

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K-A1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act

March 10, 1999

Date of Report

(Date of Earliest Event Reported)

BISHOP EQUITIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada  
(State or other juris-  
diction of incorporation)

33-44567-NY  
(Commission File No.)

13-3632859  
(IRS Employer I.D. No.)

7825 Fay Avenue, Suite 200  
LaJolla, California 92037  
(Address of Principal Executive Offices)

(619) 456-5777  
Registrant's Telephone Number

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

There have been the following changes to this Item, which was contained in the 8-K Current Report of the Company dated March 10, 1999.

(a) Financial Statements of Business Acquired.

Pro Forma Combined Financial Report for Bishop Equities, Inc. at  
December 31, 1998  
Audited financial statements for Hemex, Inc. at December 31, 1998  
Audited financial statements for Hemex, Inc. at December 31, 1997

(b) Exhibits. (See attached Financial Statements.)

All other portions of the previously filed 8-K Current Report dated March 10, 1999 remain unchanged.

(c) Exhibits.

\*\*10.1 Agreement and Plan of Reorganization Between the Registrant and Aethlon

\*\* Exhibit "A" - List of Aethlon Shareholders  
\*\* Exhibit "B" - Aethlon Letter of Intent  
\*\* Exhibit "C" - Hemex Letter of Intent  
\*\* Exhibit "D" - Resolutions of Bishop  
\*\* Exhibit "E-1" - Indemnification of Barry  
\*\* Exhibit "E-2" - Indemnification of Joyce  
\*\* Exhibit "E-3" - Indemnification of Broenniman  
\*\* Exhibit "F" - Copies of Shares or Lost Certificate Affidavits  
\*\* Exhibit "G" - Power of Attorney to Shareholder Representative  
\*\* Exhibit "H" - Legal Opinion of Bishop Counsel  
\*\* Exhibit "I" - Schedule of Exceptions of Aethlon  
\*\* Exhibit "J" - Financial Statements of Aethlon  
\*\* Exhibit "K" - List of Aethlon Bank Accounts and Signatories Therefor  
\*\* Exhibit "L" - Schedule of Exceptions of Bishop  
\*\* Exhibit "M" - Financial Statements of Bishop\*\*  
\*\* Exhibit "N" - List of Bishop Bank Accounts and Signatories Therefor

\*\*10.2 Agreement and Plan of Reorganization Between the Registrant and Hemex

\*\* Exhibit "A" - List of Hemex Shareholders  
\*\* Exhibit "B" - Hemex Letter of Intent  
\*\* Exhibit "C" - Bishop Letter of Intent  
\*\* Exhibit "D" - Resolutions of Bishop  
\*\* Exhibit "E-1" - Indemnification of Barry  
\*\* Exhibit "E-2" - Indemnification of Joyce  
\*\* Exhibit "E-3" - Indemnification of Broenniman  
\*\* Exhibit "F" - Copies of Shares or Lost Certificate Affidavits  
\*\* Exhibit "G" - Power of Attorney to Shareholder Representative  
\*\* Exhibit "H" - Legal Opinion of Bishop Counsel  
\*\* Exhibit "I" - Schedule of Exceptions of Hemex  
\*\* Exhibit "J" - Financial Statements of Hemex

- \*\* Exhibit "K" - Legal Descriptions of Real Property of Hemex
- \*\* Exhibit "L" - List of Personal Property of Hemex
- \*\* Exhibit "M" - Patents, Trademarks, Service Marks of Hemex
- \*\* Exhibit "N" - List of Insurance Policies of Hemex
- \*\* Exhibit "O" - List of Hemex Bank Accounts and Signatories Therefor
- \*\* Exhibit "P" - Schedule of Exceptions of Bishop
- \*\* Exhibit "Q" - Financial Statements of Bishop\*\*
- \*\* Exhibit "R" - List of Bishop Bank Accounts and Signatories Therefor

\*\*Filed with Registrant's Form 8-K on March 10, 1999 and incorporated herein by this reference.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

BISHOP EQUITIES, INC.

Date: May 24, 1999

By: /s/ James A. Joyce

-----

James A. Joyce, Chairman, Secretary and Director

BISHOP EQUITIES, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

Pro Forma Combined Financial Report

December 31, 1998

BISHOP EQUITIES, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

PRO FORMA COMBINED FINANCIAL REPORT

As of December 31, 1998

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To the Stockholders of  
Bishop Equities, Inc.  
La Jolla, California

We have compiled the accompanying pro forma combined balance sheets of Bishop Equities, Inc. (doing business as "Aethlon Medical, Inc.") as of December 31, 1998, the related pro forma combined statements of operations and accumulated deficit for the years ended December 31, 1998 and 1997 and the related pro forma combined cumulative statements of operations during the development stage through December 31, 1998, in accordance with Statements on Standards for

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The accompanying pro forma combined financial statements, described above, combine the historical balance sheets and statements of operations and accumulated deficit of Bishop Equities, Inc., Hemex, Inc. and Aethlon, Inc., giving effect to their March 10, 1999 merger as if the companies had always been combined since their respective inception dates (as indicated in the financial statements), using the pooling of interests method of accounting for a business combination. This information is being provided for supplementary analysis and illustrative purposes only, and should be read in conjunction with the historical financial statements of the respective companies. The companies may have performed differently had they always been combined. These pro forma combined financial statements should not be relied upon as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger.

Management has elected to omit substantially all of the disclosures and the statements of cash flows required by generally accepted accounting principles. If the omitted disclosures and statements were included in the financial statements, they might influence the user's conclusions about the companies' pro forma combined financial position, results of operations and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Gaines Metzler Kriner & Co LLP

May 20, 1999

BISHOP EQUITIES, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

PRO FORMA COMBINED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT  
COMPILATION

<TABLE>  
<CAPTION>

FOR THE YEAR ENDED DECEMBER 31, 1997 COMBINED	HISTORIC AETHLON HEMEX	PROFORMA BISHOP	PROFORMA ADJUSTMENTS
<S>	<C>	<C>	<C>
<C>			
REVENUE			
Grant income	\$ ---	\$ ---	\$ ---
Subcontract income	---	---	---
Sale of research and development	---	---	---
Interest Income	---	---	---
<b>Total revenue</b>	---	---	---
EXPENSES			
Personnel costs	216,829	---	---
Research and development consultation	36,173	---	---
Subcontract expense	---	---	---
Contractual costs	1,305	---	---
Rent and utilities	36,516	---	---
Equipment and maintenance	2,056	---	---
Office expense	11,239	944	---

12,183	Professional fees	52,001	302	---	
52,303	Miscellaneous	4,922	---	---	
4,922	Depreciation	17,942	---	---	
17,942	Travel and meetings	42,069	---	---	
42,069	Insurance	3,957	---	---	
3,957	Laboratory supplies	17,916	---	---	
17,916	Patent	9,440	---	---	
9,440	Interest	25,290	---	---	
25,290	Amortization	8,171	120	---	
8,291	Dues and subscription	2,427	---	---	
2,427					
-----		-----	-----	-----	-
	Total expenses	488,253	1,366	---	
489,619		-----	-----	-----	-
-----					
	LOSS BEFORE INCOME TAXES	(488,253)	(1,366)	---	
(489,619)					
	PROVISION FOR INCOME TAXES	(1,475)	---	---	
(1,475)		-----	-----	-----	-
-----					
	NET LOSS	(486,778)	(1,366)	---	
(488,144)					
	ACCUMULATED DEFICIT, BEGINNING	(2,373,873)	(34,468)	---	
(2,408,341)		-----	-----	-----	-
-----					
	ACCUMULATED DEFICIT, ENDING	\$ (2,860,651)	\$ (35,834)	\$ ---	
\$ (2,408,341)		-----	-----	-----	-
-----					
-----					

</TABLE>

SEE ACCOUNTANT'S REPORT.

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BISHOP EQUITIES, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

PRO FORMA COMBINED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT  
COMPILATION

<TABLE>  
<CAPTION>

FOR THE YEAR ENDED DECEMBER 31, 1998 COMBINED	HISTORIC AETHLON HEMEX	PROFORMA BISHOP	PROFORMA AETHLON	ADJUSTMENTS
-----	-----	-----	-----	-----
--				
<S>	<C>	<C>	<C>	<C>
<C>				
REVENUE				
\$ Grant income	\$ ---	\$ ---	\$ ---	\$---
Subcontract income	---	---	---	---
---				
2,810 Sale of research and development	2,810	---	---	---
17,225 Other income	17,225	---	---	---
46 Interest Income	---	---	46	---
-----	-----	-----	-----	-----
Total revenue	20,035	---	46	---

20,081

EXPENSES

Personnel costs	164,296	---	---	---
164,296				
Research and development consultation	---	---	---	---
---				
Subcontract expense	---	---	---	---
---				
Contractual costs	135	---	---	---
135				
Rent and utilities	32,686	---	---	---
32,686				
Equipment and maintenance	1,572	---	---	---
1,572				
Office expense	5,314	1,395	6,947	---
13,656				
Professional fees	39,660	1,814	39,000	---
80,474				
Miscellaneous	645	---	---	---
645				
Depreciation	16,783	---	---	---
16,783				
Travel and meetings	3,477	---	---	---
3,477				
Insurance	(1,872)	---	---	---
(1,872)				
Laboratory supplies	206	---	---	---
206				
Patent	6,060	---	---	---
6,060				
Interest	27,664	---	---	---
27,664				
Amortization	8,171	120	2,917	---
11,208				
Dues and subscription	---	---	---	---
---				
	-----	-----	-----	-----
Total expenses	304,797	3,329	48,864	---
356,990				
	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(284,762)	(3,329)	(48,818)	---
(336,909)				
PROVISION FOR INCOME TAXES	349	---	---	---
349				
	-----	-----	-----	-----
NET LOSS	(285,111)	(3,329)	(48,818)	---
(337,258)				
ACCUMULATED DEFICIT, BEGINNING	(2,860,651)	(35,834)	---	---
(2,896,485)				
	-----	-----	-----	-----
ACCUMULATED DEFICIT, ENDING	\$ (3,145,762)	\$ (39,163)	\$ (48,818)	\$---
\$ (3,233,743)				
	-----	-----	-----	-----

</TABLE>

SEE ACCOUNTANT'S REPORT.

BISHOP EQUITIES, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

PRO FORMA COMBINED BALANCE SHEETS  
COMPILATION  
AS OF DECEMBER 31, 1998

<TABLE>  
<CAPTION>

COMBINED

HISTORIC  
AETHLON  
HEMEX

BISHOP

PROFORMA  
AETHLON

PROFORMA  
ADJUSTMENTS

	<C>	<C>	<C>	<C>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 3,062	\$ 1,415	\$ 5,710	---
\$ 10,187				
-----				
Total current assets	3,062	1,415	5,710	---
10,187				
Other assets				
Property and equipment, net	37,381	---	---	---
37,381				
Investment in Aethlon, Inc.	---	120,082	---	(120,082)
---				
Advances to Hemex	---	---	85,000	(85,000)
---				
Patents, net	47,455	---	---	---
47,455				
Organizational costs, net	---	30	32,082	---
32,112				
-----				
Total assets	\$ 87,898	\$ 121,527	\$ 122,792	\$ (205,082)
\$ 127,135				
-----				
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 390,978	\$ 586	\$ 2,710	---
\$ 394,274				
Accrued liabilities	334,044	---	---	---
334,044				
Due to stockholder	---	2,500	---	---
2,500				
-----				
Total current liabilities	725,022	3,086	2,710	---
730,818				
Advances from Aethlon	85,000	---	---	(85,000)
---				
Investment in Hemex, Inc.	---	722,124	---	(722,124)
---				
-----				
Total liabilities	810,022	725,210	2,710	(807,124)
730,818				
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>				
Common Stock	39	2,686	---	(2,175)
550				
Preferrred stock	---	---	---	---
Additional paid in capital	2,573,599	2,627,374	168,900	(2,740,363)
2,629,510				
Retained earnings (deficit)	(3,145,762)	(3,233,743)	(48,818)	3,194,580
(3,233,743)				
Treasury stock	(150,000)	---	---	150,000
---				
-----				
Total stockholders' equity (deficit)	(722,124)	(603,683)	120,082	602,042
(603,683)				
-----				
Total liabilities and stockholders' equity (deficit)	\$ 87,898	\$ 121,527	\$ 122,792	\$ (205,082)
\$ 127,135				
-----				
-----				

</TABLE>

SEE ACCOUNTANT'S REPORT.

BISHOP EQUITIES, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

PRO FORMA COMBINED CUMULATIVE STATEMENTS OF OPERATIONS  
DURING THE DEVELOPMENT STAGE  
COMPILATION

<TABLE>  
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	HISTORIC HEMEX JANUARY 31, 1984 THROUGH DECEMBER 31, 1998	BISHOP APRIL 17, 1991 THROUGH DECEMBER 31, 1998	AETHLON JUNE 24, 1998 THROUGH DECEMBER 31, 1998	PROFORMA ADJUSTMENTS
PROFORMA				
COMBINED				
--	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
REVENUE				
Grant income	\$ 1,424,012	\$ ---	\$ ---	\$---
\$ 1,424,012				
Subcontract income	73,746	---	---	---
73,746				
Sale of research and development	35,810	---	---	---
35,810				
Other income	17,225	---	---	---
17,225				
Interest Income	17,415	---	46	---
17,461				
-----	-----	-----	-----	-----
	Total revenue	1,568,208	---	46
1,568,254				
EXPENSES				
Personnel costs	2,574,866	4,000	---	---
2,578,866				
Research and development consultation	240,463	---	---	---
240,463				
Subcontract expense	195,964	---	---	---
195,964				
Contractual costs	193,552	---	---	---
193,552				
Rent and utilities	247,691	---	---	---
247,691				
Equipment and maintenance	164,597	---	---	---
164,597				
Office expense	156,813	13,115	6,947	---
176,875				
Professional fees	247,530	16,221	39,000	---
302,751				
Miscellaneous	95,274	---	---	---
95,274				
Depreciation	120,047	---	---	---
120,047				
Travel and meetings	112,991	5,257	---	---
118,248				
Insurance	56,763	---	---	---
56,763				
Laboratory supplies	99,238	---	---	---
99,238				
Patent	62,865	---	---	---
62,865				
Interest	90,761	---	---	---
90,761				
Amortization	32,684	570	2,917	---
36,171				
Dues and subscription	16,023	---	---	---
16,023				
-----	-----	-----	-----	-----
	Total expenses	4,708,122	39,163	41,917
4,796,149				
-----	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(3,139,914)	(39,163)	(41,871)	---
(3,227,895)				
PROVISION FOR INCOME TAXES	5,848	---	---	---
5,848				

NET LOSS	\$ (3,145,762)	\$ (39,163)	\$ (41,871)	\$---
\$ (3,233,743)				

</TABLE>

SEE ACCOUNTANT'S REPORT.  
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HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

Financial Report  
December 31, 1997

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

FINANCIAL REPORT  
AS OF DECEMBER 31, 1997

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Hemex, Inc.  
Buffalo, New York

We have audited the accompanying balance sheet of Hemex, Inc. (A Development Stage Enterprise) as of December 31, 1997, and the related statements of operations and accumulated deficit, cash flows and stockholders' equity (deficit) for the year then ended and for the period from January 31, 1984 (inception) to December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hemex, Inc. (A Development



Stage Enterprise) as of December 31, 1997, and the results of its operations and cash flows for the year then ended and from January 31, 1984 (inception) to December 31, 1997 in conformity with generally accepted accounting principles.

Gaines Metzler Kriner & Co LLP

May 7, 1999

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HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1997	CUMULATIVE DURING DEVELOPMENT STAGE THROUGH DECEMBER 31, 1997
	-----	-----
<S>	<C>	<C>
RECEIPTS		
Grant SBIR - Lead	\$ ---	\$ 804,512
S.C. Johnson & Son, Inc.	---	245,000
SBIR - Phase I	---	44,828
SBIR - Phase II	---	284,816
New York State Matching Grant	---	44,856
Subcontract income	---	73,746
Interest income	---	17,415
Sale of research and development	---	33,000
	-----	-----
Total receipts	---	1,548,173
EXPENDITURES		
Personnel costs	216,829	2,410,570
Research and development consultation	36,173	240,463
Subcontract Hemo-Purifier production	---	195,964
Contractual costs	1,305	193,417
Lab rent and utilities	36,516	215,005
Equipment and maintenance	2,056	163,025
Office expense	7,293	118,665
Legal	41,890	153,021
Miscellaneous	4,922	94,629
Depreciation	17,942	103,264
Travel and meeting	42,069	109,514
Insurance	3,957	58,635
Laboratory supplies	5,088	58,087
Patent	9,440	56,805
Accounting	10,111	54,849
Interest expense	25,290	63,097
Laboratory animal expense	12,828	40,945
Office assistance	---	17,874
Amortization	8,171	24,513
Dues and subscriptions	2,427	16,023
Computer expense	3,946	14,960
	-----	-----
Total expenditures	488,253	4,403,325
LOSS FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(488,253)	(2,855,152)
PROVISION FOR INCOME TAXES	(1,475)	5,499
	-----	-----
NET LOSS	(486,778)	\$ (2,860,651)
	-----	-----
ACCUMULATED DEFICIT, BEGINNING OF YEAR	(2,373,873)	
	-----	
ACCUMULATED DEFICIT, END OF YEAR	\$ (2,860,651)	
	-----	
	-----	

</TABLE>

SEE ACCOMPANYING NOTES.

2

HEMEX, INC.

(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEET

<TABLE>  
<CAPTION>

	AS OF DECEMBER 31, 1997	
	-----	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash	\$ 310	
Prepaid insurance	1,023	
	-----	
Total current assets		1,333
PROPERTY AND EQUIPMENT		
Equipment	157,428	
Less: Accumulated depreciation	103,264	
	-----	
Property and equipment, net		54,164
OTHER ASSETS		
Patents, net of accumulated amortization of \$24,513		55,626
		-----
		\$ 111,123
		-----

</TABLE>

<TABLE>  
<CAPTION>

	AS OF DECEMBER 31, 1997	
	-----	
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 209,817	
Accounts payable - related parties	187,849	
Accrued payroll taxes	193	
Accrued interest	39,548	
Accrued wages	1,961	
Accrued income taxes	325	
	-----	
Total current liabilities		439,693
LONG-TERM LIABILITIES		
Loans payable - stockholders	290,883	
Loan payable	50,000	
Deferred compensation	202,654	
	-----	
Total long-term liabilities		543,537
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - \$0.001 par value, 100,000 shares authorized, 37,004 shares issued, 29,004 shares outstanding	37	
Preferred stock - \$0.001 par value, 3,000 shares authorized	---	
Contributed capital	2,138,507	
Deficit accumulated during the development stage	(2,860,651)	
Less: Treasury stock, 8,000 shares at cost	(150,000)	
	-----	
Total stockholders' equity		(872,107)
		-----
		\$ 111,123
		-----

</TABLE>

SEE ACCOMPANYING NOTES.

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1997	CUMULATIVE DURING DEVELOPMENT STAGE THROUGH DECEMBER 31, 1997
	----- <C>	----- <C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (486,778)	\$ (2,860,651)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	17,942	103,264
Amortization	8,171	24,513
Changes in liabilities in noncash operating activities:		
(Increase) decrease in assets:		
Prepaid insurance	477	(1,023)
Increase (decrease) in liabilities:		
Accounts payable	116,586	209,817
Accounts payable - related parties	81,039	187,849
Accrued payroll taxes	(10,500)	193
Accrued interest	25,321	39,548
Accrued income taxes	(2,866)	325
Accrued wages	(1,323)	1,961
Accrued expenses - other	(1,497)	---
Deferred compensation	63,499	202,654
	-----	-----
Net cash used by operating activities	(189,929)	(2,091,550)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	---	(157,428)
Purchase of patents	---	(80,140)
	-----	-----
Net cash used by investing activities	---	(237,568)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in loans payable - stockholders	93,514	290,884
Increase in loan payable	50,000	50,000
Proceeds from issuance of common stock	22,000	2,138,544
Purchase of treasury stock	---	(150,000)
	-----	-----
Net cash provided by financing activities	165,514	2,329,428
<b>NET INCREASE (DECREASE) IN CASH</b>	(24,415)	310
<b>CASH, BEGINNING</b>	24,725	---
	-----	-----
<b>CASH, ENDING</b>	\$ 310	\$ 310
	-----	-----
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ ---	\$ 23,580
Income taxes	325	4,382

</TABLE>

SEE ACCOMPANYING NOTES.

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
From January 31, 1984 (Inception) Through December 31, 1997

<TABLE>  
<CAPTION>

	\$0.001 PAR	
	NUMBER OF \$0.001 PAR VALUE COMMON SHARES	NUMBER OF TREASURY SHARES
	----- <C>	----- <C>
Initial Sale of Stock for Cash	11.00	---

Net income for 1984

Balance, December 31, 1984	11.00	---
Additional Capital Contributed by Shareholders		
Net loss for 1985		
Balance, December 31, 1985	11.00	---
Additional Capital Contributed by Shareholders		
Net loss for 1986		
Balance, December 31, 1986	11.00	---
Issuance of Stock for Cash at \$100 Per Share	0.55	
Net loss for 1987		
Balance, December 31, 1987	11.55	---
Net loss for 1988		
Balance, December 31, 1988	11.55	---
Net income for 1989		
Balance, December 31, 1989	11.55	---
Issuance of Stock for Cash at \$100 Per Share	0.35	
Net loss for 1990		
Balance, December 31, 1990	11.90	---
Additional Capital Contributed by Shareholders		
Net loss for 1991		
Balance, December 31, 1991	11.90	---

</TABLE>

VALUE COMMON STOCK

<TABLE>

<CAPTION>

TOTAL SHARES	COMMON STOCK VALUE	TREASURY SHARES AT COST	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE
<S>	<C>	<C>	<C>	<C>
11.00	\$ 1,100.00	\$ ---	\$ 25,424	\$ --- 59,710
11.00	1,100.00	---	25,424	59,710
			13,139	(92,774)
11.00	1,100.00	---	38,563	(33,064)
			25,000	(31,652)
11.00	1,100.00	---	63,563	(64,716)
0.55	55.00		24,945	(21,076)
11.55	1,155.00	---	88,508	(85,792)
				(11,744)
11.55	1,155.00	---	88,508	(97,536)
				66,109
11.55	1,155.00	---	88,508	(31,427)
0.35	35.00		59,965	(25,257)
11.90	1,190.00	---	148,473	(56,684)
			133,000	

(151,987)

-----  
11.90      \$ 1,190.00      \$ ---      \$ 281,473      \$ (208,671)  
-----

</TABLE>

Continued on next page

SEE ACCOMPANYING NOTES.

5

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
From January 31, 1984 (Inception) Through December 31, 1997

Continued from previous page

<TABLE>  
<CAPTION>

	\$0.001 PAR	
	NUMBER OF \$0.001 PAR VALUE COMMON SHARES	NUMBER OF TREASURY SHARES
	<C>	<C>
Adjustment to Outstanding Shares for Prior Purchases	(1.95)	
Additional Capital Contributed by Shareholders		
Purchase of Treasury Stock for Cash at \$100 Per Share		4.00
Net loss for 1992		
Balance, December 31, 1992	9.95	4.00
Issuance of Stock for Cash at \$100 Per Share	0.08	
Net loss for 1993		
Balance, December 31, 1993	10.03	4.00
Issuance of Stock for Cash at \$100 Per Share	0.27	
Net loss for 1994		
Balance, December 31, 1994	10.30	4.00
Issuance of 1.30 Shares of Common Stock in consideration of Deferred Compensation	1.30	
Promissory Notes Payable to Shareholders were converted to 0.56 Shares of Common Stock	0.56	
Stock Split 2,000:1	24,326.00	8,000.00
Common Stock Offering at \$250 per share	3,200.00	
Net loss for 1995		
Balance, December 31, 1995	27,526.00	8,000.00
Common Stock Offering at \$250 per share	1,390.00	
Net loss for 1996		
Balance, December 31, 1996	28,916.00	8,000.00
Issuance of Stock for Cash at \$250 Per Share	88.00	
Net loss for 1997		
Balance, December 31, 1997	29,004.00	8,000.00

</TABLE>

VALUE COMMON STOCK

<TABLE>  
<CAPTION>

TOTAL	COMMON STOCK	TREASURY SHARES	ADDITIONAL PAID-IN	DEFICIT ACCUMULATED DURING THE
-------	-----------------	--------------------	-----------------------	--------------------------------------

SHARES	VALUE	AT COST	CAPITAL	DEVELOPMENT STAGE
<S>	<C>	<C>	<C>	<C>
(1.95)	\$ (195.00)			
4.00	400.00	150,000	250,095	(220,032)
13.95	1,395.00	150,000	531,568	(428,703)
0.08	8.00		14,992	(61,150)
14.03	1,403.00	150,000	546,560	(489,853)
0.27	27.00		39,973	(381,877)
14.30	1,429.50	150,000	586,533	(871,730)
1.30	130.00		267,276	
0.56	56.00		113,519	
32,326.00	32.33		1,682	
3,200.00	3.20		799,997	(605,385)
35,526.00	35.53	150,000	1,769,007	(1,477,115)
1,390.00	1.39		347,500	(896,758)
36,916.00	36.92	150,000	2,116,507	(2,373,873)
88.00	0.09		22,000	(486,778)
37,004.00	\$ 37.01	\$150,000	\$2,138,507	\$ (2,860,651)

</TABLE>

SEE ACCOMPANYING NOTES.

6

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1997

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Hemex, Inc. (the Company) is a Developmental Stage Enterprise formed on January 31, 1984. The Company is a start-up research and development company involved in developing the Hemo-Purifier. This is a medical device which removes toxic metals present in the bloodstream. The Company has incurred losses since 1985.

The Company has received funds from federal, state and private grants, proceeds from issuance of common stock, proceeds from long-term borrowings, and other resources to continue its involvement in developing the Hemo - Purifier.

ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and receipts and expenditures during the reporting period. Actual results could differ from estimates.

EQUIPMENT AND DEPRECIATION

Equipment is recorded at cost. Depreciation has been determined using

the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended December 31, 1997 was \$17,942.

#### PATENTS AND AMORTIZATION

Three patents were acquired in December 31, 1994 from a stockholder in exchange for a note payable in the amount of \$80,140. The patents are being amortized on the straight-line method over their remaining lives. The patents expire between the years 2003 through 2005. Amortization for the year ended December 31, 1997 was \$8,171.

#### INCOME TAXES

Income taxes are computed in accordance with Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. Deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Basis differences for which deferred taxes are provided relate primarily to cost associated with research and development.

SEE ACCOUNTANT'S REPORT.

7

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1997

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### INCOME TAXES

For financial reporting purposes the Company, in accordance with generally accepted accounting principles, expenses these research and development costs as incurred.

The Company has elected under Internal Revenue Code, Section 174, to capitalize for income tax purposes all research and development expenditures incurred in conjunction with its product development process. Net costs associated with the research and development process amount to approximately \$2,850,000 at December 31, 1997. When the Company realizes benefits from such expenditures, the costs will be amortized over a period of 60 months.

A valuation allowance has been provided for 100 percent of the deferred tax asset as realization of the asset is contingent upon Food and Drug Administration approval of the product.

The Company's deferred tax assets as of December 31, 1997 consist of:

<TABLE>  
<CAPTION>

AS OF DECEMBER 31, -----	1997 ----
<S>	<C>
FEDERAL	
Deferred tax asset	\$427,536
Valuation allowance	427,536
	-----
Net deferred tax asset	\$ ---
	-----
STATE	
Deferred tax asset	\$228,019
Valuation allowance	228,019
	-----
Net deferred tax asset	\$ ---
	-----

</TABLE>

STATEMENT OF CASH FLOWS

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

SEE ACCOUNTANT'S REPORT.

8

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1997

NOTE 2: LONG-TERM LIABILITIES

As of December 31, 1997, the Company had loans payable to various stockholders in the amount of \$290,883. The loans were unsecured and accrued interest at a range of 8 to 10 percent. These loans were converted to shares of the Company's common stock at a rate of \$250 per share at December 31, 1998.

On October 30, 1997, the Company entered into a loan agreement with a non-shareholder in the amount of \$50,000. The loan was unsecured and accrued interest at 14 percent. The loan was converted to shares of the Company's common stock at a rate of \$250 per share at December 31, 1998.

NOTE 3: LEASES

The Company rents lab space from the University of Buffalo Foundation on a yearly basis. Total rent expense for the year ended December 31, 1997 was \$32,324.

NOTE 4: DEFERRED COMPENSATION

The Company has deferred compensation agreements with two of its present employees and two former employees. The terms of the agreements require the Company to compensate the employees the amount owed as soon as the Company has funds available. Pursuant to the business combination, as described in Note 7, a limited amount of funds are expected to become available during 1999. To facilitate this business combination, the employees have agreed to accept a discounted amount as full payment of the compensation originally deferred. As a result, the deferred compensation liability presented in the accompanying financial statements reflects a discount of 40 percent. Deferred compensation expense for the year ended December 31, 1997 totaled \$63,499.

NOTE 5: RELATED PARTY TRANSACTIONS

In addition to the related party loans payable, the officers of the Company regularly pay expenses on behalf of the Company. The officers also advance the Company funds to cover short-term working capital shortages. These non interest-bearing amounts have been included as accounts payable - related party in the accompanying financial statements. Such amounts payable to related parties amounted to \$187,849 at December 31, 1997.

SEE ACCOUNTANT'S REPORT.

9

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1997

NOTE 6: EMPLOYMENT AGREEMENT

The Company has an employment agreement with its President, that



commenced April 1, 1997, which provides for a minimum annual salary of \$108,000. Either party may terminate the agreement at any time for cause, or at any time upon 60 days written notice to the other party without cause. Pursuant to a stock option agreement, the President also has the right to purchase up to three hundred shares of the Company's common stock at any time during the first three years of employment at the rate of \$1.00 per share. The President also has the option to purchase additional shares at a discounted price, if certain performance objectives are achieved.

NOTE 7: SUBSEQUENT EVENT

BUSINESS COMBINATION

On March 10, 1999, the Company was acquired by Aethlon Medical, Inc. in a business combination accounted for as a pooling of interests. Aethlon Medical, Inc. is a publicly traded company. It intends to raise additional capital through a public offering during 1999, some of which are intended to finance the operating activities and reduce the liabilities of the Company.

Hemex, Inc. became a wholly owned subsidiary of Aethlon Medical, Inc. (the Parent Company) through the exchange of all of the company's outstanding stock for 1,350,000 shares of Aethlon Medical, Inc. As a result of the combination, the Company changed its year-end to March 31st to conform with the parent Company's fiscal year-end.

SEE ACCOUNTANT'S REPORT.

10

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

Financial Report

December 31, 1998

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

FINANCIAL REPORT  
AS OF DECEMBER 31, 1998

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STATEMENTS OF CASH FLOWS	4
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)	6
NOTES TO FINANCIAL STATEMENTS	8

</TABLE>

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Hemex, Inc.  
Buffalo, New York

We have audited the accompanying balance sheet of Hemex, Inc. (A Development Stage Enterprise) as of December 31, 1998, and the related statements of operations and accumulated deficit, cash flows and stockholders' equity (deficit) for the year then ended and for the period from January 31, 1984 (inception) to December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hemex, Inc. (A Development Stage Enterprise) as of December 31, 1998, and the results of its operations and cash flows for the year then ended and from January 31, 1984 (inception) to December 31, 1998 in conformity with generally accepted accounting principles.

Gaines Metzler Kriner & Co LLP

May 7, 1999

1

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1998	CUMULATIVE DURING DEVELOPMENT STAGE THROUGH DECEMBER 31, 1998
	-----	-----
<S>	<C>	<C>
RECEIPTS		
Grant SBIR - Lead	\$ ---	\$ 804,512
S.C. Johnson & Son, Inc.	---	245,000
SBIR - Phase I	---	44,828
SBIR - Phase II	---	284,816
New York State Matching Grant	---	44,856
Subcontract income	---	73,746
Interest income	---	17,415
Sale of research and development	---	33,000
Other income	17,225	17,225
Sale of cartridges	2,810	2,810
	-----	-----
Total receipts	20,035	1,568,208
EXPENDITURES		
Personnel costs	164,296	2,574,866
Research and development consultation	---	240,463
Subcontract Hemo-Purifier production	---	195,964
Contractual costs	135	193,552
Lab rent and utilities	32,685	247,691
Equipment and maintenance	1,572	164,597
Office expense	5,066	123,731
Legal	39,660	192,681
Miscellaneous	648	95,274
Depreciation	16,783	120,047
Travel and meeting	3,477	112,991
Insurance expense (recovery)	(1,872)	56,763
Laboratory supplies	206	58,293
Patent	6,060	62,865
Accounting	---	54,849
Interest expense	27,664	90,761
Laboratory animal expense	---	40,945
Office assistance	---	17,874
Amortization	8,171	32,684
Dues and subscriptions	---	16,023
Computer expense	248	15,208
	-----	-----
Total expenditures	304,797	4,708,122

LOSS FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(284,762)	(3,139,914)
PROVISION FOR INCOME TAXES	349	5,848
NET LOSS	(285,111)	\$ (3,145,762)
ACCUMULATED DEFICIT, BEGINNING OF YEAR	(2,860,651)	
ACCUMULATED DEFICIT, END OF YEAR	\$ (3,145,762)	

</TABLE>

SEE ACCOMPANYING NOTES.

2

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEET

<TABLE>  
<CAPTION>

	AS OF DECEMBER 31, 1998	
	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,062	
Total current assets		3,062
PROPERTY AND EQUIPMENT		
Equipment	157,428	
Less: Accumulated depreciation	120,047	
Property and equipment, net		37,381
OTHER ASSETS		
Patents, net of accumulated amortization of \$32,684		47,455
		\$87,898

</TABLE>

<TABLE>  
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	AS OF DECEMBER 31, 1998	
	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 232,229	
Accounts payable - related parties	158,749	
Deferred compensation	302,386	
Accrued wages	31,333	
Accrued income taxes	325	
Total current liabilities		725,022

LONG-TERM LIABILITIES	
Advance from Aethlon	85,000
	-----
Total long-term liabilities	85,000
STOCKHOLDERS' EQUITY (DEFICIT)	
Common stock - \$0.001 par value, 100,000 shares authorized, 38,744 shares issued, 30,744 shares outstanding	39
Preferred stock - \$0.001 par value, 3,000 shares authorized	---
Contributed capital	2,573,599
Deficit accumulated during the development stage	(3,145,762)
Less: Treasury stock, 8,000 shares at cost	(150,000)
	-----
Total stockholders' equity	(722,124)
	-----
	\$ 87,898
	-----
	-----

</TABLE>

SEE ACCOMPANYING NOTES.

3

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1998	CUMULATIVE DURING DEVELOPMENT STAGE THROUGH DECEMBER 31, 1998
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (285,111)	\$ (3,145,762)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	16,783	120,047
Amortization	8,171	32,684
Changes in liabilities in noncash operating activities:		
(Increase) decrease in assets:		
Prepaid insurance	1,023	---
Increase (decrease) in liabilities:		
Accounts payable	22,412	232,229
Accounts payable - related parties	(29,100)	158,749
Accrued payroll taxes	(193)	---
Accrued interest	27,663	67,211
Accrued income taxes	---	325
Accrued wages	29,372	31,333
Deferred compensation	99,732	302,386
	-----	-----
Net cash used by operating activities	(109,248)	(2,200,798)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	---	(157,428)
Purchase of patents	---	(80,140)
	-----	-----
Net cash used by investing activities	---	(237,568)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in loan payable - stockholders	---	290,884
Increase in loan payable	27,000	77,000
Advances from Aethlon	85,000	85,000
Proceeds from issuance of common stock	---	2,138,544
Purchase of treasury stock	---	(150,000)
	-----	-----
Net cash provided by financing activities	112,000	2,441,428
NET INCREASE IN CASH	2,752	3,062
CASH, BEGINNING	310	---
	-----	-----

CASH, ENDING

\$ 3,062 \$ 3,062

</TABLE>

Continued on next page

SEE ACCOMPANYING NOTES.

4

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS

Continued from Previous Page

<TABLE>  
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1998	CUMULATIVE DURING DEVELOPMENT STAGE THROUGH DECEMBER 31, 1998
	----- <C>	----- <C>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Loans converted to common stock and additional paid-in capital	\$367,882	\$367,882
Accrued interest converted to common stock and additional paid-in capital	67,211	67,211
	-----	-----
Total increase in common stock and additional paid-in capital	\$435,093	\$435,093
	-----	-----
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ ---	\$ 23,580
Income taxes	325	4,707

</TABLE>

SEE ACCOMPANYING NOTES.

5

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
From January 31, 1984 (Inception) Through December 31, 1998

<TABLE>  
<CAPTION>

	\$0.001 PAR	
	NUMBER OF \$0.001 PAR VALUE COMMON SHARES	NUMBER OF TREASURY SHARES
	----- <C>	----- <C>
Initial Sale of Stock for Cash	11.00	---
Net income for 1984		
	-----	-----
Balance, December 31, 1984	11.00	---
Additional Capital Contributed by Shareholders		
Net loss for 1985		
	-----	-----
Balance, December 31, 1985	11.00	---
Additional Capital Contributed by Shareholders		
Net loss for 1986		

Additional Capital Contributed by Shareholders  
Net loss for 1986

Balance, December 31, 1986	11.00	---
Issuance of Stock for Cash at \$100 Per Share	0.55	
Net loss for 1987		
Balance, December 31, 1987	11.55	---
Net loss for 1988		
Balance, December 31, 1988	11.55	---
Net income for 1989		
Balance, December 31, 1989	11.55	---
Issuance of Stock for Cash at \$100 Per Share	0.35	
Net loss for 1990		
Balance, December 31, 1990	11.90	---
Additional Capital Contributed by Shareholders		
Net loss for 1991		
Balance, December 31, 1991	11.90	---

</TABLE>

VALUE COMMON STOCK

<TABLE>  
<CAPTION>

TOTAL SHARES	COMMON STOCK VALUE	TREASURY SHARES AT COST	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
11.00	\$ 1,100.00	\$ ---	\$ 25,424	\$ ---
				59,710
-----	-----	-----	-----	-----
11.00	1,100.00	---	25,424	59,710
			13,139	(92,774)
-----	-----	-----	-----	-----
11.00	1,100.00	---	38,563	(33,064)
			25,000	(31,652)
-----	-----	-----	-----	-----
11.00	1,100.00	---	63,563	(64,716)
			0.55	55.00
			24,945	(21,076)
-----	-----	-----	-----	-----
11.55	1,155.00	---	88,508	(85,792)
				(11,744)
-----	-----	-----	-----	-----
11.55	1,155.00	---	88,508	(97,536)
				66,109
-----	-----	-----	-----	-----
11.55	1,155.00	---	88,508	(31,427)
			0.35	35.00
			59,965	(25,257)
-----	-----	-----	-----	-----
11.90	1,190.00	---	148,473	(56,684)
			133,000	(151,987)
-----	-----	-----	-----	-----
11.90	\$ 1,190.00	\$ ---	\$281,473	\$ (208,671)

</TABLE>

Continued on next page

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FROM JANUARY 31, 1984 (INCEPTION) THROUGH DECEMBER 31, 1998

CONTINUED FROM PREVIOUS PAGE

<TABLE>  
<CAPTION>

	\$0.001 PAR	
	NUMBER OF \$0.001 PAR VALUE COMMON SHARES	NUMBER OF TREASURY SHARES
	----- <C>	----- <C>
Adjustment to Outstanding Shares for Prior Purchases	(1.95)	
Additional Capital Contributed by Shareholders		
Purchase of Treasury Stock for Cash at \$100 Per Share		4.00
Net loss for 1992		
Balance, December 31, 1992	9.95	4.00
Issuance of Stock for Cash at \$100 Per Share	0.08	
Net loss for 1993		
Balance, December 31, 1993	10.03	4.00
Issuance of Stock for Cash at \$100 Per Share	0.27	
Net loss for 1994		
Balance, December 31, 1994	10.30	4.00
Issuance of 1.30 Shares of Common Stock in consideration of Deferred Compensation	1.30	
Promissory Notes Payable to Shareholders were converted to 0.56 Shares of Common Stock	0.56	
Stock Split 2,000:1	24,326.00	8,000.00
Common Stock Offering at \$250 per share	3,200.00	
Net loss for 1995		
Balance, December 31, 1995	27,526.00	8,000.00
Common Stock Offering at \$250 per share	1,390.00	
Net loss for 1996		
Balance, December 31, 1996	28,916.00	8,000.00
Issuance of Stock for Cash at \$250 Per Share	88.00	
Net loss for 1997		
Balance, December 31, 1997	29,004.00	8,000.00
Conversion of Debt to Stock at \$250 per share	1,471.53	
Conversion of Accrued Interest to Stock at \$250 per share	268.84	
Net loss for 1998		
Balance, December 31, 1998	30,744.37	8,000.00

</TABLE>

VALUE COMMON STOCK

<TABLE>  
<CAPTION>

TOTAL SHARES	COMMON STOCK VALUE	TREASURY SHARES AT COST	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE
----- <S>	----- <C>	----- <C>	----- <C>	----- <C>
(1.95)	\$ (195.00)			
			250,095	

4.00	400.00	150,000		(220,032)
13.95	1,395.00	150,000	531,568	(428,703)
0.08	8.00		14,992	(61,150)
14.03	1,403.00	150,000	546,560	(489,853)
0.27	27.00		39,973	(381,877)
14.30	1,429.50	150,000	586,533	(871,730)
1.30	130.00		267,276	
0.56	56.00		113,519	
32,326.00	32.33		1,682	
3,200.00	3.20		799,997	(605,385)
35,526.00	35.53	150,000	1,769,007	(1,477,115)
1,390.00	1.39		347,500	(896,758)
36,916.00	36.92	150,000	2,116,507	(2,373,873)
88.00	0.09		22,000	(486,778)
37,004.00	37.01	150,000	2,138,507	(2,860,651)
1,471.53	1.47		367,881	
268.84	0.27		67,211	(285,111)
38,744.37	\$ 38.75	\$150,000	\$ 2,573,599	\$ (3,145,762)

</TABLE>

SEE ACCOMPANYING NOTES.

7

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1998

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Hemex, Inc. (the Company) is a Developmental Stage Enterprise formed on January 31, 1984. The Company is a start-up research and development company involved in developing the Hemo-Purifier. This is a medical device which removes toxic metals present in the bloodstream. The Company has incurred losses since 1985.

The Company has received funds from federal, state and private grants, proceeds from issuance of common stock, proceeds from long-term borrowings, and other resources to continue its involvement in developing the Hemo - Purifier.

ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and receipts and expenditures during the reporting period. Actual results could differ from estimates.

EQUIPMENT AND DEPRECIATION

Equipment is recorded at cost. Depreciation has been determined using



the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended December 31, 1998 was \$16,783

PATENTS AND AMORTIZATION

Three patents were acquired in December 31, 1994 from a stockholder in exchange for a note payable in the amount of \$80,140. The patents are being amortized on the straight-line method over their remaining lives. The patents expire between the years 2003 through 2005. Amortization for the year ended December 31, 1998 was \$8,171.

INCOME TAXES

Income taxes are computed in accordance with Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. Deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Basis differences for which deferred taxes are provided relate primarily to cost associated with research and development.

SEE ACCOUNTANT'S REPORT.

HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1998

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INCOME TAXES

For financial reporting purposes the Company, in accordance with generally accepted accounting principles, expenses these research and development costs as incurred.

The Company has elected under Internal Revenue Code, Section 174, to capitalize for income tax purposes all research and development expenditures incurred in conjunction with its product development process. Net costs associated with the research and development process amount to approximately \$3,146,000 at December 31, 1998. When the Company realizes benefits from such expenditures, the costs will be amortized over a period of 60 months.

A valuation allowance has been provided for 100 percent of the deferred tax asset as realization of the asset is contingent upon Food and Drug Administration approval of the product.

The Company's deferred tax assets as of December 31, 1998 consist of:

<TABLE>  
<CAPTION>

AS OF DECEMBER 31, -----	1998 ----
<S>	<C>
FEDERAL	
Deferred tax asset	\$ 471,838
Valuation allowance	471,838
	-----
Net deferred tax asset	\$ ---
	-----
STATE	
Deferred tax asset	\$ 251,647
Valuation allowance	251,647
	-----
Net deferred tax asset	\$ ---
	-----
	-----

</TABLE>

STATEMENT OF CASH FLOWS

The Company considers all short-term investments with an original

maturity of three months or less to be cash equivalents.

SEE ACCOUNTANT'S REPORT.

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HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1998

NOTE 2: LONG-TERM LIABILITIES - ADVANCES

In accordance with the terms of a Letter of Intent dated July 28, 1998 between Aethlon, Inc. and the Company, Aethlon Medical, Inc. advanced the Company funds to cover current working capital needs. The total amounts advanced, which are non-interest bearing and have no set repayment terms, amounted to \$85,000 at December 31, 1998.

NOTE 3: CONVERTIBLE DEBT

The conversion option of all of the loans payable was exercised on all outstanding principal and accrued interest effective on December 31, 1998. A total of approximately 1,740 shares of stock were issued in this transaction.

NOTE 4: LEASES

The Company rents lab space from the University of Buffalo Foundation on a yearly basis. Total rent expense for the year ended December 31, 1998 was \$30,290.

NOTE 5: DEFERRED COMPENSATION

The Company has deferred compensation agreements with two of its present employees and two former employees. The terms of the agreements require the Company to compensate the employees the amount owed as soon as the Company has funds available. Pursuant to the business combination, as described in Note 8, a limited amount of funds are expected to become available during 1999. To facilitate this business combination, the employees have agreed to accept a discounted amount as full payment of the compensation originally deferred. As a result, the deferred compensation liability presented in the accompanying financial statements reflects a discount of 40 percent. Deferred compensation expense for the year ended December 31, 1998 totaled \$99,732.

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HEMEX, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 1998

NOTE 6: RELATED PARTY TRANSACTIONS

In addition to the related party loans payable, the officers of the Company regularly pay expenses on behalf of the Company. The officers also advance the Company funds to cover short-term working capital shortages. These non interest-bearing amounts have been included as accounts payable - related party in the accompanying financial statements. Such amounts payable to related parties amounted to \$158,749 at December 31, 1998.

NOTE 7: EMPLOYMENT AGREEMENT

The Company has an employment agreement with its President, that commenced April 1, 1997, which provides for a minimum annual salary of \$108,000. Either party may terminate the agreement at any time for cause, or at any time upon 60 days written notice to the other party without cause. Pursuant to a stock option agreement, the President also has the right to purchase up to three hundred shares of the Company's common stock at any time during the first three years of employment at the rate of \$1.00 per share. The President also has the option to purchase additional shares at a discounted price, if certain performance objectives are achieved.

NOTE 8: SUBSEQUENT EVENT

BUSINESS COMBINATION

On March 10, 1999, the Company was acquired by Aethlon Medical, Inc. in a business combination accounted for as a pooling of interests. Aethlon Medical, Inc. is a publicly traded company. It intends to raise additional capital through a public offering during 1999, some of which are intended to finance the operating activities and reduce the liabilities of the Company.

Hemex, Inc. became a wholly owned subsidiary of Aethlon Medical, Inc. (the Parent Company) through the exchange of all of the company's outstanding stock for 1,350,000 shares of Aethlon Medical, Inc. As a result of the combination, the Company changed its year-end to March 31st to conform with the parent Company's fiscal year-end.

SEE ACCOUNTANT'S REPORT.