of the Company. The consummation of the transactions contemplated herein ("CLOSING") shall take place at the offices of Richardson & Patel LLP, 10900 Wilshire Blvd., Suite 500, Los Angeles, California 90024, upon the satisfaction or waiver of all conditions to closing set forth in this Agreement.

2. Closing. Subject to the satisfaction or waiver of the terms and conditions of this Agreement, on the Closing Date, each Subscriber shall purchase and the Company shall sell the Notes and Warrants to each Subscriber. The Principal Amount for each Subscriber's Note will be determined by dividing such Subscriber's portion of the Purchase Price by .9090.

3. Class C Warrants. On the Closing Date, the Company will issue and deliver Class C Warrants to the Subscribers. 660,000 Class C Warrants will be issued for \$220,000 of Note Principal Amount issued on the Closing Date. The Exercise Price to acquire a Warrant Share upon exercise of a Class C Warrant shall be \$0.50, subject to reduction as described in the Class C Warrant. The Class C Warrants shall be exercisable until three years after the issue date of the Class C Warrants.

4. Subscriber Representations and Warranties. Each Subscriber hereby represents and warrants to and agrees with the Company only as to such Subscriber that:

(a) Organization and Standing of the Subscribers. If such Subscriber is an entity, such Subscriber is a corporation, partnership or other entity duly incorporated or organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization.

(b) Authorization and Power. Such Subscriber has the requisite power and authority to enter into and perform this Agreement and the other Transaction Documents and to purchase the Notes and Warrants being sold to it hereunder. The execution, delivery and performance of this Agreement and the other Transaction Documents by such Subscriber and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate or partnership action, and no further consent or authorization of such Subscriber or its Board of Directors, stockholders, partners, members, as the case may be, is required. This Agreement and the other Transaction Documents have been duly authorized, executed and delivered by such Subscriber and constitutes, or shall constitute when executed and delivered, a valid and binding obligation of such Subscriber enforceable against such Subscriber in accordance with the terms thereof.

(c) No Conflicts. The execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation by such Subscriber of the transactions contemplated hereby and thereby or relating

hereto do not and will not (i) result in a violation of such Subscriber's charter documents or bylaws or other organizational documents or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement, indenture or instrument or obligation to which such Subscriber is a party or by which its properties or assets are bound, or result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Subscriber or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Subscriber). Such Subscriber is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement and the other Transaction Documents or to purchase the Securities in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, such Subscriber is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(d) Information on Company. Such Subscriber has been furnished with or has had access at the EDGAR Website of the Commission to the Company's Form 10-KSB filed on July 13, 2007 for the fiscal year ended March 31, 2007, and the financial statements included therein, together with all subsequent filings made with the Commission available at the EDGAR website (hereinafter referred to collectively as the "REPORTS"). In addition, such Subscriber may have received in writing from the Company such other information concerning its operations, financial condition and other matters as such Subscriber has requested in writing, identified thereon as OTHER WRITTEN INFORMATION (such other information is collectively, the "OTHER WRITTEN INFORMATION"), and considered all factors such Subscriber deems material in deciding on the advisability of investing in the Securities.

(e) Information on Subscriber. Such Subscriber is, and will be at the time of the exercise of the Warrants, an "ACCREDITED INVESTOR", as such term is defined in Regulation D promulgated by the Commission under the 1933 Act, is experienced in investments and business matters, has made investments of a speculative nature and has purchased securities of United States publicly-owned companies in private placements in the past and, with its representatives, has such knowledge and experience in financial, tax and other business matters as to enable such Subscriber to utilize the information made available by the Company to evaluate the merits and risks of and to make an informed investment decision with respect to the proposed purchase, which represents a speculative investment. Such Subscriber has the authority and is duly and legally qualified to purchase and own the Securities. Such Subscriber is able to bear the risk of such investment for an indefinite period and to afford a complete loss thereof. The information set forth on the signature page hereto regarding such Subscriber is accurate.

(f) Purchase of Notes and Warrants. On the Closing Date, such Subscriber will purchase the Notes and Warrants as principal for its own account for investment only and not with a view toward, or for resale in connection with, the public sale or any distribution thereof.

(g) Compliance with Securities Laws. Such Subscriber understands and agrees that the Securities have not been registered under the 1933 Act or any applicable state securities laws, by reason of their issuance in a transaction that does not require registration under the 1933 Act (based in part on the accuracy of the representations and warranties of such Subscriber contained herein), and that such Securities must be held indefinitely unless a subsequent disposition is registered under the 1933 Act or any applicable state securities laws or is exempt from such registration. Such Subscriber will comply with all applicable rules and regulations in connection with the sales of the Securities.

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(h) Restricted Securities. Such Subscriber understands that the Securities have not been registered under the 1933 Act and such Subscriber will not sell, offer to sell, assign, pledge, hypothecate or otherwise transfer any of the Securities unless pursuant to an effective registration statement under the 1933 Act, or unless an exemption from registration is available. Notwithstanding anything to the contrary contained in this Agreement, such Subscriber may transfer (without restriction and without the need for an opinion of counsel) the Securities to its Affiliates (as defined below) provided that each such Affiliate is an "accredited investor" under Regulation D and such Affiliate agrees to be bound by the terms and conditions of this Agreement. For the purposes of this Agreement, an "AFFILIATE" of any person or entity means any other person or entity directly or indirectly controlling, controlled by or under direct or indirect common control with such person or entity. Affiliate includes each Subsidiary of the Company. For purposes of this definition, "CONTROL" means the power to direct the management and policies of such person or firm, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

(i) Warrants Legend. The Warrants shall bear the following or similar legend:

"NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES."

(j) Note Legend. The Note shall bear the following legend:

"THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES. "

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(k) Communication of Offer. The offer to sell the Securities was directly communicated to such Subscriber by the Company. At no time was such Subscriber presented with or solicited by any leaflet, newspaper or magazine article, radio or television advertisement, or any other form of general advertising or solicited or invited to attend a promotional meeting otherwise than in connection and concurrently with such communicated offer.

(l) Authority; Enforceability. This Agreement and other agreements delivered together with this Agreement or in connection herewith have been duly authorized, executed and delivered by such Subscriber and are valid and binding agreements enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity; and such Subscriber has full power and authority necessary to enter into this Agreement and such other agreements and to perform its obligations hereunder and under all other agreements entered into by such Subscriber relating hereto.

(m) No Governmental Review. Such Subscriber understands that no United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Securities or the suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(n) Correctness of Representations. Such Subscriber represents as to such Subscriber that the foregoing representations and warranties are true and correct as of the date hereof and, unless such Subscriber otherwise notifies the Company prior to the Closing Date shall be true and correct as of the Closing Date.

(o) Survival. The foregoing representations and warranties shall survive the Closing Date.

5. Company Representations and Warranties. The Company represents and warrants to and agrees with each Subscriber that:

(a) Due Incorporation. The Company is a corporation or other entity duly incorporated or organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the requisite corporate power to own its properties and to carry on its business as presently conducted. The Company is duly qualified as a foreign corporation to do business and is in good standing in each jurisdiction where the nature of the business conducted or property owned by it makes such qualification necessary, other than those jurisdictions in which the failure to so qualify would not have a Material Adverse Effect. For purposes of the Transaction Documents, a "MATERIAL ADVERSE EFFECT" shall mean a material adverse effect on the financial condition, results of operations, prospects, properties or

business of the Company and its Subsidiaries taken as a whole. For purposes of this Agreement, "SUBSIDIARY" means, with respect to any entity at any date, any corporation, limited or general partnership, limited liability company, trust, estate, association, joint venture or other business entity of which more than 30% of (i) the outstanding capital stock having (in the absence of contingencies) ordinary voting power to elect a majority of the board of directors or other managing body of such entity, (ii) in the case of a partnership or limited liability company, the interest in the capital or profits of such partnership or limited liability company or (iii) in the case of a trust, estate, association, joint venture or other entity, the beneficial interest in such trust, estate, association or other entity business is, at the time of determination, owned or controlled directly or indirectly through one or more intermediaries, by such entity. The Subsidiaries as of the Closing Date are set forth on SCHEDULE 5(A).

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(b) Outstanding Stock. All issued and outstanding shares of capital stock of the Company and Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable.

(c) Authority; Enforceability. This Agreement, the Note, the Warrants, and Escrow Agreement, and all other agreements delivered together with this Agreement or in connection herewith (collectively "TRANSACTION DOCUMENTS") have been duly authorized, executed and delivered by the Company and are valid and binding agreements of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity. The Company has full corporate power and authority necessary to enter into and deliver the Transaction Documents and to perform its obligations thereunder.

(d) Capitalization and Additional Issuances. The authorized and outstanding capital stock of the Company and Subsidiaries as of the date of this Agreement and the Closing Date (not including the Securities) are set forth on SCHEDULE 5(D). There are no outstanding agreements or preemptive or similar rights affecting the Company's Common Stock or equity and no outstanding rights, warrants or options to acquire, or instruments convertible into or exchangeable for, or agreements or understandings with respect to the sale or issuance of any shares of Common Stock or equity of the Company or Subsidiaries or other equity interest in the Company or Subsidiaries except as described on SCHEDULE 5(D). The Common Stock, options, warrants, agreements and other rights to acquire equity of the Company and any Subsidiary outstanding as of the last Business Day preceding the Closing Date is set forth on SCHEDULE 5(D). The only officer, director, employee and consultant stock option or stock incentive plan in effect or contemplated by the Company as of the Closing Date is described on SCHEDULE 5(D).

(e) Consents. No consent, approval, authorization or order of any court, governmental agency, or body or arbitrator having jurisdiction over the Company, Subsidiaries or any of their Affiliates, the OTC Bulletin Board ("BULLETIN BOARD") or the Company's shareholders is required for the execution by the Company of the Transaction Documents and compliance and performance by the Company of its obligations under the Transaction Documents, including, without limitation, the issuance and sale of the Securities. The Transaction Documents and the Company's performance of its obligations thereunder has been unanimously approved by the Company's Board of Directors.

(f) No Violation or Conflict. Assuming the representations and warranties of the Subscribers in Section 4 are true and correct, neither the issuance and sale of the Securities nor the performance of the Company's obligations under the Transaction Documents by the Company will:

(i) violate, conflict with, result in a breach of, or constitute a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default) under (A) the articles or certificate of incorporation, charter or bylaws of the Company, (B) to the Company's knowledge, any decree, judgment, order, law, treaty, rule, regulation or determination applicable to the Company of any court, governmental agency or body, or arbitrator having jurisdiction over the Company or over the properties or assets of the Company or any of its Affiliates, (C) the terms of any bond, debenture, note or any other evidence of indebtedness, or any agreement, stock option or other similar plan, indenture, lease, mortgage, deed of trust or other instrument to which the Company or any of its Affiliates is a party, by which the Company or any of its Affiliates is bound, or to which any of the properties of the Company or any of its Affiliates is subject, or (D) the terms of any "lock-up" or similar provision of any underwriting or similar agreement to which the Company, or any of its Affiliates is a party except the violation, conflict, breach, or default of which would not have a Material Adverse Effect; or

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(ii) result in the creation or imposition of any lien, charge or encumbrance upon the Securities or any of the assets of the Company or any of its Affiliates except as described herein; or

(iii) result in the activation of any anti-dilution rights or a reset or repricing of any debt or security instrument of any other creditor, equity holder, or potential equity holder of the Company, nor result in the acceleration of the due date of any obligation of the Company; or

(iv) will result in the triggering of any piggy-back registration rights of any person or entity holding securities of the Company or having the right to receive securities of the Company.

(g) The Securities. The Securities upon issuance:

(i) are, or will be, free and clear of any security interests, liens, claims or other encumbrances, subject to restrictions upon transfer under the 1933 Act and any applicable state securities laws;

(ii) have been, or will be, duly and validly authorized and on the date of issuance of the Securities, the Securities will be duly and validly issued, fully paid and non-assessable and if registered pursuant to the 1933 Act and resold pursuant to an effective registration statement will be free trading and unrestricted;

(iii) will not have been issued or sold in violation of any preemptive or other similar rights of the holders of any securities of the Company;

(iv) will not subject the holders thereof to personal liability by reason of being such holders; and

(v) assuming the representations and warranties of the Subscribers as set forth in Section 4 hereof are true and correct, will not result in a violation of Section 5 under the 1933 Act.

(h) Litigation. There is no pending or, to the best knowledge of the Company, threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having jurisdiction over the Company, or any of its Affiliates that would affect the execution by the Company or the performance by the Company of its obligations under the Transaction Documents. There is no pending or, to the best knowledge of the Company, basis for or threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having jurisdiction over the Company, or any of its Affiliates which litigation if adversely determined would have a Material Adverse Effect.

(i) No Market Manipulation. The Company and its Affiliates have not taken, and will not take, directly or indirectly, any action designed to, or that might reasonably be expected to, cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Securities or affect the price at which the Securities may be issued or resold.

(j) Information Concerning Company. The Reports including the exhibits and financial statements included therewith, and Other Written Information contain all material information relating to the Company and its operations and financial condition as of their respective dates which information is required to be disclosed therein. Since the dates of the most recent financial statements included in the Reports, and except as modified in the Other Written Information or in the Schedules hereto, there has been no Material Adverse Event relating to the Company's business, financial condition or affairs not disclosed in the Reports. The Reports including the exhibits and financial statements included therewith, and Other Written Information do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, taken as a whole, not misleading in light of the circumstances when made.

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(k) Stop Transfer. The Company will not issue any stop transfer order or other order impeding the sale, resale or delivery of any of the Securities, except as may be required by any applicable federal or state securities laws and unless contemporaneous notice of such instruction is given to the Subscriber.

(l) Defaults. The Company is not in violation of its articles of incorporation or bylaws. The Company is (i) not in default under or in violation of any other material agreement or instrument to which it is a party or by which it or any of its properties are bound or affected, which default or violation would have a Material Adverse Effect, (ii) not in default with respect to any order of any court, arbitrator or governmental body or subject to or party to any order of any court or governmental authority arising out of any action, suit or proceeding under any statute or other law respecting antitrust, monopoly,

restraint of trade, unfair competition or similar matters, or (iii) not in violation of any statute, rule or regulation of any governmental authority which violation would have a Material Adverse Effect.

(m) No Integrated Offering. Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offer of the Securities pursuant to this Agreement to be integrated with prior offerings by the Company for purposes of the 1933 Act or any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of the Bulletin Board which would impair the exemptions relied upon in this Offering or the Company's ability to timely comply with its obligations hereunder. Neither the Company nor any of its Affiliates will take any action or steps that would cause the offer or issuance of the Securities to be integrated with other offerings which would impair the exemptions relied upon in this Offering or the Company's ability to timely comply with its obligations hereunder. The Company will not conduct any offering that will be integrated with the offer or issuance of the Securities that would impair the exemptions relied upon in connection with the offer and sale of the Securities or the Company's ability to timely comply with its obligations pursuant to the Transaction Documents.

(n) No General Solicitation. Neither the Company, nor any of its Affiliates, nor to its knowledge, any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the 1933 Act) in connection with the offer or sale of the Securities.

(o) Liabilities. The Company has no liabilities or obligations which are material, individually or in the aggregate, other than those incurred in the ordinary course of the Company businesses since the date of the most recent audited financial statements of the Company contained in the Reports, and which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(p) No Undisclosed Events or Circumstances. Since the date of the most recent audited financial statements of the Company contained in the Reports, no event or circumstance has occurred or exists with respect to the Company or its businesses, properties, operations or financial condition, that, under applicable law, rule or regulation, requires public disclosure or announcement by the Company prior to the date hereof and/or prior to the Closing Date which has not been so publicly announced or disclosed in the Reports.

(q) Dilution. The Company's executive officers and directors understand the nature of the Securities being sold hereby and recognize that the issuance of the Securities will have a potential dilutive effect on the equity holdings of other holders of the Company's equity or rights to receive equity of the Company. The board of directors of the Company has concluded, in its good faith business judgment that the issuance of the Securities is in the best interests of the Company. The Company specifically acknowledges that its obligation to issue the Warrant Shares upon exercise of the Warrants, is binding upon the Company and enforceable regardless of the dilution such issuance may have on the ownership interests of other shareholders of the Company or parties entitled to receive equity of the Company.

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(r) No Disagreements with Accountants and Lawyers. There are no material disagreements of any kind presently existing, or reasonably anticipated by the Company to arise between the Company and the accountants and lawyers presently employed by the Company, including but not limited to disputes or conflicts over payment owed to such accountants and lawyers, nor have there been any such disagreements during the two years prior to the Closing Date.

(s) Investment Company. Neither the Company nor any Affiliate of the Company is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(t) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(u) Reporting Company. The Company is a publicly-held company subject to reporting obligations pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the "1934 ACT") and has a class of Common

Stock registered pursuant to Section 12(g) of the 1934 Act. Pursuant to the provisions of the 1934 Act, the Company has timely filed all reports and other materials required to be filed thereunder with the Commission during the twelve months preceding the date of this Agreement and the Closing Date.

(v) Listing. The Company's Common Stock is quoted on the Bulletin Board under the symbol AEMD.OB. The Company has not received any oral or written notice that its Common Stock is not eligible nor will become ineligible for quotation on the Bulletin Board nor that its Common Stock does not meet all requirements for the continuation of such quotation. The Company satisfies all the requirements for the continued quotation of its Common Stock on the Bulletin Board.

(w) DTC Status. The Company's transfer agent is a participant in, and the Common Stock is eligible for transfer pursuant to, the Depository Trust Company Automated Securities Transfer Program. The name, address, telephone number, fax number, contact person and email address of the Company transfer agent is set forth on SCHEDULE 5(W) hereto.

(x) Solvency. Based on the financial condition of the Company as of the Closing Date after giving effect to the receipt by the Company of the proceeds from the sale of the Notes, (i) the Company's fair saleable value of its assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature; The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt).

(y) Company Predecessor and Subsidiaries. The Company makes each of the representations contained in Sections 5(a), (b), (c), (d), (e), (f), (h), (j), (l), (o), (p), (r), (s), (u), and (x) of this Agreement, as same relate to the Subsidiary of the Company. All representations made by or relating to the Company of a historical or prospective nature and all undertakings described in Sections 9(g) through 9(l) shall relate, apply and refer to the Company and its predecessors. The Company represents that it owns 100% of the outstanding equity of the Subsidiaries and rights to receive equity of the Subsidiaries free and clear of all liens, encumbrances and claims, except as set forth on Schedule 5(d). No person or entity other than the Company has the right to own and receive any equity interest in the Subsidiaries.

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(z) Correctness of Representations. The Company represents that the foregoing representations and warranties are true and correct as of the date hereof in all material respects, and, unless the Company otherwise notifies the Subscribers prior to the Closing Date, shall be true and correct in all material respects as of the Closing Date; provided, that, if such representation or warranty is made as of a different date in which case such representation or warranty shall be true as of such date.

(AA) Survival. The foregoing representations and warranties shall survive the Closing Date.

6. Regulation D Offering/Legal Opinion. The offer and issuance of the Securities to the Subscribers is being made pursuant to the exemption from the registration provisions of the 1933 Act afforded by Section 4(2) or Section 4(6) of the 1933 Act and/or Rule 506 of Regulation D promulgated thereunder. The Company will provide, at the Company's expense, such legal opinions, if any, as are reasonably necessary for the issuance and resale of the Common Stock issuable upon exercise of the Warrants pursuant to an effective registration statement, Rule 144 under the 1933 Act or an exemption from registration.

7.1. Mandatory Redemption at Subscriber's Election. Upon the occurrence of an Event of Default (as defined in the Note or in this Agreement), that continues for more than twenty (20) business days, (iii) a Change in Control (as defined below), or (iv) of the liquidation, dissolution or winding up of the Company, then at the Subscriber's election, the Company must pay to each Subscriber ten (30) business days after request by each Subscriber ("CALCULATION PERIOD"), a sum of money determined by multiplying up to the outstanding principal amount of the Note designated by each such Subscriber by 120%, plus accrued but unpaid interest ("MANDATORY REDEMPTION PAYMENT"). The Mandatory Redemption Payment must be received by each Subscriber not later than thirty (30) business days after request ("MANDATORY REDEMPTION PAYMENT DATE"). Upon receipt of the Mandatory Redemption Payment, the corresponding Note principal and interest will be deemed paid and no longer outstanding. For purposes of this Section 7.1, "CHANGE IN CONTROL" shall mean (i) the Company no longer having a class of shares publicly traded or listed on a Principal Market (as defined in Section 9(b)), (ii) the Company becoming a Subsidiary of another entity (other than a corporation formed by the Company for purposes of reincorporation in another U.S. jurisdiction), (iii) a majority of the board of directors of the Company as of the Closing Date no longer serving as directors of the Company except due to natural causes, and (iv) the sale, lease or transfer of substantially all the assets of the Company or Subsidiaries.

7.2. Redemption. The Notes shall not be redeemable or callable by the Company except as described in the Note.

8. Commission. The Company on the one hand, and each Subscriber (for himself only) on the other hand, agree to indemnify the other against and hold the other harmless from any and all liabilities to any persons claiming brokerage commissions or finder's fees on account of services purported to have been rendered on behalf of the indemnifying party in connection with this Agreement or the transactions contemplated hereby or in connection with any investment in the Company at any time, whether or not such investment was consummated and arising out of such party's actions. The Company represents that there are no parties entitled to receive fees, commissions, or similar payments in connection with the Offering.

9. Covenants of the Company. The Company covenants and agrees with the Subscribers as follows:

(a) Stop Orders. The Company will advise the Subscribers, within twenty-four hours after it receives notice of issuance by the Commission, any state securities commission or any other regulatory authority of any stop order or of any order preventing or suspending any offering of any securities of the Company, or of the suspension of the qualification of the Common Stock of the Company for offering or sale in any jurisdiction, or the initiation of any proceeding for any such purpose.

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(b) Listing/Quotation. The Company shall promptly secure the quotation or listing of the Common Stock and Warrant Shares upon each national securities exchange, or automated quotation system upon which they are or become eligible for quotation or listing (subject to official notice of issuance) and shall maintain same so long as any Warrants are outstanding. The Company will maintain the quotation or listing of its Common Stock on the American Stock Exchange, National Capital Market, Nasdaq Global Market, Nasdaq Global Select Market, New York Stock Exchange or Bulletin Board (whichever of the foregoing is at the time the principal trading exchange or market for the Common Stock (the "PRINCIPAL MARKET")), and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Principal Market, as applicable. The Company will provide the Subscribers copies of all notices it receives notifying the Company of the threatened and actual delisting of the Common Stock from any Principal Market. As of the date of this Agreement and the Closing Date, the Bulletin Board is and will be the Principal Market.

(c) Market Regulations. The Company shall notify the Commission, the Principal Market and applicable state authorities, in accordance with their requirements, of the transactions contemplated by this Agreement, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Securities to the Subscribers and promptly provide copies thereof to the Subscribers.

(d) Filing Requirements. From the date of this Agreement and until the last to occur of (i) one (1) year after the Closing Date, (ii) until all the Warrant Shares have been resold or transferred by all the Subscribers pursuant to the Registration Statement or pursuant to Rule 144, without regard to volume limitations, or (iii) the Notes are not outstanding (the date of occurrence of the last such event being the "END DATE"), the Company will (A) cause its Common Stock to be registered under Section 12(b) or 12(g) of the 1934 Act, (B) comply in all respects with its reporting and filing obligations under the 1934 Act, (C) voluntarily comply with all reporting requirements that are applicable to an issuer with a class of shares registered pursuant to Section 12(b) or Section 12(g) of the 1934 Act, if the Company is not subject to such reporting requirements, and (D) comply with all requirements related to any registration statement filed pursuant to this Agreement. The Company will not take any action or file any document (whether or not permitted by the 1933 Act or the 1934 Act or the rules thereunder) to terminate or suspend such registration or to terminate or suspend its reporting and filing obligations under said acts until the End Date. Until the End Date, the Company will continue the listing or quotation of the Common Stock on a Principal Market and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the Principal Market. The Company agrees to timely file a Form D with respect to the Securities if required under Regulation D and to provide a copy thereof to each Subscriber promptly after such filing.

(e) Use of Proceeds. The proceeds of the Offering will be employed by the Company for general working capital. The Purchase Price may not and will not be used for accrued and unpaid officer and director salaries, payment of financing related debt, redemption of outstanding notes or equity instruments of the Company nor non-trade obligations outstanding on a Closing Date. For so long as any Notes are outstanding, the Company will not prepay any financing related debt obligations nor redeem any equity instruments of the Company.

(f) Reservation. Prior to the Closing Date, and at all times

thereafter, the Company shall have reserved, pro rata, on behalf of each holder of a Warrant, from its authorized but unissued Common Stock, the amount of Warrant Shares issuable upon exercise of the Warrants.

(g) DTC Program. At all times that Notes or Warrants are outstanding, the Company will employ as the transfer agent for the Common Stock and Warrant Shares a participant in the Depository Trust Company Automated Securities Transfer Program.

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(h) Taxes. From the date of this Agreement and until the End Date, the Company will promptly pay and discharge, or cause to be paid and discharged, when due and payable, all lawful taxes, assessments and governmental charges or levies imposed upon the income, profits, property or business of the Company; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company shall have set aside on its books adequate reserves with respect thereto, and provided, further, that the Company will pay all such taxes, assessments, charges or levies forthwith upon the commencement of proceedings to foreclose any lien which may have attached as security therefore. The Company undertakes to satisfy within sixty (60) days after the Closing Date, out of the proceeds of the Offering, all outstanding tax related charges payable by the Company which the Company represents do not exceed \$25,000.

(i) Insurance. From the date of this Agreement and until the End Date, the Company will keep its assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by fire, explosion and other risks customarily insured against by companies in the Company's line of business, in amounts sufficient to prevent the Company from becoming a co-insurer and not in any event less than one hundred percent (100%) of the insurable value of the property insured less reasonable deductible amounts; and the Company will maintain, with financially sound and reputable insurers, insurance against other hazards and risks and liability to persons and property to the extent and in the manner customary for companies in similar businesses similarly situated and to the extent available on commercially reasonable terms.

(j) Books and Records. From the date of this Agreement and until the End Date, the Company will keep true records and books of account in which full, true and correct entries will be made of all dealings or transactions in relation to its business and affairs in accordance with generally accepted accounting principles applied on a consistent basis.

(k) Governmental Authorities. From the date of this Agreement and until the End Date, the Company shall duly observe and conform in all material respects to all valid requirements of governmental authorities relating to the conduct of its business or to its properties or assets.

(l) Intellectual Property. From the date of this Agreement and until the End Date, the Company shall maintain in full force and effect its corporate existence, rights and franchises and all licenses and other rights to use intellectual property owned or possessed by it and reasonably deemed to be necessary to the conduct of its business, unless it is sold for value.

(m) Properties. From the date of this Agreement and until the End Date, the Company will keep its properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all necessary and proper repairs, renewals, replacements, additions and improvements thereto; and the Company will at all times comply with each provision of all leases to which it is a party or under which it occupies property if the breach of such provision could reasonably be expected to have a Material Adverse Effect.

(n) Confidentiality/Public Announcement. From the date of this Agreement and until the End Date, the Company agrees that except in connection with a Form 8-K and the registration statement or statements regarding the Securities or in correspondence with the SEC regarding same, it will not disclose publicly or privately the identity of the Subscribers unless expressly agreed to in writing by each Subscriber to be identified but only to the extent required by law and then only upon five days prior notice to Subscriber. In any event and subject to the foregoing, the Company undertakes to file a Form 8-K or make a public announcement describing the Offering not later than the first business day after the Closing Date. Prior to filing or announcement, such Form 8-K or public announcement will be provided to Subscribers for their review and approval. In the Form 8-K or public announcement, the Company will specifically disclose the amount of Common Stock outstanding immediately after the Closing. Upon delivery by the Company to the Subscribers after the Closing Date of any notice or information, in writing, electronically or otherwise, and while a

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Note, Warrants, or Warrant Shares are held by such Subscribers, unless the Company has in good faith determined that the matters relating to such notice do not constitute material, nonpublic information relating to the Company or Subsidiaries, the Company shall within one business day after any such delivery publicly disclose such material, nonpublic information on a Report on Form 8-K or otherwise. IN THE EVENT THAT THE COMPANY BELIEVES THAT A NOTICE OR COMMUNICATION TO A SUBSCRIBER CONTAINS MATERIAL, NONPUBLIC INFORMATION, RELATING TO THE COMPANY OR SUBSIDIARIES, THE COMPANY SHALL SO INDICATE TO SUCH SUBSCRIBER CONTEMPORANEOUSLY WITH DELIVERY OF SUCH NOTICE OR INFORMATION. IN THE ABSENCE OF ANY SUCH INDICATION, SUCH SUBSCRIBER SHALL BE ALLOWED TO PRESUME THAT ALL MATTERS RELATING TO SUCH NOTICE AND INFORMATION DO NOT CONSTITUTE MATERIAL, NONPUBLIC INFORMATION RELATING TO THE COMPANY OR ITS SUBSIDIARIES.

(o) Non-Public Information. The Company covenants and agrees that except for the Reports, Other Written Information and schedules and exhibits to this Agreement, which information the Company undertakes to publicly disclose not later than the sooner of the required or actual filing date of the Form 8-K described in Section 9(n) above, neither it nor any other person acting on its behalf will at any time provide any Subscriber or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Subscriber shall have agreed in writing to receive such information. The Company understands and confirms that each Subscriber shall be relying on the foregoing representations in effecting transactions in securities of the Company.

(p) Negative Covenants. So long as a Note is outstanding, without the consent of the Subscribers, the Company will not and will not permit any of its Subsidiaries to directly or indirectly:

(i) amend its certificate of incorporation, bylaws or its charter documents so as to materially and adversely affect any rights of the Subscriber;

(ii) repay, redeem, repurchase or offer to repay, redeem, repurchase or otherwise acquire or make any dividend or distribution in respect of any of its Common Stock, preferred stock, warrants, options or other equity securities other than to the extent permitted or required under the Transaction Documents; or

(iii) prepay or redeem any financing related debt or past due obligations outstanding as of the Closing Date.

(q) Seniority. Except as otherwise provided for herein, until the Notes are fully satisfied or converted, the Company shall not grant nor allow any security interest to be taken in the assets of the Company or any Subsidiary; nor issue any debt, equity or other instrument which would give the holder thereof directly or indirectly, a right in any assets of the Company or any Subsidiary, equal or superior to any right or potential of the holder of a Note in or to such assets.

(r) Notices. For so long as the Subscribers hold any Securities, the Company will maintain as United States address and United States fax number for notices purposes under the Transaction Documents.

10. Covenants of the Company Regarding Indemnification. The Company agrees to indemnify, hold harmless, reimburse and defend the Subscribers, the Subscribers' officers, directors, agents, Affiliates, members, managers, control persons, and principal shareholders, against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Subscriber or any such person which results, arises out of or is based upon (i) any material misrepresentation by Company or breach of any representation or warranty by Company in this Agreement or in any Exhibits or Schedules attached hereto, or other agreement delivered pursuant hereto; or (ii) after any applicable notice and/or cure periods, any breach or default in performance by the Company of any covenant or undertaking to be performed by the Company hereunder, or any other agreement entered into by the Company and Subscriber relating hereto. The procedures set forth in Section 11.6 shall apply to the indemnification set forth in Section 10(a).

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11. Registration Rights.

11.1. Registration Statement. The Company shall file with the Commission a Form SB-2 registration statement (the "REGISTRATION STATEMENT") (or such other form that it is eligible to use) in order to register on behalf of the holder of Warrants and Warrant Shares ("SELLER" or "SELLERS") all of the Warrant Shares ("REGISTRABLE SECURITIES") for resale and distribution under the 1933 Act within sixty (60) calendar days after the Closing Date (the "FILING DATE"), and cause the Registration Statement to be declared effective not later than one hundred and eighty (180) calendar days after the Closing Date (the "EFFECTIVE DATE"). The Registrable Securities shall be reserved and set aside exclusively for the benefit of each Subscriber, pro rata, and not issued, employed or reserved for anyone other than each such person. The Registration Statement will immediately

be amended or additional registration statements will be immediately filed by the Company as necessary to register additional shares of Common Stock to allow the public resale of all Common Stock included in and issuable by virtue of the Registrable Securities. It shall be deemed a Non-Registration Event if at any time after the date the Registration Statement is declared effective by the Commission ("ACTUAL EFFECTIVE DATE") the Company has registered for unrestricted resale on behalf of the Subscribers less than all of the Registrable Securities required to be registered as described in this Agreement (such amount of unregistered Common stock being the "SHORTFALL"). The Company shall cause to be registered a sufficient amount of shares of Common stock in order to eliminate the Shortfall within 60 days after the date the Shortfall occurs.

11.2. Registration Procedures. If and whenever the Company is required by the provisions of Section 11.1(i) to effect the registration of any Registrable Securities under the 1933 Act, the Company will, as expeditiously as possible:

(a) subject to the timelines provided in this Agreement, prepare and file with the Commission a registration statement required by Section 11, with respect to such securities and use its best efforts to cause such registration statement to become and remain effective for the period of the distribution contemplated thereby (determined as herein provided), promptly provide to the holders of the Registrable Securities copies of all filings and Commission letters of comment and notify the Subscribers (by telecopier and by e-mail addresses provided by the Subscribers) on or before the second business day thereafter that the Company receives notice that (i) the Commission has no comments or no further comments on the Registration Statement, and (ii) the registration statement has been declared effective (failure to timely provide notice as required by this Section 11.2(a) shall be a material breach of the Company's obligation and an Event of Default as defined in the Notes and a Non-Registration Event as defined in Section 11.4 of this Agreement);

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for so long as Warrants are outstanding, and comply with the provisions of the 1933 Act with respect to the disposition of all of the Registrable Securities covered by such registration statement in accordance with the Sellers' intended method of disposition set forth in such registration statement for such period;

(c) furnish to the Sellers, at the Company's expense, such number of copies of the registration statement and the prospectus included therein (including each preliminary prospectus) as such persons reasonably may request in order to facilitate the public sale or their disposition of the securities covered by such registration statement or make them electronically available;

(d) use its reasonable best efforts to register or qualify the Registrable Securities covered by such registration statement under the securities or "blue sky" laws of such jurisdictions as the Sellers shall request in writing, provided, however, that the Company shall not for any such purpose be required to qualify generally to transact business as a foreign corporation in any jurisdiction where it is not so qualified or to consent to general service of process in any such jurisdiction;

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(e) if applicable, list the Registrable Securities covered by such registration statement with any securities exchange on which the Common Stock of the Company is then listed;

(f) notify the Subscribers within twenty-four hours of the Company's becoming aware that a prospectus relating thereto is required to be delivered under the 1933 Act, of the happening of any event of which the Company has knowledge as a result of which the prospectus contained in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing or which becomes subject to a Commission, state or other governmental order suspending the effectiveness of the registration statement covering any of the Registrable Securities;

(g) provided same would not be in violation of the provision of Regulation FD under the 1934 Act, make available for inspection by the Sellers during reasonable business hours, and any attorney, accountant or other agent retained by the Seller or underwriter, all publicly available, non-confidential financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all publicly available, non-confidential information reasonably requested by the seller, attorney, accountant or agent in connection with such registration statement at such requesting Seller's expense; and

(h) provide to the Sellers copies of the registration statement and amendments thereto five business days prior to the filing thereof with the Commission. Any Subscriber's failure to comment on any Registration Statement or other document provided to a Subscriber or its counsel shall not be construed to

constitute approval thereof nor the accuracy thereof.

11.3. Provision of Documents. In connection with each registration statement described in this Section 11, each Seller will furnish to the Company in writing such information and representation letters with respect to itself and the proposed distribution by it as reasonably shall be necessary in order to assure compliance with federal and applicable state securities laws.

11.4. Non-Registration Events. The Company agrees that the Sellers will suffer damages if the Registration Statement is not filed by the Filing Date and not declared effective by the Commission by the Effective Date, and maintained in the manner and time periods contemplated by Section 11 hereof, and it would not be feasible to ascertain the extent of such damages with precision. Accordingly, if (A) the Registration Statement is not filed on or before the Filing Date, (B) the Registration Statement is not declared effective on or before the required Effective Date, (C) due to the action or inaction of the Company the Registration Statement is not declared effective within three (3) business days after receipt by the Company or its attorneys of a written or oral communication from the Commission that the Registration Statement will not be reviewed or that the Commission has no further comments, (D) the Registration Statement is filed and declared effective but shall thereafter cease to be effective without being succeeded within 20 business days by an effective replacement or amended registration statement or for a period of time which shall exceed 20 days in the aggregate per year (defined as every rolling period of 365 consecutive days commencing on the Actual Effective Date (each such event referred to in clauses A through D of this Section 11.4 is referred to herein as a "NON-REGISTRATION EVENT")), then the Company shall deliver to the holder of Registrable Securities, as "LIQUIDATED DAMAGES", an amount equal to two percent (2%) for each 30 days (or such lesser pro-rata amount for any period of less than 30 days) of the Principal Amount of the Notes issued on the Closing Date to Subscriber multiplied by a fraction, the numerator of which is the amount of Warrants and Warrant Shares held by the Subscriber during the pendency of the Non-Registration Event and the denominator of which is the amount of Warrants issued to such Subscriber on the Closing Date. The Company must pay the Liquidated Damages in cash. The Liquidated Damages must be paid within 10 days after the end of each 30 day period or shorter part thereof for which Liquidated Damages are payable. In the event a Registration Statement is filed by the

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Filing Date but is withdrawn prior to being declared effective by the Commission, then such Registration Statement will be deemed to have not been filed and Liquidated Damages will be calculated accordingly. All oral or written comments received from the Commission relating to the Registration Statement must be satisfactorily responded to within ten business days after receipt of comments from the Commission. Failure to timely respond to Commission comments is a Non-Registration Event for which Liquidated Damages shall accrue and be payable by the Company to the holders of Registrable Securities at the same rate and amounts set forth above calculated from the eleventh day after the comments were received through the date responses to the comments are given to the Commission. The amount of Liquidated Damages payable in the aggregate for all Non-Registration Events may not exceed \$75,000.

11.5. Expenses. All expenses incurred by the Company in complying with Section 11, including, without limitation, all registration and filing fees, printing expenses (if required), fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or "blue sky" laws, fees of the NASD, transfer taxes, and fees of transfer agents and registrars, are called "REGISTRATION EXPENSES." All underwriting discounts and selling commissions applicable to the sale of Registrable Securities are called "SELLING EXPENSES." The Company will pay all Registration Expenses in connection with the registration statement under Section 11. Selling Expenses in connection with each registration statement under Section 11 shall be borne by the Seller and may be apportioned among the Sellers in proportion to the number of shares sold by the Seller relative to the number of shares sold under such registration statement or as all Sellers thereunder may agree.

11.6. Indemnification and Contribution.

(a) In the event of a registration of any Registrable Securities under the 1933 Act pursuant to Section 11, the Company will, to the extent permitted by law, indemnify and hold harmless the Seller, each officers, directors, agents, Affiliates, members, managers, control persons, and principal shareholders of the Seller, each underwriter of such Registrable Securities thereunder and each other person, if any, who controls such Seller or underwriter within the meaning of the 1933 Act, against any losses, claims, damages or liabilities, joint or several, to which the Seller, or such underwriter or controlling person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Registrable Securities was registered under the 1933 Act

pursuant to Section 11, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances when made, and will subject to the provisions of Section 11.6(c) reimburse the Seller, each such underwriter and each such controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable to the Seller to the extent that any such damages arise out of or are based upon an untrue statement or omission made in any preliminary prospectus if (i) the Seller failed to send or deliver a copy of the final prospectus delivered by the Company to the Seller with or prior to the delivery of written confirmation of the sale by the Seller to the person asserting the claim from which such damages arise, (ii) the final prospectus would have corrected such untrue statement or alleged untrue statement or such omission or alleged omission, or (iii) to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by any such Seller in writing specifically for use in such registration statement or prospectus.

(b) In the event of a registration of any of the Registrable Securities under the 1933 Act pursuant to Section 11, each Seller severally but not jointly will, to the extent permitted by law, indemnify and hold harmless the Company, and each person, if any, who controls the Company within the meaning of the 1933 Act, each officer of the Company who signs the registration

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statement, each director of the Company, each underwriter and each person who controls any underwriter within the meaning of the 1933 Act, against all losses, claims, damages or liabilities, joint or several, to which the Company or such officer, director, underwriter or controlling person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the registration statement under which such Registrable Securities were registered under the 1933 Act pursuant to Section 11, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and each such officer, director, underwriter and controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, provided, however, that the Seller will be liable hereunder in any such case if and only to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with information pertaining to such Seller, as such, furnished in writing to the Company by such Seller specifically for use in such registration statement or prospectus, and provided, further, however, that the liability of the Seller hereunder shall be limited to the net proceeds actually received by the Seller from the sale of Registrable Securities pursuant to such registration statement.

(c) Promptly after receipt by an indemnified party hereunder of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party in writing thereof, but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to such indemnified party other than under this Section 11.6(c) and shall only relieve it from any liability which it may have to such indemnified party under this Section 11.6(c), except and only if and to the extent the indemnifying party is prejudiced by such omission. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in and, to the extent it shall wish, to assume and undertake the defense thereof with counsel satisfactory to such indemnified party, and, after notice from the indemnifying party to such indemnified party of its election so to assume and undertake the defense thereof, the indemnifying party shall not be liable to such indemnified party under this Section 11.6(c) for any legal expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation and of liaison with counsel so selected, provided, however, that, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnifying party shall have reasonably concluded that there may be reasonable defenses available to indemnified party which are different from or additional to those available to the indemnifying party or if the interests of the indemnified party reasonably may be deemed to conflict with the interests of the indemnifying party, the indemnified parties, as a group, shall have the right to select one separate counsel, reasonably satisfactory to the indemnified and indemnifying party, and to assume such legal defenses and otherwise to participate in the defense of such action, with the reasonable expenses and fees of such separate counsel and other expenses related to such participation to be

reimbursed by the indemnifying party as incurred.

(d) In order to provide for just and equitable contribution in the event of joint liability under the 1933 Act in any case in which either (i) a Seller, or any controlling person of a Seller, makes a claim for indemnification pursuant to this Section 11.6 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 11.6 provides for indemnification in such case, or (ii) contribution under the 1933 Act may be required on the part of the Seller or controlling person of the Seller in circumstances for which indemnification is not provided under this Section 11.6; then, and in each such case, the Company and the Seller will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that the Seller is responsible only for the portion represented by the percentage that the public offering price of its securities

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offered by the registration statement bears to the public offering price of all securities offered by such registration statement, provided, however, that, in any such case, (y) the Seller will not be required to contribute any amount in excess of the public offering price of all such securities sold by it pursuant to such registration statement; and (z) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation and provided, further, however, that the liability of the Seller hereunder shall be limited to the net proceeds actually received by the Seller from the sale of Registrable Securities pursuant to such Registration Statement.

11.7. Delivery of Unlegended Shares.

(a) Within seven (7) business days (such seventh business day being the "UNLEGENDED SHARES DELIVERY DATE") after the business day on which the Company has received (i) a notice that Warrant Shares have been sold pursuant to the Registration Statement or Rule 144 under the 1933 Act, (ii) a representation that the prospectus delivery requirements, or the requirements of Rule 144, as applicable and if required, have been satisfied, and (iii) the original share certificates representing the shares of Common Stock that have been sold, and (iv) in the case of sales under Rule 144, customary representation letters of the Subscriber and/or a Subscriber's broker regarding compliance with the requirements of Rule 144, the Company at its expense, (y) shall deliver, and shall cause legal counsel selected by the Company to deliver to its transfer agent (with copies to Subscriber) an appropriate instruction and opinion of such counsel, directing the delivery of shares of Common Stock without any legends including the legend set forth in Section 4(i) above (the "UNLEGENDED SHARES"); and (z) cause the transmission of the certificates representing the Unlegended Shares together with a legended certificate representing the balance of the submitted certificate, if any, to the Subscriber at the address specified in the notice of sale, via express courier, by electronic transfer or otherwise on or before the Unlegended Shares Delivery Date.

(b) In lieu of delivering physical certificates representing the Unlegended Shares, upon request of a Subscriber, so long as the certificates therefor do not bear a legend and the Subscriber is not obligated to return such certificate for the placement of a legend thereon, the Company will cause its transfer agent to electronically transmit the Unlegended Shares by crediting the account of Subscriber's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system, if such transfer agent participates in such DWAC system. Such delivery must be made on or before the Unlegended Shares Delivery Date.

(c) The Company understands that a delay in the delivery of the Unlegended Shares pursuant to Section 11 hereof later than the Unlegended Shares Delivery Date could result in economic loss to a Subscriber. As compensation to a Subscriber for such loss, the Company agrees to pay late payment fees (as liquidated damages and not as a penalty) to the Subscriber for late delivery of Unlegended Shares in the amount of \$100 per business day after the Delivery Date for each \$10,000 of purchase price of the Unlegended Shares subject to the delivery default. If during any 360 day period, the Company fails to deliver Unlegended Shares as required by this Section 11.7 for an aggregate of thirty (30) days, then each Subscriber or assignee holding Warrant Shares subject to such default may, at its option, require the Company to redeem all or any portion of the Warrant Shares subject to such default at a price per share equal to the greater of (i) 120% of the purchase price of such shares, or (ii) the highest closing price of the Common Stock during the aforescribed thirty day period as reported by Bloomberg L.P. for the Principal Market, multiplied by the aggregate Exercise Price of the Warrant Shares subject to such default ("UNLEGENDED REDEMPTION AMOUNT"). The Company shall pay any payments incurred under this Section in immediately available funds not later than thirty (30) business days after demand.

(d) In addition to any other rights available to a Subscriber, if the Company fails to deliver to a Subscriber Unlegended Shares as required pursuant to this Agreement, within three (3) business days after the Unlegended Shares Delivery Date and the Subscriber or a broker on the Subscriber's behalf, purchases (in an open market transaction or otherwise) shares of common stock to deliver in satisfaction of a sale by such Subscriber of the shares of Common Stock which the Subscriber was entitled to receive from the Company (a

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"BUY-IN"), then the Company shall pay in cash to the Subscriber (in addition to any remedies available to or elected by the Subscriber) on demand the amount by which (A) the Subscriber's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (B) the aggregate purchase price of the shares of Common Stock delivered to the Company for reissuance as Unlegended Shares together with interest thereon at a rate of 15% per annum accruing until such amount and any accrued interest thereon is paid in full (which amount shall be paid as liquidated damages and not as a penalty). For example, if a Subscriber purchases shares of Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to \$10,000 of purchase price of shares of Common Stock delivered to the Company for reissuance as Unlegended Shares, the Company shall be required to pay the Subscriber \$1,000, plus interest. The Subscriber shall provide the Company written notice indicating the amounts payable to the Subscriber in respect of the Buy-In.

(e) In the event a Subscriber shall request delivery of Unlegended Shares as described in Section 11.7 and the Company is required to deliver such Unlegended Shares pursuant to Section 11.7 or the Warrant Shares pursuant to the Warrants, the Company may not refuse to deliver Unlegended Shares based on any claim that such Subscriber or any one associated or affiliated with such Subscriber has been engaged in any violation of law, or for any other reason, unless, an injunction or temporary restraining order from a court, on notice, restraining and or enjoining delivery of such Unlegended Shares shall have been sought and obtained by the Company or at the Company's request or with the Company's assistance, and the Company has posted a surety bond for the benefit of such Subscriber in the amount of 120% of the amount of the aggregate purchase price of the Warrant Shares which are subject to the injunction or temporary restraining order, which bond shall remain in effect until the final unappealable disposition of the litigation of the dispute and the proceeds of which shall be payable to such Subscriber to the extent Subscriber obtains judgment in Subscriber's favor.

12. (a) Right of Participation. For so long as Notes are outstanding, the Subscribers shall be given not less than ten (10) business days prior written notice of any proposed sale by the Company of its Common Stock or other securities or equity linked debt obligations, except in connection with (i) full or partial consideration in connection with a strategic merger, acquisition, consolidation or purchase of substantially all of the securities or assets of corporation or other entity which holders of such securities or debt are not at any time granted registration or registration rights, (ii) the Company's issuance of securities in connection with strategic license agreements and other partnering arrangements so long as such issuances are not for the purpose of raising capital and which holders of such securities or debt are not at any time granted registration or registration rights, (iii) the Company's issuance of Common Stock or the issuances or grants of options to purchase Common Stock to employees, directors, and consultants pursuant to plans described on SCHEDULE 5(D), (iv) as a result of the exercise of Warrants which are granted or issued pursuant to this Agreement on the terms described in the Transaction Documents as of the Closing Date (collectively the foregoing are "EXCEPTED ISSUANCES") and (v) as set forth on SCHEDULE 12(A). The Subscribers who exercise their rights pursuant to this Section 12(a) shall have the right during the ten business days following receipt of the notice to purchase by application of the outstanding balance of the Notes including principal, interest, liquidated damages and any other amount then owing to such Subscriber by the Company, such Common Stock, debt or other securities in accordance with the terms and conditions set forth in the notice of sale. In the event such terms and conditions are modified during the notice period, the Subscribers shall be given prompt notice of such modification and shall have the right during the ten business days following the notice of modification to exercise such right. In the event the exercise of the rights described in this Section 12(a) would or could result in the issuance of an amount of Common Stock of the Company that would exceed the maximum amount that may be issued to a Subscriber calculated in the manner described in Section 10 of the Warrant, then the issuance of such additional shares of Common Stock of the Company to such Subscriber will be deferred in whole or in part until such time as such Subscriber is able to beneficially own such Common Stock without exceeding the applicable maximum amount set forth calculated in the manner described in Section 10 of the Warrant. The determination of when such Common Stock may be issued shall be made by each Subscriber as to only such Subscriber.

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(b) Favored Nations Provision. Other than in connection with the

Excepted Issuances, if at any time the Warrants are outstanding, the Company shall agree to or issue (the "LOWER PRICE ISSUANCE") any Common Stock or securities convertible into or exercisable for shares of Common Stock (or modify any of the foregoing which may be outstanding) to any person or entity at a price per share or exercise price per share which shall be less than the Warrant exercise price, without the consent of each Subscriber, then the Company shall issue, for each such occasion, additional shares of Common Stock to each Subscriber respecting those Warrants and Warrant Shares that remain outstanding at the time of the Lower Price Issuance so that the average per share purchase price of the shares of Common Stock issued to each Subscriber (of the Warrant Shares still owned by a Subscriber) is equal to such other lower price per share and the Warrant Exercise Price shall automatically be reduced to such other lower price. The delivery to a Subscriber of the additional shares of Common Stock shall be not later than the closing date of the transaction giving rise to the requirement to issue additional shares of Common Stock. Each Subscriber is granted the registration rights described in Section 11 hereof in relation to such additional shares of Common Stock. For purposes of the issuance and adjustment described in this paragraph, the issuance of any security of the Company carrying the right to convert such security into shares of Common Stock or of any warrant, right or option to purchase Common Stock shall result in the issuance of the additional shares of Common Stock upon the sooner of the agreement to or actual issuance of such convertible security, warrant, right or option and again at any time upon any subsequent issuances of shares of Common Stock upon exercise of such purchase rights if such issuance is at a price lower than the Warrant Exercise Price in effect upon such issuance. The rights of each Subscriber set forth in this Section 12 are in addition to any other rights the Subscriber has pursuant to this Agreement and the Warrant. Each Subscriber is also given the right to elect to substitute any term or terms of any other offering in connection with which such Subscriber has rights as described in Section 12(a), for any term or terms of the Offering in connection with Warrants owned by such Subscriber as of the date the notice described in Section 12(a) is required to be given to such Subscriber.

13. Miscellaneous.

(a) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: Aethlon Medical, Inc., 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109, Attn: James A. Joyce, CEO, telecopier: (858) 272-2738, with a copy by telecopier only to: Richardson & Patel LLP, 10900 Wilshire Boulevard, Suite 500, Los Angeles, CA 90024, Attn: Jennifer Post, Esq., telecopier: (310) 208-1154, and (ii) if to the Subscriber, to: the one or more addresses and telecopier numbers indicated on the signature pages hereto.

(b) Entire Agreement; Assignment. This Agreement and other documents delivered in connection herewith represent the entire agreement between the parties hereto with respect to the subject matter hereof and may be amended only by a writing executed by the Company and the affected Subscriber and as described in Section 13(h). Neither the Company nor the Subscribers have relied on any representations not contained or referred to in this Agreement and the documents delivered herewith. No right or obligation of the Company shall be assigned without prior notice to and the written consent of the Subscribers.

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(c) Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. This Agreement may be executed by facsimile signature and delivered by facsimile transmission.

(d) Law Governing this Agreement. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of California or in the federal courts located in the state and county of California. The parties to this Agreement

hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. THE PARTIES EXECUTING THIS AGREEMENT AND OTHER AGREEMENTS REFERRED TO HEREIN OR DELIVERED IN CONNECTION HERewith ON BEHALF OF THE COMPANY AGREE TO SUBMIT TO THE IN PERSONAM JURISDICTION OF SUCH COURTS AND HEREBY IRREVOCABLY WAIVE TRIAL BY JURY. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

(e) Specific Enforcement, Consent to Jurisdiction. The Company and Subscriber acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to seek an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which any of them may be entitled by law or equity. Subject to Section 13(d) hereof, the Company hereby irrevocably waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction in California of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. Nothing in this Section shall affect or limit any right to serve process in any other manner permitted by law.

(f) Independent Nature of Subscribers. The Company acknowledges that the obligations of each Subscriber under the Transaction Documents are several and not joint with the obligations of any other Subscriber, and no Subscriber shall be responsible in any way for the performance of the obligations of any other Subscriber under the Transaction Documents. The Company acknowledges that each Subscriber has represented that the decision of each Subscriber to purchase Securities has been made by such Subscriber independently of any other Subscriber and independently of any information, materials, statements or opinions as to the business, affairs, operations, assets, properties, liabilities, results of operations, condition (financial or otherwise) or prospects of the Company which may have been made or given by any other Subscriber or by any agent or employee of any other Subscriber, and no Subscriber or any of its agents or employees shall have any liability to any Subscriber (or any other person) relating to or arising from any such information, materials, statements or opinions. The Company acknowledges that nothing contained in any Transaction Document, and no action taken by any Subscriber pursuant hereto or thereto (including, but not limited to, the (i) inclusion of a Subscriber in the Registration Statement and (ii) review by, and consent to, such Registration Statement by a Subscriber) shall be deemed to constitute the Subscribers as a partnership, an association, a joint venture or

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any other kind of entity, or create a presumption that the Subscribers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. The Company acknowledges that each Subscriber shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of the Transaction Documents, and it shall not be necessary for any other Subscriber to be joined as an additional party in any proceeding for such purpose. The Company acknowledges that it has elected to provide all Subscribers with the same terms and Transaction Documents for the convenience of the Company and not because Company was required or requested to do so by the Subscribers. The Company acknowledges that such procedure with respect to the Transaction Documents in no way creates a presumption that the Subscribers are in any way acting in concert or as a group with respect to the Transaction Documents or the transactions contemplated thereby.

(g) Damages. In the event the Subscriber is entitled to receive any liquidated damages pursuant to the Transactions, the Subscriber may elect to receive the greater of actual damages or such liquidated damages.

(h) Consent. As used in the Agreement, "consent of the Subscribers" or similar language means the consent of holders (the "REQUIRED HOLDERS") of not less than 75% of the total of the Warrants and Warrant Shares

SUBSCRIBER	PURCHASE PRICE (CASH)	PRINCIPAL AMOUNT OF NOTE	CLASS C WARRANTS
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LIST OF EXHIBITS AND SCHEDULES

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EXHIBIT A

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

PRINCIPAL AMOUNT: \$220,000.00 ISSUE DATE: JANUARY __, 2008
PURCHASE PRICE: \$200,000.00

PROMISSORY NOTE

FOR VALUE RECEIVED, AETHLON MEDICAL, INC., a Nevada corporation (hereinafter called "Borrower"), hereby promises to pay to , (the "Holder") or its registered assigns or successors in interest or order, without demand, the sum of Two Hundred and Twenty Thousand Dollars (\$220,000.00) ("Principal Amount"), with interest compounded monthly at the annual rate of nine percent (9%) on October , 2008 (the "Maturity Date"), if not sooner paid.

This Note has been entered into pursuant to the terms of a subscription agreement between the Borrower and the Holder dated of even date herewith (the "Subscription Agreement"), and shall be governed by the terms of such Subscription Agreement. Unless otherwise separately defined herein, all capitalized terms used in this Note shall have the same meaning as is set forth in the Subscription Agreement. The following terms shall apply to this Note:

ARTICLE I

GENERAL PROVISIONS

1.1. Application of Principal Interest. All amounts payable to the Holder on this Note, whether or not due may be applied, at the discretion of the Holder, towards the purchase price of equity or debt of the Borrower pursuant to Section 12 of the Subscription Agreement.

1.2. Discount for Cash Payment. Provided an Event of Default (as defined in Article II) nor an event which with the passage of time or the giving of notice could become an Event of Default, has not occurred, and further provided the Holder has not exercised the Holder's rights set forth in Section 1.1, then upon the timely payment of this Note in cash, the principal portion payable upon this Note shall be equal to the outstanding Principal Amount multiplied by .9091. Interest and other sums payable on or in connection with this Note shall be paid in full without deduction.

1.3. Default Interest Rate. Following the occurrence and during the continuance of an Event of Default, which, if susceptible to cure is not cured within the cure periods (if any) set forth in Article II, otherwise then from the first date of such occurrence, the annual interest rate on this Note shall (subject to Section 3.7) be twelve percent (12%), and be due on demand.

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ARTICLE II

EVENTS OF DEFAULT

The occurrence of any of the following events of default ("Event of Default") shall, at the option of the Holder hereof, make all sums of principal and interest then remaining unpaid hereon and all other amounts payable hereunder immediately due and payable, upon demand, without presentment, or grace period, all of which hereby are expressly waived, except as set forth on Schedule 2.1 hereto and below:

2.1 Failure to Pay Principal or Interest. The Borrower fails to pay any installment of Principal Amount, interest or other sum due under this Note or any Transaction Document when due.

2.2 Breach of Covenant. The Borrower breaches any material covenant or other term or condition of the Subscription Agreement, this Note or Transaction Document in any material respect and such breach, if subject to cure, continues for a period of ten (10) business days after written notice to the Borrower from the Holder.

2.3 Breach of Representations and Warranties. Any material representation or warranty of the Borrower made herein, in the Subscription Agreement, Transaction Document or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith or therewith shall be false or misleading in any material respect as of the date made and the Closing Date.

2.4 Receiver or Trustee. The Borrower or any Subsidiary of Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for them or for a substantial part of their property or business; or such a receiver or trustee shall otherwise be appointed.

2.5 Judgments. Any money judgment, writ or similar final process shall be entered or filed against Borrower or any subsidiary of Borrower or any of their property or other assets for more than \$100,000, and shall remain unvacated, unbonded, unappealed, unsatisfied, or unstayed for a period of forty-five (45) days.

2.6 Non-Payment. A default by the Borrower under any one or more obligations in an aggregate monetary amount in excess of \$100,000 for more than twenty (20) days after the due date, unless the Borrower is contesting the validity of such obligation in good faith and has segregated cash funds equal to not less than one-half of the contested amount.

2.7 Bankruptcy. Bankruptcy, insolvency, reorganization, or liquidation proceedings or other proceedings or relief under any bankruptcy law or any law, or the issuance of any notice in relation to such event, for the relief of debtors shall be instituted by or against the Borrower or any Subsidiary of Borrower and if instituted against them are not dismissed within forty-five (45) days of initiation.

2.8 Delisting. Delisting of the Common Stock from any Principal Market for a period of ten consecutive trading days.

2.9 Stop Trade. An SEC or judicial stop trade order or Principal Market trading suspension with respect to Borrower's Common Stock that lasts for five or more consecutive trading days.

2.10 Non-Registration Event. The occurrence of a Non-Registration Event as described in Section 11.4 of the Subscription Agreement.

2.11 Cross Default. A default by the Borrower of a material term, covenant, warranty or undertaking of any Transaction Document or other agreement to which the Borrower and Holder are parties, or the occurrence of a material event of default under any such other agreement to which Borrower and Holder are

parties, which is not cured after any required notice and/or cure period.

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2.12 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the Securities and Exchange Commission for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the restated financial statements, have constituted a Material Adverse Effect.

2.13 Other Note Default. The occurrence of any Event of Default under any Other Note between Borrower and Holder.

ARTICLE III

MISCELLANEOUS

3.1 Failure or Indulgence Not Waiver. No failure or delay on the part of Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

3.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Borrower to: Aethlon Medical, Inc., 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109, Attn: James A. Joyce, CEO, telecopier: (858) 272-2738, with a copy by telecopier only to: Richardson & Patel LLP, 10900 Wilshire Boulevard, Suite 500, Los Angeles, CA 90024, Attn: Jennifer Post, Esq., telecopier: (310) 208-1154, and (ii) if to the Holder, to the name, address and telecopy number set forth on the front page of this Note.

3.3 Amendment Provision. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

3.4 Assignees. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Holder and its successors and assigns.

3.5 Cost of Collection. If default is made in the payment of this Note, Borrower shall pay the Holder hereof reasonable costs of collection, including reasonable attorneys' fees.

3.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California, INCLUDING, BUT NOT LIMITED TO, CALIFORNIA STATUTES OF LIMITATIONS. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the civil or state courts of California or in the federal courts located in the State and county of California. Both parties and the individual signing this Agreement on behalf of the Borrower agree to submit to the jurisdiction of such courts. The prevailing party shall be entitled to

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recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or unenforceability of any other provision of this Note. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Borrower in any other jurisdiction to

collect on the Borrower's obligations to Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other decision in favor of the Holder.

3.7 Maximum Payments. Nothing contained herein shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by the Borrower to the Holder and thus refunded to the Borrower.

3.8. Construction. Each party acknowledges that its legal counsel participated in the preparation of this Note and, therefore, stipulates that the rule of construction that ambiguities are to be resolved against the drafting party shall not be applied in the interpretation of this Note to favor any party against the other.

3.9 Redemption. This Note may not be redeemed, called or prepaid without the consent of the Holder.

3.10 Non-Business Days. Whenever any payment or any action to be made shall be due on a Saturday, Sunday or a public holiday under the laws of the State of California, such payment may be due or action shall be required on the next succeeding business day and, for such payment, such next succeeding day shall be included in the calculation of the amount of accrued interest payable on such date.

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IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by an authorized officer as of the ____ day of January, 2008.

AETHLON MEDICAL, INC.

By: _____
Name:
Title: President & CEO

WITNESS:

[Print Name]
Chief Financial Officer

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EXHIBIT B

FORM OF WARRANT

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Right to Purchase 660,000 shares of Common Stock of Aethlon Medical, Inc. (subject to adjustment as provided herein)

CLASS C COMMON STOCK PURCHASE WARRANT

No. 2008-C-

Issue Date: January __, 2008

AETHLON MEDICAL, INC., a corporation organized under the laws of the State of Nevada (the "Company"), hereby certifies that, for value received,

_____, or its assigns (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company at any time commencing after the Issue Date until 5:00 p.m., E.S.T on the third anniversary of the Issue Date (the "Expiration Date"), up to 660,000 fully paid and nonassessable shares of Common Stock at a per share purchase price of \$0.50. The aforescribed purchase price per share, as adjusted from time to time as herein provided, is referred to herein as the "Purchase Price." The number and character of such shares of Common Stock and the Purchase Price are subject to adjustment as provided herein. The Company may reduce the Purchase Price for some or all of the Warrants, temporarily or permanently. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Subscription Agreement (the "SUBSCRIPTION AGREEMENT"), dated as of January __, 2008, entered into by the Company and the Holder.

As used herein the following terms, unless the context otherwise requires, have the following respective meanings:

(a) The term "Company" shall include Aethlon Medical, Inc. and any corporation which shall succeed or assume the obligations of Aethlon Medical, Inc. hereunder.

(b) The term "Common Stock" includes (a) the Company's Common Stock, \$.001 par value per share, as authorized on the date of the Subscription Agreement, and (b) any other securities into which or for which any of the securities described in (a) may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

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(c) The term "Other Securities" refers to any stock (other than Common Stock) and other securities of the Company or any other person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received, on the exercise of the Warrant, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 4 or otherwise.

(d) The term "Warrant Shares" shall mean the Common Stock issuable upon exercise of this Warrant.

1. Exercise of Warrant.

1.1. Number of Shares Issuable upon Exercise. From and after the Issue Date through and including the Expiration Date, the Holder hereof shall be entitled to receive, upon exercise of this Warrant in whole in accordance with the terms of subsection 1.2 or upon exercise of this Warrant in part in accordance with subsection 1.3, shares of Common Stock of the Company, subject to adjustment pursuant to Section 4.

1.2. Full Exercise. This Warrant may be exercised in full by the Holder hereof by delivery of an original or facsimile copy of the form of subscription attached as Exhibit A hereto (the "Subscription Form") duly executed by such Holder and delivery within two days thereafter of payment, in cash, wire transfer or by certified or official bank check payable to the order of the Company, in the amount obtained by multiplying the number of shares of Common Stock for which this Warrant is then exercisable by the Purchase Price then in effect. The original Warrant is not required to be surrendered to the Company until it has been fully exercised.

1.3. Partial Exercise. This Warrant may be exercised in part (but not for a fractional share) by delivery of a Subscription Form in the manner and at the place provided in subsection 1.2 except that the amount payable by the Holder on such partial exercise shall be the amount obtained by multiplying (a) the number of whole shares of Common Stock designated by the Holder in the Subscription Form by (b) the Purchase Price then in effect. On any such partial exercise provided the Holder has surrendered the original Warrant, the Company, at its expense, will forthwith issue and deliver to or upon the order of the Holder hereof a new Warrant of like tenor, in the name of the Holder hereof or as such Holder (upon payment by such Holder of any applicable transfer taxes) may request, the whole number of shares of Common Stock for which such Warrant may still be exercised.

1.4. Fair Market Value. Fair Market Value of a share of Common Stock as of a particular date (the "Determination Date") shall mean:

(a) If the Company's Common Stock is traded on an exchange or is quoted on the NASDAQ Global Market, Nasdaq Global Select Market, the NASDAQ Capital Market, the California Stock Exchange, the American Stock Exchange, LLC, or OTC Bulletin Board, then the average of the closing or last sale prices, respectively, reported for the ten trading days immediately preceding the Determination Date;

(b) If the Company's Common Stock is not traded on an exchange or on the NASDAQ Global Market, Nasdaq Global Select Market, the NASDAQ

Capital Market, the California Stock Exchange, the American Stock Exchange, LLC, or OTC Bulletin Board, but is traded in the over-the-counter market, then the average of the closing bid and ask prices reported for the ten trading days immediately preceding the Determination Date;

(c) Except as provided in clause (d) below and Section 3.1, if the Company's Common Stock is not publicly traded, then as the Holder and the Company agree, or in the absence of such an agreement, by arbitration in accordance with the rules then standing of the American Arbitration Association, before a single arbitrator to be chosen from a panel of persons qualified by education and training to pass on the matter to be decided with such arbitration to be conducted in California City, California; or

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(d) If the Determination Date is the date of a liquidation, dissolution or winding up, or any event deemed to be a liquidation, dissolution or winding up pursuant to the Company's charter, then all amounts to be payable per share to holders of the Common Stock pursuant to the charter in the event of such liquidation, dissolution or winding up, plus all other amounts to be payable per share in respect of the Common Stock in liquidation under the charter, assuming for the purposes of this clause (d) that all of the shares of Common Stock then issuable upon exercise of all of the Warrants are outstanding at the Determination Date.

1.5. Company Acknowledgment. The Company will, at the time of the exercise of the Warrant, upon the request of the Holder hereof acknowledge in writing its continuing obligation to afford to such Holder any rights to which such Holder shall continue to be entitled after such exercise in accordance with the provisions of this Warrant. If the Holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such Holder any such rights.

1.6. Trustee for Warrant Holders. In the event that a bank or trust company shall have been appointed as trustee for the Holder of the Warrants pursuant to Subsection 3.2, such bank or trust company shall have all the powers and duties of a warrant agent (as hereinafter described) and shall accept, in its own name for the account of the Company or such successor person as may be entitled thereto, all amounts otherwise payable to the Company or such successor, as the case may be, on exercise of this Warrant pursuant to this Section 1.

1.7 Delivery of Stock Certificates, etc. on Exercise. The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be deemed to be issued to the Holder hereof as the record owner of such shares as of the close of business on the date on which delivery of a Subscription Form shall have occurred and payment made for such shares as aforesaid. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within seven (7) business days thereafter ("Warrant Share Delivery Date"), the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Holder hereof, or as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct in compliance with applicable securities laws, a certificate or certificates for the number of duly and validly issued, fully paid and non-assessable shares of Common Stock (or Other Securities) to which such Holder shall be entitled on such exercise, plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash equal to such fraction multiplied by the then Fair Market Value of one full share of Common Stock, together with any other stock or other securities and property (including cash, where applicable) to which such Holder is entitled upon such exercise pursuant to Section 1 or otherwise. The Company understands that a delay in the delivery of the Warrant Shares after the Warrant Share Delivery Date could result in economic loss to the Holder. As compensation to the Holder for such loss, the Company agrees to pay (as liquidated damages and not as a penalty) to the Holder for late issuance of Warrant Shares upon exercise of this Warrant the proportionate amount of \$100 per business day after the Warrant Share Delivery Date for each \$10,000 of Purchase Price of Warrant Shares for which this Warrant is exercised which are not timely delivered. The Company shall pay any payments incurred under this Section in immediately available funds within thirty (30) business days after demand. Furthermore, in addition to any other remedies which may be available to the Holder, in the event that the Company fails for any reason to effect delivery of the Warrant Shares by the Warrant Share Delivery Date, the Holder may revoke all or part of the relevant Warrant exercise by delivery of a notice to such effect to the Company, whereupon the Company and the Holder shall each be restored to their respective positions immediately prior to the exercise of the relevant portion of this Warrant, except that the liquidated damages described above shall be payable through the date notice of revocation or rescission is given to the Company.

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1.8 Buy-In. In addition to any other rights available to the

Holder, if the Company fails to deliver to a Holder the Warrant Shares as required pursuant to this Warrant, within seven (7) business days after the Warrant Share Delivery Date and the Holder or a broker on the Holder's behalf, purchases (in an open market transaction or otherwise) shares of common stock to deliver in satisfaction of a sale by such Holder of the Warrant Shares which the Holder was entitled to receive from the Company (a "BUY-IN"), then the Company shall pay in cash to the Holder (in addition to any remedies available to or elected by the Holder) on demand, the amount by which (A) the Holder's total purchase price (including brokerage commissions, if any) for the shares of common stock so purchased exceeds (B) the aggregate Purchase Price of the Warrant Shares required to have been delivered together with interest thereon at a rate of 15% per annum, accruing until such amount and any accrued interest thereon is paid in full (which amount shall be paid as liquidated damages and not as a penalty). For example, if a Holder purchases shares of Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to \$10,000 of Purchase Price of Warrant Shares to have been received upon exercise of this Warrant, the Company shall be required to pay the Holder \$1,000, plus interest. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In.

1.9 The Company agrees and acknowledges that despite the pendency of a not yet effective Registration Statement which includes for registration the Registrable Securities (as defined in Section 11.1(iv) of the Subscription Agreement), a Holder is permitted to and the Company will issue to such Holder Warrant Shares upon exercise of the Warrants.

2. Cashless Exercise.

(a) If a registration statement (as described in Section 11 of the Subscription Agreement) ("Registration Statement") is effective and the Holder may sell all of its shares of Common Stock upon exercise of all of the Warrants issued to the Holder on the Issue Date pursuant to such Registration Statement, this Warrant may be exercised in whole or in part for cash only as set forth in Section 1 above. If such Registration Statement is not available, the payment upon exercise may be made at the option of the Holder either in (i) cash, wire transfer or by certified or official bank check payable to the order of the Company equal to the applicable aggregate Purchase Price, (ii) by delivery of Common Stock issuable upon exercise of the Warrants in accordance with Section (b) below or (iii) by a combination of any of the foregoing methods, for the number of Common Stock specified in such form (as such exercise number shall be adjusted to reflect any adjustment in the total number of shares of Common Stock issuable to the holder per the terms of this Warrant) and the holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully-paid and non-assessable shares of Common Stock (or Other Securities) determined as provided herein.

(b) Subject to the provisions herein to the contrary, if the Fair Market Value of one share of Common Stock is greater than the Purchase Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being cancelled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Subscription Form in which event the Company shall issue to the holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where X= the number of shares of Common Stock to be issued to the holder

Y= the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised (at the date of such calculation)

A= the average of the closing sale prices of the Common Stock for the five (5) Trading Days immediately prior to (but not including) the Exercise Date, or Fair Market Value, whichever is less

B= Purchase Price (as adjusted to the date of such calculation)

For purposes of Rule 144 promulgated under the 1933 Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Subscription Agreement.

3. Adjustment for Reorganization, Consolidation, Merger, etc.

3.1. Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another entity, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, (D) the Company consummates a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more persons or entities whereby such other persons or entities acquire more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by such other persons or entities making or party to, or associated or affiliated with the other persons or entities making or party to, such stock purchase agreement or other business combination), (E) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate Common Stock of the Company, or (F) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, (a) upon exercise of this Warrant, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event or (b) if the Company is acquired in (1) a transaction where the consideration paid to the holders of the Common Stock consists solely of cash, (2) a "Rule 13e-3 transaction" as defined in Rule 13e-3 under the 1934 Act, or (3) a transaction involving a person or entity not traded on a national securities exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market, cash equal to the Black-Scholes Value. For purposes of any such exercise, the determination of the Purchase Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Purchase Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3.1 and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

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"Black-Scholes Value" shall be determined in accordance with the Black-Scholes Option Pricing Model obtained from the "OV" function on Bloomberg L.P. using (i) a price per share of Common Stock equal to the VWAP of the Common Stock for the Trading Day immediately preceding the date of consummation of the applicable Fundamental Transaction, (ii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of this Warrant as of the date of such request and (iii) an expected volatility equal to the 100 day volatility obtained from the HVT function on Bloomberg L.P. determined as of the Trading Day immediately following the public announcement of the applicable Fundamental Transaction.

3.2. Dissolution. In the event of any dissolution of the Company following the transfer of all or substantially all of its properties or assets, the Company, prior to such dissolution, shall at its expense deliver or cause to be delivered the stock and other securities and property (including cash, where applicable) receivable by the Holder of the Warrants after the effective date of such dissolution pursuant to this Section 3 to a bank or trust company (a "Trustee") having its principal office in California, NY, as trustee for the Holder of the Warrants. Such property shall be delivered only upon payment of the Warrant exercise price.

3.3. Continuation of Terms. Upon any reorganization, consolidation, merger or transfer (and any dissolution following any transfer) referred to in

this Section 3, this Warrant shall continue in full force and effect and the terms hereof shall be applicable to the Other Securities and property receivable on the exercise of this Warrant after the consummation of such reorganization, consolidation or merger or the effective date of dissolution following any such transfer, as the case may be, and shall be binding upon the issuer of any Other Securities, including, in the case of any such transfer, the person acquiring all or substantially all of the properties or assets of the Company, whether or not such person shall have expressly assumed the terms of this Warrant as provided in Section 4. In the event this Warrant does not continue in full force and effect after the consummation of the transaction described in this Section 3, then only in such event will the Company's securities and property (including cash, where applicable) receivable by the Holder of the Warrants be delivered to the Trustee as contemplated by Section 3.2.

3.4 Share Issuance. Until the Expiration Date, if the Company shall issue any Common Stock except for the Excepted Issuances (as defined in the Subscription Agreement), prior to the complete exercise of this Warrant for a consideration less than the Purchase Price that would be in effect at the time of such issue, then, and thereafter successively upon each such issue, the Purchase Price shall be reduced to such other lower price for then outstanding Warrants. For purposes of this adjustment, the issuance of any security or debt instrument of the Company carrying the right to convert such security or debt instrument into Common Stock or of any warrant, right or option to purchase Common Stock shall result in an adjustment to the Purchase Price upon the issuance of the above-described security, debt instrument, warrant, right, or option if such issuance is at a price lower than the Purchase Price in effect upon such issuance and again at any time upon any subsequent issuances of shares of Common Stock upon exercise of such conversion or purchase rights if such issuance is at a price lower than the Purchase Price in effect upon such issuance. Common Stock issued or issuable by the Company for no consideration will be deemed issuable or to have been issued for \$0.0001 per share of Common Stock. The reduction of the Purchase Price described in this Section 3.4 is subject to the provisions of, and in addition to the other rights of the Holder described in, the Subscription Agreement.

4. Extraordinary Events Regarding Common Stock. In the event that the Company shall (a) issue additional shares of the Common Stock as a dividend or other distribution on outstanding Common Stock, (b) subdivide its outstanding shares of Common Stock, or (c) combine its outstanding shares of the Common Stock into a smaller number of shares of the Common Stock, then, in each such

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event, the Purchase Price shall, simultaneously with the happening of such event, be adjusted by multiplying the then Purchase Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such event and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event, and the product so obtained shall thereafter be the Purchase Price then in effect. The Purchase Price, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described herein in this Section 4. The number of shares of Common Stock that the Holder of this Warrant shall thereafter, on the exercise hereof, be entitled to receive shall be adjusted to a number determined by multiplying the number of shares of Common Stock that would otherwise (but for the provisions of this Section 4) be issuable on such exercise by a fraction of which (a) the numerator is the Purchase Price that would otherwise (but for the provisions of this Section 4) be in effect, and (b) the denominator is the Purchase Price in effect on the date of such exercise.

5. Certificate as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable on the exercise of the Warrants, the Company at its expense will promptly cause its Chief Financial Officer or other appropriate designee to compute such adjustment or readjustment in accordance with the terms of the Warrant and prepare a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or receivable by the Company for any additional shares of Common Stock (or Other Securities) issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock (or Other Securities) outstanding or deemed to be outstanding, and (c) the Purchase Price and the number of shares of Common Stock to be received upon exercise of this Warrant, in effect immediately prior to such adjustment or readjustment and as adjusted or readjusted as provided in this Warrant. The Company will forthwith mail a copy of each such certificate to the Holder of the Warrant and any Warrant Agent of the Company (appointed pursuant to Section 11 hereof).

6. Reservation of Stock, etc. Issuable on Exercise of Warrant; Financial Statements. The Company will at all times reserve and keep available, solely for issuance and delivery on the exercise of the Warrants, all shares of Common Stock (or Other Securities) from time to time issuable on the exercise of the Warrant. This Warrant entitles the Holder hereof to receive copies of all financial and other information distributed or required to be distributed to the holders of the Company's Common Stock.

7. Assignment; Exchange of Warrant. Subject to compliance with applicable securities laws, this Warrant, and the rights evidenced hereby, may be transferred by any registered holder hereof (a "Transferor"). On the surrender for exchange of this Warrant, with the Transferor's endorsement in the form of Exhibit B attached hereto (the "Transferor Endorsement Form") and together with an opinion of counsel reasonably satisfactory to the Company that the transfer of this Warrant will be in compliance with applicable securities laws, the Company will issue and deliver to or on the order of the Transferor thereof a new Warrant or Warrants of like tenor, in the name of the Transferor and/or the transferee(s) specified in such Transferor Endorsement Form (each a "Transferee"), calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant so surrendered by the Transferor.

8. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of this Warrant, the Company at its expense, twice only, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

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9. Registration Rights. The Holder of this Warrant has been granted certain registration rights by the Company. These registration rights are set forth in the Subscription Agreement. The terms of the Subscription Agreement are incorporated herein by this reference.

10. Maximum Exercise. The Holder shall not be entitled to exercise this Warrant on an exercise date, in connection with that number of shares of Common Stock which would be in excess of the sum of (i) the number of shares of Common Stock beneficially owned by the Holder and its affiliates on an exercise date, and (ii) the number of shares of Common Stock issuable upon the exercise of this Warrant with respect to which the determination of this limitation is being made on an exercise date, which would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock on such date. For the purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities 1934 Act, and Rule 13d-3 thereunder. Subject to the foregoing, the Holder shall not be limited to aggregate exercises which would result in the issuance of more than 4.99%. The restriction described in this paragraph may be waived, in whole or in part, upon sixty-one (61) days prior notice from the Holder to the Company to increase such percentage to up to 9.99%, but not in excess of 9.99%. The Holder may decide whether to convert a Convertible Note or exercise this Warrant to achieve an actual 4.99% or up to 9.99% ownership position as described above, but not in excess of 9.99%.

11. Warrant Agent. The Company may, by written notice to the Holder of the Warrant, appoint an agent (a "Warrant Agent") for the purpose of issuing Common Stock (or Other Securities) on the exercise of this Warrant pursuant to Section 1, exchanging this Warrant pursuant to Section 7, and replacing this Warrant pursuant to Section 8, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such Warrant Agent.

12. Transfer on the Company's Books. Until this Warrant is transferred on the books of the Company, the Company may treat the registered holder hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary.

13. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: if to the Company, to: Aethlon Medical, Inc., 3030 Bunker Hill Street, Suite 4000, San Diego, CA 92109, Attn: James A. Joyce, CEO, telecopier: (858) 272-2738, with a copy by telecopier only to: Richardson & Patel LLP, 10900 Wilshire Boulevard, Suite 500, Los Angeles, CA 90024, Attn: Jennifer Post, Esq., telecopier: (310) 208-1154, and (ii) if to the Holder, to

the address and telecopier number listed on the first paragraph of this Warrant.

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14. Law Governing This Warrant. This Warrant shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Warrant shall be brought only in the state courts of California or in the federal courts located in the state and county of California. The parties to this Warrant hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. The Company and Holder waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Warrant or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

AETHLON MEDICAL, INC.

By: _____
Name: _____

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EXHIBIT A

FORM OF SUBSCRIPTION
(to be signed only on exercise of Warrant)

TO: AETHLON MEDICAL, INC.

The undersigned, pursuant to the provisions set forth in the attached Warrant (No. ____), hereby irrevocably elects to purchase (check applicable box):

____ shares of the Common Stock covered by such Warrant; or

____ the maximum number of shares of Common Stock covered by such Warrant pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned herewith makes payment of the full purchase price for such shares at the price per share provided for in such Warrant, which is \$ _____. Such payment takes the form of (check applicable box or boxes):

____ \$ _____ in lawful money of the United States; and/or

____ the cancellation of such portion of the attached Warrant as is exercisable for a total of _____ shares of Common Stock (using a Fair Market Value of \$ _____ per share for purposes of this calculation); and/or

____ the cancellation of such number of shares of Common Stock as is necessary, in accordance with the formula set forth in Section 2, to exercise this Warrant with respect to the maximum number of shares of Common Stock purchasable pursuant to the cashless exercise procedure set forth in Section 2.

The undersigned requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____.

The undersigned represents and warrants that all offers and sales by the undersigned of the securities issuable upon exercise of the within Warrant shall be made pursuant to registration of the Common Stock under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an exemption from

registration under the Securities Act.

Dated: _____

(Signature must conform to name
of holder as specified on the
face of the Warrant)

(Address)

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EXHIBIT B

FORM OF TRANSFEROR ENDORSEMENT
(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto the person(s) named below under the heading "Transferees" the right represented by the within Warrant to purchase the percentage and number of shares of Common Stock of AETHLON MEDICAL, INC. to which the within Warrant relates specified under the headings "Percentage Transferred" and "Number Transferred," respectively, opposite the name(s) of such person(s) and appoints each such person Attorney to transfer its respective right on the books of AETHLON MEDICAL, INC. with full power of substitution in the premises.

Transferees	Percentage Transferred	Number Transferred
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----

Dated: _____, _____

(Signature must conform to name
of holder as specified on the
face of the warrant)

Signed in the presence of:

(Name)

(address)

ACCEPTED AND AGREED:
[TRANSFEREE]

(address)

(Name)

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FIRST AMENDMENT TO COMMON STOCK PURCHASE AGREEMENT

THIS FIRST AMENDMENT TO COMMON STOCK PURCHASE AGREEMENT (the "Amendment"), dated as of August 10, 2007, by and between AETHLON MEDICAL, INC., a Nevada corporation (the "Company"), and FUSION CAPITAL FUND H, LLC (together with its permitted assigns, the "Buyer"). Capitalized terms used herein and not otherwise defined herein shall have the meanings given them in the Common Stock Purchase Agreement.

WHEREAS, THE parties hereto are parties to a Common Stock Purchase Agreement dated as of March 21, 2007 (the "Common Stock Purchase Agreement") pursuant to which the Buyer has agreed to purchase, and the Company has agreed to sell up to \$8,400,000 of the Common Stock;

WHEREAS, the parties desire to amend and restate certain provisions of the Common Stock Purchase Agreement;

NOW, THEREFORE, in consideration of the agreements, covenants and considerations contained herein, the parties hereto agree as follows:

1. AMENDMENTS. The following Sections of the Common Stock Purchase Agreement are hereby amended as follow:

- a. Section 4(a) of the Common Stock Purchase Agreement is hereby amended and restated in its entirety as follows:

"(a) FILING OF FORM 8-K AND REGISTRATION STATEMENT. The Company agrees that it shall, within the time required under the 1934 Act file a Report on Form 8-K disclosing this Agreement and the transaction contemplated hereby. The Company shall also file within ten (10) Business Days from the date hereof a new registration statement covering only the sale of the Commitment Shares and 7,333,333 Purchase Shares (which includes the 1,333,333 Initial Purchase Shares) in accordance with the terms of the Registration Rights Agreement between the Company and the Buyer, dated as of the date hereof ("Registration Rights Agreement")."

- b. Section 11(k)(iv) of the Common Stock Purchase Agreement is hereby amended and restated in its entirety as follows:

"(iv) If by the Maturity Date for any reason or for no reason the full Available Amount under this Agreement has not been purchased as provided for in Section I of this Agreement. this Agreement shall automatically terminate on the Maturity Date, without any action or notice on the part of any party and without any liability whatsoever of any party TO any other party under this Agreement."

2. EFFECT OF AMENDMENT/INCORPORATION OF CERTAIN PROVISIONS. Except as amended as set forth above, the Common Stock Purchase Agreement shall continue in full force and effect. The provisions set forth IN Section 11 of the Common Stock Purchase Agreement are hereby incorporated by reference into this Amendment.

* * * * *

IN WITNESS WHEREOF, the Buyer and the Company have caused this First Amendment to Common Stock Purchase Agreement to be duly executed as of the date first written above.

THE COMPANY:

AETHLON MEDICAL, INC.

By: /s/ Peter M. Kuhn

Name:

Title:

BUYER:

FUSION CAPITAL FUND II, LLC

BY: FUSION CAPITAL PARTNERS, LLC

BY: SGM HOLDINGS CORP.

By: /s/ Steven G. Martin

Name: Steven G. Martin

Title: President

CONSENT OF SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference into this Registration Statement on Form S-1 of Aethlon Medical, Inc. of our report dated July 12, 2007, relating to the consolidated balance sheet of Aethlon Medical, Inc. as of March 31, 2007 and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period then ended and for the period from January 31, 1984 (Inception) to March 31, 2007. We also consent to the reference to our Firm under the caption "Experts".

/s/ Squar, Milner, Peterson, Miranda & Williamson, LLP
February 11, 2008
Newport Beach, California