PLURISTEM LIFE SYSTEMS INC
Form 10KSB
September 21, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended **June 30, 2006**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [ ] to [ ]

Commission file number **001-31392**

PLURISTEM LIFE SYSTEMS, INC.
(Name of small business issuer in its charter)

Nevada	**98-0351734**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
MATAM Advanced Technology Park, Building No. 20, Haifa, Israel	**31905**
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number **011-972-4-850-1080**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Nil	**Nil**

Securities registered pursuant to Section 12(g) of the Act:

Common Shares, par value $0.00001
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. Nil

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

66,629,663 common shares @ $0.026 [(1)] = $1,732,371.20

[(1)] Average of bid and ask closing prices on September 5, 2006.

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS)

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the issuer's classes of equity stock, as of the latest practicable date.

73,909,663 common shares issued and outstanding as of September 5, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

Transitional Small Business Disclosure Format (Check one): Yes [ ]; No X.

PART I

Item 1. Description of Business.

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to the common shares in our capital stock.

As used in this annual report, the terms "we", "us", "our", and "Pluristem" mean Pluristem Life Systems, Inc. and our wholly owned subsidiary, unless otherwise indicated.

Corporate History

We are engaged in the business of the development of the stem cell production technology and the commercialisation of cell therapy products. We were incorporated in the State of Nevada under the name A.I. Software, Inc. on May 11, 2001. Beginning in July 2001, we were engaged in software development. Our initial business plan at the time of our incorporation was premised on the use of artificial intelligence in computer programming technology and in many areas of the computer, Internet, robotics, and games industries. On July 1, 2001 we entered into a software development agreement with Empire Group, a software development firm, to develop for us the software algorithm program for an artificial intelligence software called Randomix. We were not successful in fully implementing our initial business plan in regards to our Randomix software. As a result, during March and April of 2003, our Board of Directors conducted an in-depth analysis of our business plan and related future prospects for software development companies. To better protect stockholder interests and provide future appreciation, it was decided to concurrently pursue initiatives in the biotech industry as an extension to our business.

On May 5, 2003, we entered into a license agreement with the Weizmann Institute of Science and the Technion-Israel Institute of Technology to acquire an exclusive license for an innovative stem cell production technology. This technology, if fully developed, will offer novel solutions to make procedures like bone marrow transplants and other methods of cell therapy more accessible to patients suffering from leukemia, lymphoma, myaloma and a broad range of complicated diseases and disorders. Under this license agreement, we agreed to pay $400,000 cash over time and we will pay royalties on our future sales and product or rights distribution transactions. Also, the licensors of the license agreement have an option to assign all of their patent rights in the license agreement to our company in exchange for an aggregate of 5% of all of the issued and outstanding share capital of our company. This option may only be exercised within a 60-day period commencing from the date when we notify the licensors that the market capital of our company has exceeded $25,000,000. The option will expire if it is not exercised within this period.

To enable us to conduct further research and development of the exclusive license for the stem cell production technology we acquired from the Weizmann Institute of Science and the Technion-Israel Institute of Technology, on June 10, 2003, 100% of the issued and outstanding shares of a research and

development company based in Israel called Pluristem, Ltd. Pluristem, Ltd. was incorporated under the law of Israel on January 22, 2003 and has the facilities and personnel to conduct research and development in the field of stem cell research. As consideration for the shares of Pluristem, Ltd., we paid to the shareholder of Pluristem, Ltd. cash in the amount of $1,000 and provided Pluristem, Ltd. with a line of credit in the amount of $500,000. Accordingly, Pluristem, Ltd. became our wholly-owned subsidiary as of June 10, 2003.

On June 25, 2003, we changed our name from A.I. Software, Inc. to Pluristem Life Systems, Inc. The name change was effected with the Nevada Secretary of State on June 25, 2003 and took effect with the OTCBB at the opening of trading on June 30, 2003 under our new stock symbol PLRS . From May 2003 until March 2006, our business has focussed on the development of the stem cell production technology that we license. Originally, our plan was to develop that technology to the point where we could sub-license it to medical scientists and practitioners for their use in producing cell therapy products for their own use of for sale in the marketplace. On March 6, 2006, we announced that our company was taking a new direction. Now, instead of looking to sub-lease the stem cell production technology, we will focus on the developing the technology with the goal of producing cell therapy products for sale in the marketplace.

On July 05 2006, we announced that our subsidiary, Pluristem Ltd., achieved a breakthrough in our Preclinical Study of Bone Marrow Transplants: engrafted cells increased 2-4 times using Pluristem Ltd.'s innovative adjuvant cell therapy product known as PLX-I. PLX-I, by adding mesenchymal stromal cells during bone marrow transplant procedures that use umbilical cord blood samples, is intended to offer a breakthrough solution to improved engraftment of blood-producing hematopoeitic stem cells.

Our Current Business

We are engaged in the business of the development of the stem cell production technology and the commercialisation of cell therapy products. We aim to become a leader in the production of stem cell based therapeutic products to improve the engraftment of hematopoietic stem cells in bone marrow transplants and growth or expansion of hematopoietic stem cells outside of the human body. Stem cells are unspecialised cells that can renew themselves for long periods through cell division. Scientists have developed sufficient fundamental understanding to use stem cells for cell therapy and bone marrow transplants for the potential treatment of a broad range of complicated diseases. Cell therapy is the use of living cells in the treatment of medical disorders. Cell therapy is still in its beginning stages of research and development and only a few potential products are already in clinical studies.

We plan to specialize initially in the production of stem cell based therapeutic products to improve the engraftment of hematopoietic stem cells in bone marrow transplants and expansion hematopoietic stem cells found in umbilical cord blood, using the technology platform we license pursuant to our agreement with the Weizmann Institute of Science and the Technion-Israel Institute of Technology. We intend to improve this technology platform and develop it into a functional stem cell production system for the treatment of severe blood disorders. The first product targets a critical global shortfall of matched tissue for bone marrow transplantation. Pluristem Ltd started initial pre-clinical trials on mice that have insufficient immune systems so as to simulate human blood and immune systems (SCID mice) on PLX I our first cell therapy product. PLX I is developed as an Allogeneic product and is based on supplementing the umbilical cord blood cells with supportive cells that will improve the effectiveness of engraftments, shortening recovery time. The initial published animal study results show that sufficient engraftment is possible with the limited number of hemopoietic stem cells available in a single portion of umbilical cord blood. This paves the way towards using umbilical cord blood for cell engraftment instead of bone marrow transplants for adult patients.

We intend to test our first product in clinical trials to gain Federal Drug Administration approval.

Brief Introduction on Stem Cell Research and Cell Therapy

Since 1998, when embryonic human stem cells were first isolated, research on stem cells has received much public attention. Stem cells have two important characteristics that distinguish them from other types of cells. First, they are unspecialised cells that renew themselves for long periods through cell division. Second, under certain physiologic or experimental conditions, stem cells can be induced to become cells with special functions, such as the beating cells of the heart muscle or the insulin-

producing cells of the pancreas. Scientists primarily work with two kinds of stem cells from humans: embryonic stem cells and adult stem cells, which have different functions and characteristics. In some adult tissues, such as bone marrow, muscle, and brain, discrete populations of adult stem cells generate replacements for cells that are lost through normal wear and tear, injury, or disease. Cell therapy is the use of living cells in the treatment of medical disorders. Stem cells, progenitors and differentiated functional cells of various tissues are evolving as potential treatment modality for life threatening diseases and major clinical indications lacking effective cures. Cell therapy is still in its beginning stages of research and development and only a few potential products are already in clinical studies.

Even though we have the capability to work with embryonic stem cells, we have chosen to concentrate our efforts on hematopoietic stem cells. Hematopoietic stem cells can be found in every adult's bone marrow, which is the spongy tissue found in the cavities of our bones. Hematopoietic stem cells are the precursors of the various types of blood cells in the human body. These cells include:

White cells that fight infections and inflammations (leukocytes) and form the basis of the immune system (lymphocytes);

Red cells that carry oxygen through our bodies (erythrocytes); and

Platelets that help blood to clot.

Scientists have developed sufficient understanding to actually use hematopoietic stem cells for therapy, such as through the procedure of bone marrow transplant. Thus, this class of human stem cell holds the promise of being able to repair or replace cells or tissues that are damaged or destroyed by many of our most devastating diseases and disabilities. Furthermore, bone marrow transplants are ultimate treatments in many pathological disorders, including:

Malignant blood system diseases, such as leukemia, lymphoma and myaloma,

Diseases characterized by the lack of, or defective, production of bone marrow, such as aplastic anemia,

Severe combined immune deficiency,

Non-hematopoietic malignancies (solid tumors), or bone marrow disorders, following chemotherapy and radiation, and

Metabolic diseases or congenital hemoglobinopathies, such as thalessemia.

For stem cell transplants to succeed, the donated stem cells must repopulate and/or engraft the recipient's bone marrow, where they will provide a new source of essential blood and immune system cells. Within the hematopoietic cell system, only a special type of stem cells called pluripotent hematopoietic stem cells have extensive capacities to expand, differentiate and self-renew. Accordingly, pluripotent hematopoietic stem cells are exclusively required for repopulation and engraftment of donated stem cells following transplantation. In spite of the key role of pluripotent hematopoietic stem cells in maintaining the hematopoietic cell system, they appear in extremely low frequency in the bone marrow tissue. The current technology limitation on maintaining or expanding undifferentiated stem cells outside of human body is a major drawback to essential clinical applications of these cells. This current unavailability of technology to expand the number of stem cells outside of human body reflects the need for novel stem cell regulators. However, in spite of all the challenges involved in hematopoietic stem cell transplants, physicians are now trying, sometimes successfully, to assist in hematopoietic and immune system recovery following high-dose chemotherapy and/or radiation therapy treatment for malignant and non-malignant diseases such as leukemia and certain immune and genetic disorders. We entered into a consulting agreement as of April 1, 2005 with Biological Industries, Ltd., of Kibbutz Bet-HuEmek, MP Oshrat 25015 whereby our company and Biological Industries Ltd. have agreed to globally distribute joint project products in the field of serum-free media specially designed for hematopoietic and mesenchymal stem cells utilizing our PluriX™ Bioreactor system. Biological Industries Ltd. is a privately-held, leading biotechnology manufacturer and provider of a large range of animal cell culture products including sterile, sea, liquid and powdered synthetic media, supplements and novel serum free media products in the filed of cellular biology. Biological Industries Ltd. exports products to thirty countries internationally. Biological Industries Ltd. will pay us a license fee equal to 5% of sales of serum-free media developed in the joint project products for seven years commencing on the date of the first sale. We have not yet completed the development of any joint project

products and no sales have taken place pursuant to our agreement with Biological Industries.

Brief Introduction on Bone Marrow Transplants

Bone marrow transplantation is a relatively new medical procedure being used to treat diseases once thought incurable. Since its first successful use in 1968, bone marrow transplants have been used to treat patients diagnosed with leukemia, aplastic anemia, lymphomas such as Hodgkin's disease, multiple myeloma, immune deficiency disorders and some solid tumors such as breast and ovarian cancer. The bone marrow transplant procedure generally involves three phases. In the first phase, lasting 5 to 14 days, the bone marrow recipient is prepared for the graft. Immunosuppressive and cytotoxic chemotherapy administered with or without irradiation are used to enable the recipient to accept the graft, to prevent graft rejection, and in cases of acute leukemia, to eliminate residual leukemia. In the second phase, bone marrow is procured from a compatible donor and intravenously administered to the graft recipient. The third phase is a period of waiting for the bone marrow to engraft and function normally in the recipient. During the time required for engraftment (approximately 2 to 4 weeks), the graft recipient is vulnerable to infection, bleeding, severe weight loss, rejection of the graft and graft-versus-host disease. Graft-versus-host disease occurs in approximately 50% of bone marrow transplant patients. If the marrow engrafts and the patient survives the immediate post-transplant period (first 3 to 6 weeks), the patient faces another set of complications, including graft-versus-host disease and interstitial pneumonia. Interstitial pneumonia occurs in 60% of bone marrow transplant patients, typically 4 to 6 weeks post transplant. The disease progresses rapidly and is fatal in approximately 50% of the cases. 50%-60% of patients survive where the bone marrow transplant is made during disease remission, and only 10%-25% survive in cases where the bone marrow transplant is done outside of remission. (Source: The Cost Effectiveness of BMT Therapy and Its Policy Implications, School of Public Health, UCLA).

There are several types of bone marrow transplants. They are distinguished according to the source of the stem cells. An autologus bone marrow transplant means the transplant stem cells come from the patient. An allogenic bone marrow transplant means the stem cells come from a donor. A syngeneic bone marrow transplant means the stem cells come from an identical twin.

Research and clinical work in the field of bone marrow transplants is presently limited due to:

The average number of active pluripotent hematopoietic stem cells in any given bone marrow is extremely low, less than 0.5% of total mononuclear cells;
The difficulties of the human body to accept bone marrow transplants from donors, and the ensuing damaging reactions;

The patient is quite prone to infections following radiation and/or chemotherapy treatments, and may have been infected even prior to the transplant;
Sorting of healthy cells from cancerous cells has not proven 100% successful;

The great complications in storing and enriching these cells in the absence of *in vitro* differentiation;

The absence of a large-scale and sustainable model that enables the testing of the ability of hematopoietic stem cells to renew the hematopoietic cell system; and
There are some clinical situations where autologus bone marrow after tumor purging provides insufficient numbers of hematopoietic stem cells for the bone marrow transplant.

Transplantation experts believe that the ideal approach to a successful stem cell transplant is to use a large number of stem cells to maximize the probability of bone marrow repopulation and minimize the time needed for the return of normal numbers of hematopoietic and immune cells in the patient.

One of the major efforts in developing hematopoietic stem cell technologies has been to identify new and better sources for stem cells. The majority of transplantable hematopoietic stem cells in adults currently come primarily from peripheral blood or adult donor bone marrow. Another important and attainable source of transplantable and lasting hematopoietic stem cells is from umbilical cord blood. Such blood is drawn from the umbilical cord after birth, but before the discharge of the placenta, giving way to the following advantages:

The standard procedure at birth is that umbilical cord blood is discarded with the placenta. No morbidity is involved, making this option free of ethical controversy;
Collection of umbilical cord blood is simple and non-invasive both to the mother and the baby;

Use of umbilical cord blood is already approved by the Federal Drug Administration and does not require further clinical testing;

The hematopoietic stem cells drawn from umbilical cord blood can differentiate into primary hematopoietic precursors and create hematopoietic clones in cultures better than those hematopoietic stem cells taken from adult bone marrow;
Umbilical cord blood has lower levels of contamination with common viral pathogens, such as Cytomegalovirus, and is more tolerant of alloantigens; and
Umbilical cord blood hematopoietic stem cells have high tolerance levels, giving way to lower graft- versus-host diseases.

It is important to note that scientists have found no difference in the functionality of hematopoietic stem cells drawn from bone marrow, peripheral blood or umbilical cord blood. However, two issues are critical for umbilical cord blood for cell engraftment to become an alternative to bone marrow transplants. The first issue is that there usually aren't enough blood-producing stem cells in the cord blood. The blood from an average baby's umbilical cord usually provides less than a third of the amount needed for the average adult patient. The second is late engraftment of the cord blood compared to a bone marrow transplant. The use of umbilical cord blood for adult patients is limited due to the small cell amount in each umbilical cord. The rate of donor hematopoietic reconstitution is lower and the time to engraftment is delayed using umbilical cord blood (30-40 days for neutrophils and platelets, dose and human leukocyte antigen match dependent) compared to bone marrow grafts (15-20 days for neutrophils and platelets, dose and human leukocyte antigen match dependent). This has prompted intensive research on *ex vivo* expansion of umbilical cord blood stem cells and umbilical cord blood graft technology that is able to improve umbilical cord blood engraftment and reconstitution. Co-transplantation of human hematopoietic stem cells with bone marrow mesenchymal cells has been demonstrated to promote hematopoietic stem cell engraftment. Therefore, co-transplantation of mesenchymal stem cells derived from placenta together with umbilical cord blood may be considered as a promising manipulation for improvement of the hitherto delayed engraftment using cord blood as the source of stem cells.

To date, the small volume of blood collected from umbilical cords (typically less than 100 ml), use of umbilical cord blood has been limited to transplants in babies and children weighing less than 45 kg. Moreover, there are no existing hematopoietic stem cell production technologies for umbilical cord blood that can increase, to the best of our knowledge, the number of hematopoietic stem cells without causing differentiation of the hematopoietic stem cells. Once the hematopoietic stem cells have differentiated, they cannot be transplanted into the patient. Therefore, the development of a system that will facilitate the proliferation of hematopoietic stem cells in an appropriate culture media or substrate could enable the use of such hematopoietic stem cells drawn from umbilical cord blood for transplanting in adults where insufficient hematopoietic stem cells are available.

We are working to develop a solution to the late engraftment of the cord blood compared to a bone marrow transplant.

Pluristem has discovered and patented a technology process for growing and expanding mesenchymal stem cells and hematopoietic stem cells. PLX I mesenchymal stem cells has been proven to increase the umbilical cord blood stem cells effectiveness by 2-4 times in a pre-clinical study.

Mesenchymal cells are the founding cells of many tissues like bone, fat and cartilage and also enhance engraftment of hematopoietic stem cells following a bone marrow transplant. Hematopoietic stem cells are the founding cells of the hematopoietic system. They reside in the bone marrow and are mandatory for successful bone marrow transplants.

PLX I has been developed as an allogeneic product and is based on supplementing the umbilical cord blood cells with supportive cells that will improve the effectiveness of engraftments and shorten recovery times. After production, PLX I is stored ready to use . The patient does not have to wait several weeks for stem cells to grow in culture while his life is at risk. Once a matched cord blood is found, the PLX I is ready for use

immediately on arrival at the hospital. PLX I is injected into the patient just a few hours before the cord blood injection to improve the engraftment. Additionally, it may be possible to boost engraftment of the hematopoietic stem cells by multiple potential injections.

Initial animal study results recently published show that sufficient engraftment is possible with the limited number of hematopoietic stem cells available in a single portion of umbilical cord blood. This

paves the way towards using umbilical cord blood instead of bone marrow transplants for adult patients.

Pluristem derives and expands mesenchymal stem cells from human adult tissues (such as fat or placenta) and hematopoietic stem cells from umbilical cord blood. Umbilical cord blood is preferred over bone marrow as a source of hematopoietic stem cells for reasons of reduced fatalities of donors and increased efficiency to recipients. The cell expansion necessary to produce enough stem cells for a successful transplant is executed in an environment that mimics different naturally-occurring physiological environments. It does not include supplemented, potentially harmful growth factors and cytokines.

In summary, transplants of hematopoietic stem cells derived from umbilical cord blood are a novel alternative to conventional bone marrow transplants and have several unique advantages, in spite of their present quantitative limitations. Umbilical cord blood lends itself to sorting and storing in cord blood banks and transplant clinics, leading to the ability to build data bases of expanded umbilical cord blood for national and worldwide access and use, making search of bone marrow transplant donors easily facilitated and making autologus bone marrow transplants in adults potentially feasible. We believe that the advantages in use of umbilical cord blood hematopoietic stem cells, combined with our PLX I product would have the potential to change the way bone marrow transplants are conducted in the future.

Our Core Technology the PluriX Bioreactor System

For decades, scientists have attempted to grow stem cells outside of human body in culture to increase the number of stem cells for transplantation. The challenge of this undertaking lies in overcoming stem cells' predisposition to differentiate. Adult hematopoietic stem cells tend to produce other cells with limited repopulating properties when grown in culture rather than to replicate and regenerate additional stem cells. Current stem cell production techniques are complicated by the diverse mix of differentiated cells generated in stem cell cultures. Existing scientific methods considered in increasing the number of stem cells include culturing the stem cells on two dimensional stromal layers and growing in the presence of cytokines. To the best of our knowledge, none of these existing methods to grow stem cells outside of patients' bodies are able to prevent differentiation of stem cells while promoting their proliferation.

Through the license agreement we entered with the Weizmann Institute of Science and the Technion-Israel Institute of Technology, we acquired an exclusive license for an innovative stem cell production technology. This technology, if fully developed, may offer novel solutions to expand hematopoietic stem cells taken from umbilical cord blood. We intend to improve this technology and develop it into a functional stem cell production system that we can use to produce functional stem cells for sale to other research laboratories, umbilical cord blood banks, or clinics. We have named the technology the PluriX Bioreactor system.

The PluriX Bioreactor system is a system of stromal cell cultures and substrates that create an artificial physiological environment in which hematopoietic stem cells can grow and reproduce outside of the human body. The system mimics the environment which exists in human bones, in which stem cells reproduce in nature. The stem cells are tricked into growing and reproducing in the PluriX Bioreactor in a similar way they would in living bone, and because the size and scale of the PluriX Bioreactor can be much bigger than a human bone, the stem cell growth can be greatly expanded. We expect that the three dimensional PluriX Bioreactor system has the potential to bring about the production of umbilical cord blood hematopoietic stem cells to proportions that will be enough for transplants in adults, without promoting differentiation.

We are designing and developing the PluriX Bioreactor system to perform controlled production of hematopoietic stem cells for bone marrow transplants. The general idea is to cause self-renewal of early stage stem cells and prevent them from differentiating through use of the PluriX Bioreactor system. The PluriX Bioreactor system creates an artificial physiological environment in which hematopoietic stem cells can grow and

reproduce. This system is in direct contrast to standard teflon bags or culture flasks, which cannot promote hematopoietic stem cells self-renewal and prevent their differentiation. In the PluriX Bioreactor system, hematopoietic stem cells are influenced by contact with the surrounding environment, made up of stromal cell cultures and substrates. Therefore, by keeping the hematopoietic stem cells in the closed environment of the PluriX Bioreactor system, the

hematopoietic stem cells maintain their original form, which means that they can proliferate without differentiating.

PLX II is being developed as personalised product and is based on a co-culture of expanded autologous hematopoietic stem cells from cord blood and supporting tissue. The three dimensional stoma will be stored ready to use and when the expansion of hematopoietic stem cells from umbilical cord blood is needed, the stored cord blood will be cultivated on the stroma for 14 days in the PluriX bioreactor. After cultivation, the expanded hematopoietic stem cells will be separated from the stroma and the co-culture of the expanded hematopoietic stem cells and stroma cells will be injected.

We believe that the PluriX Bioreactor system, once fully developed, will enable the production of certain stem cells, such as umbilical cord blood hematopoietic stem cells, for which there might otherwise be insufficient quantities available for transplants in adults. Having access to a sufficient number of hematopoietic stem cells is essential to successful clinical outcomes. This is particularly the case with umbilical cord blood transplants. The limited quantities of available hematopoietic stem cells in umbilical cord blood and difficulties in expanding the starting volumes to therapeutic quantities have restricted the widespread practice of umbilical cord blood transplants. The PluriX Bioreactor system is designed to solve this dilemma by providing the capability to easily and cost-effectively expand umbilical cord blood hematopoietic stem cells to higher quantities for therapeutic treatments.

Primary Advantages of PluriX Bioreactor System

We believe our core technology, the PluriX Bioreactor system, once fully developed, will have the following advantages:

1. A proprietary bioreactor (PluriX) system enables ex-vivo expansion of hematopoietic stem cells populations in a microenvironment resembling the architecture of natural bone marrow.

2. A unique micro-structure enables expansion of mesenchymal stem cells to very high densities.

3. Use of co-culture methodology provides a graft product containing both mesenchymal stem cells and hematopoietic stem cells. Transplantation of the co-culture graft allows for better engraftment of the hematopoietic stem cells in the recipient s bone marrow.

4. No use of exogenous biologics or pharmacologicals, eliminating the risk of genetic instability and allowing safer expansions of hematopoietic stem cells.

5. Use of cord blood mono-nuclear cells as the starter cohort for expansion, instead of immuno-selected subpopulations of hematopoietic stem cells, reduces regulatory constraints, increases expansion yields and decreases production costs.

Markets for Our Product and Services

We plan to produce and sell stem cell products for use in bone marrow transplants. There are presently between 40,000 to 50,000 bone marrow transplants performed annually worldwide. Approximately 18,000 of these bone marrow transplants are performed in the United States and approximately 25,000 are performed in Europe. We have not taken steps to determine the number of bone marrow transplants performed elsewhere. Of the 40,000 to 50,000 bone marrow transplants performed, only 5,000 are performed on babies and children. Furthermore, most of these 40,000 to 50,000 bone marrow transplants are allogeneic transplants, requiring patients to locate donors with compatible hematopoietic

stem cells. Based on the fact that only one in three patients actually finds a compatible donor, if we succeed in developing stem cells that will be compatible with more patients, as we are trying to do, we estimate that the number of potential bone marrow transplants in the United States and Europe would likely exceed 150,000 annually. Based on these statistics, we believe that the existing methods of transplanting human bone marrow have not been perfected and are far from reaching an ideal level of success.

Presently, standard bone marrow transplant procedure costs approximately $100,000 per patient. 150,000 potential patients times $100,000 per patient represent $15 billion. This translates into approximately $15 billion annually that patients and their medical insurers around the world may be spending. If we are successful in developing our technology and products so that donor searches and repeat procedures are reduced, the annual expenditures for bone marrow transplant procedures may decrease.

Intellectual Property

Our success will depend in part on our ability, and the ability of our licensors, to obtain patent protection for our technology and products we acquired under the license agreement with the Weizmann Institute of Science and the Technion-Israel Institute of Technology. Under the license agreement we have exclusive rights to the technology covering a patent application entitled Method and Apparatus for Maintenance and Production of Hematopoietic Stem Cells and/or Progenitor Cells filed with the World Intellectual Property Organization under the Patent Cooperation Treaty (PCT) patent number PCT/US00/02688. Corresponding patent applications have also been filed in a number of countries including the United States under patent application number 09/890,401. On January 28, 2005, we received notice from the U.S. Patent and Trademark Office that it has allowed the U.S. patent application number 09/890,401, but changing the title of the patent from Method and Apparatus for Maintenance and Production of Hemopoietic Stem Cells and/or Progenitor Cells to Method of Producing Undifferentiated Hemopoietic Stem Cells Using a Stationary Phase Plug-Flow Bioreactor. This patent allowance - No 6,911,201 provides coverage to our concept of creating a three-dimensional bone-like environment that supports stem cell production without differentiation.

Our other issued patents were issued in South Africa (patent #2001/6486), Australia (patent #759719) Russia (patent #2249039) and New Zealand (patent #513303) between the years 2002 and 2005. These patents are due to expire in the years 2022 to 2025. These patents present claims to: (i) certain apparatus for cell culturing, including a bioreactor suitable for culturing human hematopoietic stem cells or hematopoietic progenitors cells; (ii) three dimensional stromal cells based bioreactor. In addition, we plan to file applications, either alone or in conjunction with our exclusive licensors, for patents in the United States and equivalent applications in certain other countries claiming other aspects of our technology, products and processes.

The validity and breadth of claims in medical technology and products patents involve complex legal and factual questions and, therefore, may be highly uncertain. No assurance can be given that any patents based on pending patent applications or any future patent applications by us, or our licensors, will be issued, that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of the patents that have been or may be issued to us or our licensors will be held valid if subsequently challenged or that others will not claim rights in or ownership of the patents and other proprietary rights held or licensed by us. Furthermore, there can be no assurance that others have not developed or will not develop similar products, duplicate any of our technology or products or design around any patents that have been or may be issued to us or our licensors. Since patent applications in the United States are maintained in secrecy until patents issue, we also can not be certain that others did not first file applications for inventions covered by our, and our licensors' pending patent applications, nor can we be certain that we will not infringe any patents that may be issued to others on such applications.

We rely on the license granted by Weizmann Institute of Science and Technion-Israel Institute of Technology and others for the patent rights related to our core technology, the PluriX Bioreactor system. If we breach the license agreement or otherwise fail to comply with the license agreement, or if the license agreement expires or is otherwise terminated, we may lose our rights in such patents, which would have a material adverse affect on our business, financial condition and results of operations. For complete details regarding our license, please see the license agreement itself, which is incorporated by reference as an exhibit to this periodic report.

We also rely on trade secrets and unpatentable know-how that we seek to protect, in part, by confidentiality agreements. It has not been, but is now our intended policy to require our employees, consultants, contractors, manufacturers, outside scientific collaborators and sponsored researchers, board of directors, technical review board and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements will provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific limited circumstances. We also will commence to require signed confidentiality or material transfer agreements from any company that is to receive our confidential information. In the case of employees, consultants and contractors, the agreements will generally provide that all

inventions conceived by the individual while rendering services to us shall be assigned to us as the exclusive property of Pluristem, Ltd. There can be no assurance, however, that all persons who we desire to sign such agreements will sign, or if they do, that these agreements will not be breached, that

we would have adequate remedies for any breach, or that our trade secrets or unpatentable know-how will not otherwise become known or be independently developed by competitors.

Our success will also depend in part on our ability to develop our technology and commercialise cell therapy products without infringing the proprietary rights of others. We have not conducted freedom of use patent searches and no assurance can be given that patents do not exist or could not be filed which would have an adverse affect on our ability to develop our technology or maintain our competitive position with respect to our potential cell therapy products. If our technology components, devices, designs, products, processes or other subject matter are claimed under other existing United States or foreign patents or are otherwise protected by third party proprietary rights, we may be subject to infringement actions. In such event, we may challenge the validity of such patents or other proprietary rights or we may be required to obtain licenses from such companies in order to develop, manufacture or market our technology or products. There can be no assurances that we would be able to obtain such licenses or that such licenses, if available, could be obtained on commercially reasonable terms. Furthermore, the failure to either develop a commercially viable alternative or obtain such licenses could result in delays in marketing our proposed products or the inability to proceed with the development, manufacture or sale of products requiring such licenses, which could have a material adverse affect on our business, financial condition and results of operations. If we are required to defend ourselves against charges of patent infringement or to protect our proprietary rights against third parties, substantial costs will be incurred regardless of whether we are successful. Such proceedings are typically protracted with no certainty of success. An adverse outcome could subject us to significant liabilities to third parties and force us to curtail or cease our development of our technology and the commercialisation our potential cell therapy products.

Pluristem Life Systems Inc. filed 1 provisional patent with the US Patent and Trademark Office for a new procedure for expanding hematopoeitic stem cells and early progenitor cells from cord blood from non selected mono-nuclear cells of the cord blood..

The methodologies used in current hematopoeitic stem cells expansion protocols apply a selection stage before the enrichment stage where the input cell population is defined by the expression of a cell membrane marker CD34. This is a rare subpopulation of cells that are selected from large and mixed populations of mono-nuclear cells.

The selection process is associated with several drawbacks. First, it causes a substantial loss of source cells. Second and most importantly, the selected population of cells may not represent the earliest extractable population of hematopoeitic stem cells. Pluristem s expansion protocol is intended to overcome both hurdles by using cord blood from non-selected mono-nuclear cells to fuel the enrichment process.

This approach allows Pluristem to independently utilize two already patent protected processes: the selection of CD34 cells and use of proprietary manufactured cytokines.

Pluristem s advanced method for expanding target hematopoeitic stem cells population from cord blood is a two-fold approach. First, a state-of-the-art patented bioreactor mimicking the natural bone marrow environment is used. Second, mono-nuclear cells rather than CD34 selected cells are targeted as the starting source of hematopoeitic stem cells. The efficacy of the expansion process that utilizes non-selected mono-nuclear cells of the cord blood is superior to what is currently being achieved by using CD34 selected cells as the starting population of cells.

In May, 2006, our subsidiary, Pluristem Ltd., filed an application for a provisional patent with the US Patent and Trademark Office for its stem cell therapy product known as PLX-1. PLX-1 is intended to offer a breakthrough solution to improved engraftment during bone marrow transplant procedures that use umbilical cord blood.

PLX-1, which consists of propagated (adjuvant engineered) mesenchymal stem cells that can be co-transplanted along with the hematopoietic stem cells, is expected to significantly improve the engraftment rate of the hematopoietic stem cells.

The role of PLX-1 is to improve the homing of hematopoietic stem cells and their lodgment into the patient hematopoietic niche using mesenchymal cells. This new technology is based on Pluristem s ex

vivo expanded mesenchymal cells that are expanded within the proprietary PluriXTM high density 3-D cultures system.

The mesenchymal cells are expanded to achieve the quality and amount required for improving hematopoietic stem cells and progenitor cell repopulation, and to enhance bone marrow engraftment following stem cell transplantation.

Research and Development

Foundational Research

For the last five years, our former Chief Executive Officer, Dr. Shai Meretzki, has made the initial strides in the development of our core technology, the PluriX Bioreactor system. Research was performed by Dr. Meretzki and his team in the laboratory of Dr. Shosh Merchav at the Technion - Israel Institute of Technology's Rappaport Faculty of Medicine. Dr. Meretzki also worked in close collaboration with Professor Dov Zipori and Dr. Avinoam Kadouri, both from the Weizmann Institute of Science. Professor Zipori specializes in cultures and stromal cells and Dr. Kadouri specializes in the planning and creation of bioreactors. Special carriers were used in our research and development process. In addition, this foundational research was conducted in joint cooperation with the laboratory of SCID-NOD mice at the Weizmann Institute of Science and with Plumacher Laboratories in Rotterdam. To this end, Plumacher Laboratories allocated a research physician to the project for over two years. The technology resulting from this research is the subject of our license agreement (see Intellectual Property).

Ongoing Research and Development Plan

For the next three to four years, we intend to continue developing our stem cell production technology based on the PluriX Bioreactor system, which will consist of four broad stages:

3D Stroma Culture Optimization During this stage, we are collecting stroma cells from donor adipose or placenta tissues and growing them within the PluriX 3-D culture. We intend to focus on optimizing the capacity of the PluriX system to support the growth and long-term maintenance of our high-density three dimensional stromal cells cultures.

Stem-cells/Stromal cells Co-Culture Development & Optimization - At this stage we intend to focus on the establishment of the PluriX Bioreactors containing high-density cell and pluripotent hematopoietic stem cells co-cultures; maintenance of common cells on high-density cell-coated carriers and testing of expanded stem cells outside a host body using mice without immune systems repopulating cells assay.

Stromal cells Culture Development & Optimization - At this stage we intend to focus on the establishment of Master bank of stromal cells cultured on 3D carriers. maintenance of stromal cells on 3D carriers and testing of expanded stromal cells outside a host body using mice without immune systems repopulating cells assay.

Regulatory Approval - We intend to prepare and file with the Food and Drug Administration and other relevant health authorities an Investigational New Drug or an Investigational Device Exemption application to initiate human clinical trials designed to demonstrate the safety, efficacy and clinical benefits of selectively expanded stem cell populations from umbilical cord blood. We intend to carry out all research and

development activities with the advice of a Food and Drug Administration advisor.

Employees

We presently have 15 employees in research and development and 4 employees in management through our wholly owned subsidiary, Pluristem, Ltd.

Competition

The biotechnology and medical device industries are characterised by rapidly evolving technology and intense competition. Our competitors include major pharmaceutical, medical device, medical products, chemical and specialized biotechnology companies, many of which have financial, technical and

marketing resources significantly greater than ours. In addition, many biotechnology companies have formed collaborations with large, established companies to support research, development and commercialisation of products that may be competitive with ours. Academic institutions, governmental agencies and other public and private research organisations are also conducting research activities and seeking patent protection and may commercialise products on their own or through joint ventures. We are aware of certain other products manufactured or under development by competitors that are used for the prevention or treatment of certain diseases and health conditions that we have targeted for product development. There can be no assurance that developments by others will not render our technology and our potential products obsolete or non-competitive, that we will be able to keep pace with new technological developments or that our potential products technology will be able to supplant established products and methodologies in the therapeutic areas that are targeted by us. The foregoing factors could have a material adverse affect on our business, financial condition and results of operations. Our competition will be determined in part by the potential indications for which our technology and products are developed and ultimately approved by regulatory authorities. In addition, the first product to reach the market in a therapeutic or preventive area is often at a significant competitive advantage relative to later entrants to the market. Accordingly, the relative speed with which we can develop products, complete the clinical trials and approval processes and supply commercial quantities of the products to the market are expected to be important competitive factors. Our competitive position will also depend on our ability to attract and retain qualified scientific and other personnel, develop effective proprietary products, develop and implement production and marketing plans, obtain and maintain patent protection and secure adequate capital resources. We expect our technology, if approved for use, and our potential products, if approved for sale, to compete primarily on the basis of product efficacy, safety, patient convenience, reliability, value and patent position. We believe we compete with the following larger and more established specialized biotechnology companies that are developing devices and products to be used for the prevention or treatment of certain diseases and health conditions that we have targeted for product development: Aastrom Biosciences, Inc., ViaCell Inc., Gamida-Cell Ltd., Advanced Cell Technology, Inc., BioTransplant Inc., StemCell Technologies, Inc. and CellGenix. However, to the best of our knowledge none of these companies have developed a platform that can support production of hematopoietic stem cells without promoting their differentiation in cytokines free conditions.

Government Regulations and Supervision

Once fully developed, we intend to market our stem cells to research laboratories, clinics and umbilical blood banks primarily in the United States and in Europe. Accordingly, we believe our research and development of our technology and the production and marketing of our stem cells are subject to the laws and regulations of governmental authorities in the United States and all other countries where our technology will be used and our stem cells will be marketed. Specifically, in the United States, the Food and Drug Administration, among other agencies, regulates new product approvals to establish safety and efficacy of these products. Governments in other countries have similar requirements for testing and marketing.

The Regulatory Process

In the United States and in Europe, regulatory approval of new medical devices and biological products involves a lengthy process leading from development of a new product through pre-clinical and clinical testing. This process takes a number of years and requires the expenditure of significant resources. There can be no assurance that our technology will ultimately receive regulatory approval.

We may develop our PluriX Bioreactor system into a GMP-compliant cell culture system for production of human cells outside of the human body for therapeutic applications. GMP is a standard set for laboratories by the World Health Organization and other health regulatory authorities. Therefore, to a certain degree, the manner in which the Food and Drug Administration will regulate our PluriX Bioreactor system is uncertain.

We understand that the Food and Drug Administration is still in the process of developing its requirements with respect to somatic cell therapy and gene cell therapy products and has issued draft documents concerning the regulation of cellular and tissue-based products. If the Food and Drug Administration adopts the regulatory approach set forth in the draft document, the Food and Drug Administration will require regulatory approval for certain human cellular or tissue based products, including cells produced in the PluriX Bioreactor system, through a biologic license application.

In addition, the stem cells produced by our PluriX Bioreactor system are potentially subject to regulation as medical products under the Federal Food, Drug and Cosmetic Act and as biological products under the Public Health Service Act. Different regulatory requirements may apply to our technology depending on how they are categorized by the Food and Drug Administration under these laws.

Furthermore, the Food and Drug Administration has published regulations which require registration of certain facilities, which may include our future clinics, and is in the process of publishing regulations for the manufacture or manipulation of human cellular or tissue based products which may impact our future clinics.

Regardless of how our technology is regulated, the Federal Food, Drug, and Cosmetic Act and other Federal statutes and regulations govern or influence the research, testing, manufacture, safety, labeling, storage, record-keeping, approval, distribution, use, reporting, advertising and promotion of our future products. Noncompliance with applicable requirements can result in civil penalties, recall, injunction or seizure of products, refusal of the government to approve or clear product approval applications or to allow us to enter into government supply contracts, withdrawal of previously approved applications and criminal prosecution.

Product Approval in the United States

We are currently only in the developmental stage of our technology, PluriX Bioreactor system and potential products and have not begun the process of seeking regulatory approval from the Food and Drug Administration. Once our PluriX Bioreactor system is fully developed, we intend to consult with a Food and Drug Administration advisor to assist us in determining our path in the process toward gaining regulatory approval from the Food and Drug Administration. Obtaining regulatory approval of new medical devices and biological products from the Food and Drug Administration is a lengthy procedure leading from development of a new product through pre-clinical and clinical testing. This process takes a number of years and requires the expenditure of significant resources. There can be no assurance that our technology and potential products will ultimately receive regulatory approval. We summarize below our understanding of the regulatory approval requirements that may be applicable to us if we begin the process of seeking an approval from the Food and Drug Administration.

Generally, in order to obtain an approval from the Food and Drug Administration of a new medical product, an applicant must submit proof of safety and efficacy. In some cases, such proof entails extensive pre-clinical and clinical laboratory tests. The testing, preparation of necessary applications and processing of those applications by the Food and Drug Administration is expensive and may take several years to complete. There can be no assurance that the Food and Drug Administration will act favorably or in a timely manner in reviewing submitted applications, and an applicant may encounter significant difficulties or costs in its efforts to obtain Food and Drug Administration approvals, in turn, which could delay or preclude the applicant from marketing any products it may develop. The Food and Drug Administration may also require post-marketing testing and surveillance of approved products, or place other conditions on the approvals. These requirements could cause it to be more difficult or expensive to sell the products, and could therefore restrict the commercial applications of such products. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. For patented technologies, delays imposed by the governmental approval process may materially reduce the period during which an applicant will have the exclusive right to exploit such technologies.

Where human clinical trials of a proposed medical product are required, the manufacturer or distributor of the product will have to file an Investigational Device Exemption or Investigational New Drug submission with the Food and Drug Administration prior to commencing human clinical trials. The submission must be supported by data, typically including the results of pre-clinical and laboratory testing. Following submission of the Investigational Device Exemption or Investigational New Drug, the Food and Drug Administration has 30 days to review the

application and raise safety and other clinical trial issues. If an applicant is not notified of objections within that period, clinical trials may be initiated, and human clinical trials may commence at a specified number of investigational sites with the number of patients approved by the Food and Drug Administration.

The Food and Drug Administration categorizes medical devices into three regulatory classifications subject to varying degrees of regulatory control. In general, Class I devices require compliance with labeling and record keeping regulations, Quality System Regulation, 510(k) pre-market notification, and are subject to other general controls. Class II devices may be subject to additional regulatory controls, including performance standards and other special controls, such as post-market surveillance. Class III devices, which are either invasive or life-sustaining products, or new products never before marketed (for example, non- substantially equivalent devices), require clinical testing to demonstrate safety and effectiveness and the approval of the Food and Drug Administration prior to marketing and distribution.

We believe that our PluriX Bioreactor system, if successfully developed, will be classified as a Class III medical device and be subject to the requirements of clinical testing to demonstrate safety and effectiveness and the approval of the Food and Drug Administration before we can market the stem cells.

In addition, we, and any contract manufacturer, may be required to be registered as a medical device manufacturer with the Food and Drug Administration. These manufacturers will be inspected on a routine basis by the Food and Drug Administration for compliance with the Food and Drug Administration's Quality System Regulations. The regulations of the Food and Drug Administration would require that we, and any contract manufacturer, design, manufacture and service products and maintain documents in a prescribed manner with respect to manufacturing, testing, distribution, storage, design control and service activities. The Medical Device Reporting regulation requires that we provide information to the Food and Drug Administration on deaths or serious injuries alleged to be associated with the use of our devices, as well as product malfunctions that are likely to cause or contribute to death or serious injury if the malfunction were to recur. In addition, the Food and Drug Administration prohibits a company from promoting an approved device for unapproved applications and reviews company labeling for accuracy.

Also, if we are able to successfully develop our PluriX Bioreactor system, we believe that the stem cells produced in the PluriX Bioreactor system will be regulated by the Food and Drug Administration as a licensed biologic, although there can be no assurance that the Food and Drug Administration will not choose to regulate these stem cells in a different manner. The Food and Drug Administration categorizes human cell or tissue based products as either minimally manipulated or more than minimally manipulated, and has proposed that more than minimally manipulated products be regulated through a tiered approach intended to regulate human cellular and tissue based products only to the extent necessary to protect public health. For products which may be regulated as biologics, the Food and Drug Administration requires: (i) preclinical laboratory and animal testing; (ii) submission to the Food and Drug Administration of an Investigational Device Exemption or Investigational Device Exemption New Drug application which must be effective prior to the initiation of human clinical studies; (iii) adequate and well-controlled clinical trials to establish the safety and efficacy of the product for its intended use; (iv) submission to the Food and Drug Administration of a biologic license application; and (v) review and approval of the biologic license application as well as inspections of the manufacturing facility by the Food and Drug Administration prior to commercial marketing of the product.

Generally, pre-clinical testing covers laboratory evaluation of product chemistry and formulation as well as animal studies to assess the safety and efficacy of the product. The results of these tests are submitted to the Food and Drug Administration as part of the Investigational Device Exemption. Following the submission of an Investigational Device Exemption, the Food and Drug Administration has 30 days to review the application and raise safety and other clinical trial issues. If an applicant is not notified of objections within that period, clinical trials may be initiated. Clinical trials are typically conducted in three sequential phases. Phase I represents the initial administration of the drug or biologic to a small group of humans, either healthy volunteers or patients, to test for safety and other relevant factors. Phase II involves studies in a small number of patients to assess the efficacy of the product, to ascertain dose tolerance and the optimal dose range and to gather additional data relating to safety and potential adverse affects. Once an investigational drug is found to have some efficacy and an acceptable safety profile in the targeted patient population, multi-center Phase III studies are initiated to establish safety and efficacy in an expanded patient population and multiple clinical study sites. The Food and Drug Administration reviews both the clinical plans and the results of the trials and may request an applicant to discontinue the trials at any time if there are significant safety issues.

The results of the pre-clinical tests and clinical trials are submitted to the Food and Drug Administration in the form of a biologic license application for marketing approval. The testing and approval process is likely to require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. Additional animal studies or clinical trials may be requested during the Food and Drug Administration review period that may delay marketing approval. After the Food and Drug Administration approval for the initial indications, further clinical trials may be necessary to gain approval for the use of the product for additional indications. The Food and Drug Administration requires that adverse affects be reported to the Food and Drug Administration and may also require post-marketing testing to monitor for adverse affects, which can involve significant expense.

Under current requirements, facilities manufacturing biological products must also be licensed. To accomplish this, a biologic license application must be filed with the Food and Drug Administration. The biologic license application describes the facilities, equipment and personnel involved in the manufacturing process. An establishment license is granted on the basis of inspections of the applicant's facilities in which the primary focus is on compliance with regulations and procedures and the ability to consistently manufacture the product in the facility in accordance with the Investigational Device Exemption. If the Food and Drug Administration finds the inspection unsatisfactory, it may decline to approve the biologic license application, resulting in a delay in production of products.

As part of the approval process for human biological products, each manufacturing facility must be registered and inspected by the Food and Drug Administration prior to marketing approval. In addition, state agency inspections and approvals may also be required for a biological product to be shipped out of state. If we are successful in developing our technology and obtaining regulatory approval to the point where we are ready to produce stem cells for sale, our laboratories where we will produce those cells will be subject to all Food and Drug Administration licensing, registration and inspection requirements.

Product Approval in Europe

If we successfully develop our PluriX bioreactor system and potential cell therapy products and seek regulatory approval in Europe, we believe our PluriX Bioreactor system may be regulated in Europe as a Class I Sterile, Class IIb or Class III medical device, under the authority of the Medical Device Directives being implemented by European Union member countries. These classifications apply to medical laboratory equipment and supplies including, among other products, many devices that are used for the collection and processing of blood for patient therapy.

The applicable regulations vest the authority to permit affixing of the CE Mark with various notified bodies. These are private and state organisations which operate under license from the member states of the European Union to certify that appropriate quality assurance standards and compliance procedures are followed by developers and manufacturers of medical device products or, alternatively, that a manufactured medical product meets a more limited set of requirements. Notified bodies are also given the responsibility for determination of the appropriate standards to apply to a medical product. Receipt of permission to affix the CE Mark enables a company to sell a medical device or product in all European Union member countries. Other registration requirements may also need to be satisfied in certain countries. We have not received permission from a notified body to affix the CE Mark to our PluriX Bioreactor system, nor have we as yet requested such permission.

RISK FACTORS

Much of the information included in this current report includes or is based upon estimates, projections or other "forward looking statements". Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ

materially from the results expressed in any such estimates, projections or other "forward looking statements".

Our common shares are considered speculative during the development of our new business operations. Prospective investors should consider carefully the risk factors set out below.

RISKS RELATED TO OUR BUSINESS AND COMPANY

We have not earned any revenues since our incorporation and only have a limited operating history in our current business of developing and commercialising stem cell production technology, which raise doubt about our ability to continue as a going concern.

Our company has a limited operating history in our current business of developing and commercialising stem cell production technology and must be considered in the development stage. We were incorporated on May 11, 2001 with a business plan to develop an artificial intelligence software called Randomix. We were not successful in implementing our original business plan in regard to our Randomix software and as a result we decided in April of 2003 to pursue initiatives in the biotechnology industry as an extension to our business. In May of 2003 we entered into a license agreement with the Weizmann Institute of Science and the Technion-Israel Institute of Technology to acquire an exclusive license for a stem cell production technology. In June of 2003, we acquired our wholly-owned subsidiary, Pluristem, Ltd., based in Israel to conduct further research and development of the exclusive stem cell production technology licensed to us.

We have not generated any revenues since our inception and we will, in all likelihood, continue to incur operating expenses without significant revenues until we successfully develop our stem cell production technology and commercialise our cell therapy products. Our primary source of funds has been the sale of our common stock. We cannot assure that we will be able to generate any significant revenues or income. These circumstances make us dependent on additional financial support until profitability is achieved. There is no assurance that we will ever be profitable, and we have a going concern note as described in an explanatory paragraph to our consolidated financial statements for the year ended June 30, 2005.

Our likelihood of profit depends on our ability to develop and commercialise products based on our stem cell production technology, which is currently in the development stage. If we are unable to complete the development and commercialisation of our stem cell products successfully, our likelihood of profit will be limited severely.

We are engaged in the business of developing and commercialising products based on a technology and proposed device called the PluriX Bioreactor system. The proposed function of our PluriX Bioreactor system is to allow researchers and physicians to expand hematopoietic stem cells outside of the human body without differentiation so they may be used in bone marrow transplants and other methods of cell therapy. Our PluriX Bioreactor system and our products are in the development stage and we have not begun the regulatory approval process. We have not realized a profit from our operations to date and there is little likelihood that we will realize any profits in the short or medium term. Any profitability in the future from our business will be dependent upon successful commercialisation of our potential cell therapy products, which will require significant additional research and development as well as substantial clinical trials.

If we encounter problems or delays in the research and development of our PluriX Bioreactor system and our potential cell therapy products, we may not be able to raise sufficient capital to finance our operation during the period required to resolve the problems or delays.

Our PluriX Bioreactor system and our cell therapy products are currently in the development stage and we anticipate that we will continue to incur operating expenses without significant revenues until we have successfully completed all necessary research and clinical trials. We, and any of our potential collaborators, may encounter problems and delays relating to research and development, regulatory approval and intellectual property rights of our technology. Our research and development programs may not be successful, and our cell culture technology may not facilitate the production of cells outside the human body with the expected result. Our PluriX Bioreactor system and our potential cell therapy products may not prove to be safe and efficacious in clinical trials. If any of these events occur,

we may not have adequate resources to continue operations for the period required to resolve the issue delaying commercialisation and we may not be able to raise capital to finance our continued operation during the period required for resolution of that issue. Accordingly, we may be forced to discontinue or suspend our operations.

We need to raise additional financing to support the research and development of our PluriX Bioreactor system and our products in the future but we cannot be sure we will be able to obtain additional financing on terms favourable to us when needed. If we are unable to obtain additional financing to meet our needs, our operations may be adversely affected or terminated.

We raised gross proceeds of approximately $3,000,000 through issuing a senior convertible debenture on April 3, 2006 to support the development and commercialisation of our PluriX Bioreactor system and our potential cell therapy products. The funds from this financing are expected to fund operations until early Spring of 2007. Our ability to continue to develop the PluriX Bioreactor system and commercialise our potential cell therapy products is dependent upon our ability to raise significant additional financing when needed. If we are unable to obtain such financing, we will not be able to fully develop our technology and commercialise our cell therapy products.. Our future capital requirements will depend upon many factors, including:

- continued scientific progress in our research and development programs;
- costs and timing of conducting clinical trials and seeking regulatory approvals and patent prosecutions;
- competing technological and market developments;
- our ability to establish additional collaborative relationships; and
- the effect of commercialisation activities and facility expansions if and as required.

We have limited financial resources and to date, no cash flow from operations and we are dependent for funds on our ability to sell our common stock, primarily on a private placement basis. There can be no assurance that we will be able to obtain financing on that basis in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. Any sale of our common stock in the future will result in dilution to existing stockholders. Furthermore, there is no assurance that we will not incur debt in the future, that we will have sufficient funds to repay our future indebtedness or that we will not default on our future debts, jeopardising our business viability. Finally, we may not be able to borrow or raise additional capital in the future to meet our needs or to otherwise provide the capital necessary to conduct the development of our PluriX Bioreactor system and commercialisation of our potential cell therapy products, which might result in the loss of some or all of your investment in our common stock.

If we fail to obtain and maintain required regulatory approvals for our PluriX Bioreactor system and our potential cell therapy products, our ability to commercialise our potential cell therapy products will be limited severely.

Once our PluriX Bioreactor system and our potential cell therapy products are fully developed, we intend to market our potential cell therapy products primarily in the United States, Europe and Japan. We must obtain the approval of the Food and Drug Administration of our technology and potential cell therapy products before commercialisation of our potential cell therapy products may commence in the United States and similar agencies in Europe. We may also be required to obtain additional approvals from foreign regulatory authorities to commence our marketing activities in those jurisdictions. If we cannot demonstrate the safety, reliability and efficacy of our PluriX Bioreactor system, or of the cells produced in the PluriX Bioreactor system, including long-term sustained cell engraftment, or if one or more patients die or suffer severe complications in future clinical trials, the Food and Drug Administration or other regulatory authorities could delay or withhold regulatory approval of our technology and our potential products.

Furthermore, even if we obtain regulatory approval for our PluriX Bioreactor system and our potential cell therapy products, that approval may be subject to limitations on the indicated uses for which they may be marketed. Even after granting regulatory approval, the Food and Drug Administration, other regulatory agencies, and governments in other countries will continue to review and inspect marketed products, manufacturers and manufacturing facilities. Later discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product or manufacturer, including a withdrawal of the product from the market. Further, governmental

regulatory agencies may establish additional regulations which could prevent or delay regulatory approval of our technology and our potential cell therapy products.

Even if we obtain regulatory approvals to commercialise our cell therapy products, we may encounter a lack of commercial acceptance of our cell therapy products, which would impair the profitability of our business.

Our research and development efforts are primarily directed toward obtaining regulatory approval for our PluriX Bioreactor system and our potential cell therapy products. We intend that our potential products be used as an alternative or improvement to the cells currently harvested and used in bone marrow transplants. Current methods of stem cell collection and use have been widely practised for a number of years, and our technology and products may not be accepted by the marketplace as readily as these or other competing processes and methodologies. Additionally, our PluriX Bioreactor system and products may not be employed in all potential applications being investigated, and any reduction in applications would limit the market acceptance of our technology and our potential revenues. As a result, even if we obtain all required regulatory approvals, we cannot be certain that our PluriX Bioreactor system and our potential cell therapy products will be adopted at a level that would allow us to operate profitably.

If we do not keep pace with our competitors and with technological and market changes, our technology and products may become obsolete and our business may suffer.

The market for our products is very competitive, is subject to rapid technological changes and varies for different individual products. We believe that there are potentially many competitive approaches being pursued in competition to our products, including some by private companies from which information is difficult to obtain. Many of our competitors have significantly greater resources, more product candidates and have developed product candidates and processes that directly compete with our products. Our competitors may have developed, or could in the future develop, new products that compete with our products or even render our products obsolete. Our technology is designed to expand hematopoietic stem cells outside of the human body without differentiation so they may be used in bone marrow transplants and other methods of cell therapy. Even if we are able to demonstrate improved or equivalent results, researchers and practitioners may not use our products and we will suffer a competitive disadvantage. Finally, to the extent that others develop new products that address the targeted application for our products, our business will suffer.

We depend to a significant extent on certain key personnel, the loss of any of whom may materially and adversely affect our company.

Our success depends on a significant extent to the continued services of certain highly qualified scientific and management personnel, including our Chief Executive Officer, Zami Aberman, our Vice President of Development, Ora Burger, and our Chief Financial Officer, Yossi Keret. We face competition for qualified personnel from numerous industry sources, and there can be no assurance that we will be able to attract and retain qualified personnel on acceptable terms. The loss of service of any of our key personnel could have a material adverse effect on our operations or financial condition. In the event of the loss of services of such personnel, no assurance can be given that we will be able to obtain the services of adequate replacement personnel. We do not maintain key person insurance on the lives of any of our officers or employees.

Our success depends in large part on our ability to develop and protect our PluriX Bioreactor system technology and our cell therapy products. If our patents and proprietary right agreements do not provide sufficient protection for our PluriX Bioreactor system technology and our cell therapy products, our business and competitive position will suffer.

We rely on an exclusive, world-wide license relating to the production of human cells granted to us by the Weizmann Institute of Science and Technion-Israel Institute of Technology for certain of our patent rights. If we materially breach such agreement or otherwise fail to materially comply with such agreement, or if such agreement expires or is otherwise terminated by us, we may lose our rights under the patents held by the Weizmann Institute of Science and Technion-Israel Institute of Technology. At the latest, the license will terminate when the patents underlying the license expire. The underlying patents will expire in approximately 2020. Also, the scope of the patents licensed to us may not be sufficiently broad to offer meaningful protection. In addition, the patents licensed to us could be

successfully challenged, invalidated or circumvented so that our patent rights would not create an effective competitive barrier. We also intend to seek patent protection for any of our potential cell therapy products once we have completed their development. Significantly, we do not as yet have patents in the United States or Europe or any other major market, although patents have been applied for.

We also rely on trade secrets and unpatentable know-how that we seek to protect, in part, by confidentiality agreements with our employees, consultants, suppliers and licensees. These agreements may be breached, and we might not have adequate remedies for any breach. If this were to occur, our business and competitive position would suffer.

We may be subject to intellectual property litigation such as patent infringement claims, which could adversely affect our business.

Our success will also depend in part on our ability to develop our technology and commercially viable products without infringing the proprietary rights of others. Although we have not been subject to any filed infringement claims, other patents could exist or could be filed which would prohibit or limit our ability to develop our PluriX Bioreactor system and market our potential cell therapy products in the future. In the event of an intellectual property dispute, we may be forced to litigate. Intellectual property litigation would divert management's attention from developing our technology and marketing our potential cell therapy products and would force us to incur substantial costs regardless of whether we are successful. An adverse outcome could subject us to significant liabilities to third parties, and force us to curtail or cease the development and commercialisation of our PluriX Bioreactor system.

Potential product liability claims could adversely affect our future earnings and financial condition.

We face an inherent business risk of exposure to product liability claims in the event that the use of our products results in adverse affects. As a result, we may incur significant product liability exposure. We may not be able to maintain adequate levels of insurance at reasonable cost and/or reasonable terms. Excessive insurance costs or uninsured claims would add to our future operating expenses and adversely affect our financial condition.

Our principal research and development facilities are located in Israel and the unstable military and political conditions of Israel may cause interruption or suspension of our business operations without warning.

Our principal research and development facilities are located in Israel. As a result, we are directly influenced by the political, economic and military conditions affecting Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbours and, since September 2000, involving the Palestinian population, and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel and companies based in Israel. Acts of random terrorism periodically occur which could affect our operations or personnel.In addition, Israeli-based companies and companies doing business with Israel, have been the subject of an economic boycott by members of the Arab League and certain other predominantly Muslim countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, we cannot predict whether or in what manner these problems will be resolved. Also, since the end of September 2000, there has been a marked increase in the level of terrorism in Israel, which has significantly damaged both the Israeli economy and levels of foreign and local investment. Furthermore, certain of our officers and employees may be obligated to perform annual reserve duty in the Israel Defence Forces and are subject to being called up for active military duty at any time. All Israeli male citizens who have served in the army are subject to an obligation to perform reserve duty until they are between 45 and 54 years old, depending upon the nature of their military service.

Because some of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against the management for misconduct and may not be able to enforce judgement and civil liabilities against our officers, directors, experts and agents.

Most of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it

may be difficult for you to enforce within the United States any judgments obtained against our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state.

Because we do not intend to pay any dividends on our common stock, investors seeking dividend income or liquidity should not purchase shares of our common stock.

We have not declared or paid any dividends on our common stock since our inception, and we do not anticipate paying any such dividends for the foreseeable future. Investors seeking dividend income or liquidity should not invest in our common stock.

There may be significant dilution of your shares of our common stock. First, the entire amount of money owed under the senior secured convertible debentures issued April 3, 2006 may be converted into shares of our common stock. Second, the warrants issued in that financing may be exercised for shares of our common stock. Next, the debenture and warrants may be convertible into even more shares than currently estimated depending on adjustments to the conversion price of the debenture and warrants. Also, if the registration statement registering shares in that financing does not remain effective until a certain date, we will likely have to pay investors additional shares as liquidated damages. If additional common shares are issued as a result of any or all of these possibilities, there likely will be significant dilution of existing shares of our common stock.

The issuance of shares of our common stock being registered in the registration statement for the April 3rd, 2006 financing as principal repayments on or as interest payments on the senior secured convertible debentures, upon the exercise of common share purchase warrants, or upon the payment of shares as liquidated damages for the failure to keep the registration statement effective, will result in dilution to holders of our common stock. This is so because the holders of the senior secured convertible debentures and the holders of the warrants may sell all of the resulting shares into the public market.

The principal amount of the senior secured convertible debentures, $3,000,000, plus 7% interest, may be converted, at the option of the holders, into shares of our common stock at a price that will be equal to the lower of 75% of the volume weighted average price of our stock for the twenty trading days prior to the conversion date or a price at which we sell our stock in any financing transaction before three-quarters (in the aggregate) of the principal of all of the senior convertible debentures are converted or fully paid.

The senior secured convertible debentures mature on April 3, 2008. Interest accrues on the debentures at the rate of 7% per annum, payable semi-annually on June 30 and December 31 of each year and on conversion and at the maturity date. Interest is payable, at the option of our company, either (i) in cash, or (2) in shares of our common stock at the then applicable conversion price. Since the conversion price is tied to the stock price, we cannot calculate exactly how many shares the holders will receive if all of the principle and interest due under the senior secured convertible debentures is converted to shares of our common stock. If, for example, we use the closing price of our shares on April 3, 2006, the date of the closing of the senior secured convertible debentures, and the debenture plus interest is converted into shares, then the holders could receive approximately 54,028,436 shares of our common stock upon conversion of the debentures. If all of the shares underlying warrants are issued resulting from the exercise of warrants, then an additional 57,872,036 shares will be issued.

The senior secured convertible debentures provide for various events of default that would entitle the holders to require us to immediately repay the outstanding principal amount, plus accrued and unpaid interest, in cash. If an event of default occurs, we may be unable to immediately repay the amount owed, and any repayment may leave us with little or no working capital in our business.

We will be considered in default of the senior secured convertible debentures if any of the following events, among others, occurs:

We default on the payment of principal or interest of the senior secured convertible debentures for a specified period of time;

Any of the representations or warranties made by us in the documents related to the senior secured convertible debenture transaction are false or misleading in any material respect at the time made;

We fail to authorize or to cause our transfer agent to issue shares of Common Stock upon exercise by the security holder of its conversion rights in accordance with the terms of the senior secured convertible debentures;

We fail to perform or observe, in any material respect, any other covenant of term of the senior secured convertible debentures or other transaction agreements and fail to cure such default within a specified period of time after receiving notice of such failure; or,

Our common stock is suspended from trading on, or delisted from, its principal trading market in excess of fifteen (15) consecutive trading days.

If an event of default occurs, the holders of the senior secured convertible debentures can elect to require us to pay any and all of the outstanding principal amount, plus all other accrued and unpaid amounts.

Some of the events of default include matters over which we may have some, little or no control. If a default occurs and we cannot pay the amounts payable under any of the convertible notes in cash (including any interest on such amounts and any applicable late fees under the convertible notes), the holders of the notes may protect and enforce their rights or remedies either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, agreement or other provision contained in the documents related to the senior secured convertible debentures, or to enforce the payment of the outstanding amount or any other legal or equitable right or remedy. This would have an adverse effect on our continuing operations.

All of our assets are secured and consequently if we default on the senior secured convertible debentures, our continued operation will be adversely affected.

We are financing our operations primarily through the issuance of the equity and debt securities, including the senior secured convertible debentures. The senior secured convertible debentures issued on April 3, 2006 have been secured primarily by all of our assets. If we default on any of the senior secured convertible debentures, the holders would be entitled to seize all of our assets and take control of our business, which would have a material adverse effect on our business.

Our stock is considered a penny stock and certain securities rules may hamper the tradability of our shares in the market.

Shares of our common stock are subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in penny stocks . Penny stock is defined to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our common stock are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The term accredited investor refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardised risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also

must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities.

Item 2. Description of Property

Our principal offices are located at MATAM Advanced Technology Park, Building No. 20, Haifa, Israel 31905. Our telephone number is 011-972-4-850-1080. We lease our office space from MATAM Advanced Technology Park on a month to month basis and our monthly rental is approximately $6,700. For the fiscal year ending June 30, 2006 we paid $84,117 for rent.

Item 3. Legal Proceedings.

We know of no material, existing or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest.

Item 4. Submissions of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of our security holders either through solicitation of proxies or otherwise in the fourth quarter of the fiscal year ended June 30, 2006.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

On December 19, 2002, our common stock received approval for quotation on the National Association of Securities Dealers Inc.'s Over-the-Counter Bulletin Board under the name A.I. Software, Inc. and under the symbol AISF . On April 8, 2003, we effected a fourteen (14) for one (1) forward stock split. Accordingly, our symbol was changed to ASOW . On June 30, 2003, we effected a name change to Pluristem Life Systems, Inc. and our symbol was changed to PLRS . The following table reflects the high and low bid information for our common stock obtained from Yahoo! Finance and reflects inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

The high and low bid prices of our common stock for the periods indicated below are as follows:

National Association of Securities Dealers OTC Bulletin Board		
Quarter Ended[1]	**High[2]**	**Low[2]**
June 30, 2006	$0.07	$0.04
March 31, 2006	$0.11	$0.07
December 31, 2005	$0.20	$0.08
September 30, 2005	$0.25	$0.11
June 30, 2005	$0.29	$0.17
March 31, 2005	$0.37	$0.22
December 31, 2004	$0.32	$0.20
September 30, 2004	$0.40	$0.16
June 30, 2004	$0.75	$0.34
March 31, 2004	$1.12	$0.59
December 31, 2003	$1.24	$0.55

(1) Our common stock received approval for quotation on December 19, 2002. The first trade occurred January 21, 2003.

(2) On April 8, 2003, we effected a 14 for 1 forward split of our common stock, as a result all stock prices have been adjusted on a post-split basis.

On July 14, 2006, the closing price for the common stock as reported by the quotation service operated by the OTC Bulletin Board was $ 0.034

As of September 5, 2006, there were 84 holders of record of our common stock. As of such date, 73,909,663 common shares were issued and outstanding.

Our common shares are issued in registered form. The American Stock Transfer and Trust Company is the registrar and transfer agent for our common shares. Their address is 59 Maiden Lane, New York, NY, U.S.A. 10038, telephone: (212) 936-5100, (1-800) 903-3727.

Dividend Policy

We have not paid any cash dividends on our common stock and have no present intention of paying any dividends on the shares of our common stock. Our current policy is to retain earnings, if any, for use in our operations and in the development of our business. Our future dividend policy will be determined from time to time by our board of directors.

Recent Sales of Unregistered Securities

All information relating to sales of unregistered securities in the fiscal year ended June 30, 2006 have been included in current reports on Form 8-K and quarterly reports on Form 10-QSB previously filed with the Securities and Exchange Commission.

Equity Compensation Plan Information

On November 25, 2003, our board of directors adopted our 2003 Stock Option Plan. Under the 2003 Stock Option Plan, options may be granted to our officers, directors, employees and consultants or the officers, directors, employees and consultants of our subsidiary. Pursuant to the Plan, we reserved for issuance 4,100,000 shares of our common stock. As of June 30, 2006, there were 365,020 shares of our common stock still available for future grant under the plan.

On November 21, 2005, our board of directors adopted our 2005 Stock Option Plan. Under the 2005 Stock Option Plan, options may be granted to our officers, directors, employees and consultants or the officers, directors, employees and consultants of our subsidiary. Pursuant to the Plan, we reserved for issuance 15,000,000 shares of our common stock. As of June 30, 2006, there were 2,360,000 shares of our common stock still available for future grant under the plan.

The following table summarizes certain information regarding our equity compensation 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 under equity compensation plans

2003 Stock Option Plan (equity compensation plan not approved by security holders)	3,734,980	$0.30	365,020
2005 Stock Option Plan (equity compensation plan not approved by security holders)	12,640,000	$0.10	2,360,000
Equity compensation plan approved by security holders	Nil	Nil	Nil
Total	16,374,980	$0.30	2,725,020

Item 6. Plan of Operation.

Overview

You should read the following discussion of our financial condition and results of operations together with the unaudited financial statements and the notes to unaudited financial statements included elsewhere in this filing prepared in accordance with accounting principles generally accepted in the United States. This discussion contains forward-looking statements that reflect our plans, estimates and

beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

We are engaged in the business of the development of the stem cell production technology and the commercialisation of cell therapy products. On May 5, 2003, we entered into a license agreement with the Weizmann Institute of Science and the Technion-Israel Institute of Technology to acquire an exclusive license for an innovative stem cell production technology. This technology, if fully developed and commercialised, will offer novel solutions to make procedures like bone marrow transplants and other methods of cell therapy more accessible to patients suffering from leukemia, lymphoma, myaloma and a broad range of complicated diseases and disorders.

From May 2003 until March 2006, our business has focussed on the development of the stem cell production technology that we license. Originally, our plan was to develop that technology to the point where we could sub-license it to medical scientists and practitioners for their use in producing cell therapy products for their own use of for sale in the marketplace. On March 6, 2006, we announced that our company was taking a new direction. Now, instead of looking to sub-lease the stem cell production technology, we will focus on the developing the technology with the goal of producing cell therapy products for sale in the marketplace.

Under our licensing agreement, we agreed to pay $400,000 cash over time and we may pay royalties on our future sales and product or rights distribution transactions. Also, the licensors of the license agreement have an option to assign all of their patent rights in the license agreement to our company in exchange for an aggregate of 5% of all of the issued and outstanding share capital of our company. This option may only be exercised within a 60-day period commencing from the date when we notify the licensors that the market capital of our company has exceeded $25,000,000. The option will expire if it is not exercised within this period.

To enable us to conduct further research and development of the exclusive license for the stem cell production technology we acquired from the Weizmann Institute of Science and the Technion-Israel Institute of Technology, on June 10, 2003, 100% of the issued and outstanding shares of a research and development company based in Israel called Pluristem, Ltd. Pluristem, Ltd. was incorporated under the law of Israel on January 22, 2003 and has the facilities and personnel to conduct research and development in the field of stem cell research. As consideration for the shares of Pluristem, Ltd., we paid to the shareholder of Pluristem, Ltd. cash in the amount of $1,000 and provided Pluristem, Ltd. with a line of credit in the amount of $500,000. Accordingly, Pluristem, Ltd. became our wholly-owned subsidiary as of June 10, 2003.

Plan of Operations

Over the next twelve months, we intend to pursue our primary objective of developing our technology and process to the point where we can produce stem cell therapy products through the process performed in the PluriX Bioreactor. We intend to first develop methods for the preparation of mesenchymal cells and its freezing and thawing. We also intend to begin the development of the stromal cells and establish a master cell bank and working cell bank. We also intend to set up a quality assurance plan and compliance procedures and implement them. We also would like to set up a documentation center. If these stages of development go well, we may be in a position to execute pre-clinical and safety studies to demonstrate the effectiveness of PLX I and how they may be a factor in repopulating mice bone marrow. When we are ready to begin regulatory activities, we may begin the process by determining exactly what we need to do and who we need to contact, preparing a pre-filing document and holding a pre-filing meeting with the Food and Drug Administration.

We also intend to initiate contact with research centers and cord blood banks to establish cooperative relations for future business development.

We plan to continue our cooperation with the Technion Institute of Technology in Israel regarding the Magneton grant received from the Israeli government. Within this grant we, together with the Technion researchers will further develop the PluriX™ Bioreactor using biodegradable scaffold structures that imitate human bones.

We intend to consult with Food and Drug Administration consultants to assist us in determining the process toward gaining Food and Drug Administration regulatory approval.

We plan to receive a development grant from the government of Israel to assist us in the development of PLX I

We have not generated any revenues and our operating activities have used cash resources of $2,179,209 for the fiscal year ended June 30, 2006. This negative cash flow is attributable to our operation expenses, including but not limited to, research and development expense and the payment of our audit fees and legal fees. We anticipate that our operating expenses will increase as we intend to conduct detailed development of our first product - hematopoietic stem cells, animal pre-clinical trials and experiments and clinical trials and work towards its completion. We estimate our expenses in the next twelve months will be approximately $2,600,000, generally falling in two major categories: research and development costs and general and administrative expenses.

Research and Development Costs

For the next twelve months, we estimate that our research and development costs will be approximately $1,500,000. We intend to spend our research and development costs on optimizing the 3-D bioreactor operations, developing expanded Stromal and hematopoietic stem cell products, implanting stem cells from stromal cell cultures of PluriX Bioreactors for production and on conducting studies on mice to examine stem cell development and production.

General and Administrative Expenses

For the next twelve months, we estimate that our general and administrative expenses will be approximately $1,100,000. These expenses will include approximately $500,000 on public relations and investor relations and approximately $600,000 on office and miscellaneous charges, which consist primarily of charges incurred for purchase of office supplies and other administrative expenses. These expenses will also include professional fees, which consist primarily of accounting and auditing fees for the year-end audit and legal fees for securities advice, directors liability insurance and cost of fundraising.

We do not expect to generate any revenues in the next twelve months. Our products will likely not be ready for sale for at least five years, if at all.

In our management's opinion, we should achieve the following events or milestones in the next twelve months in order for us to begin generating revenues as planned in five years or more:

- Optimize 3-D PluriX™ Bioreactor operations We have made progress using the 3-D environment of the PluriX™ to produce a dense population of stromal supporting cells that provide a basis for stem cell in vitro production without differentiation. However, to have a potential product that we might eventually be able to market, we must continue to try to develop the bioreactor system until it can produce stem cells that will self- renew while remaining in their original state;
- Optimize 3-D PluriX™ Bioreactor operations for PLX I production We have made progress using the 3-D environment to produce a dense population of stromal supporting cells to improve the engraftment of hematopoietic stem cells from cord blood

Improve the analytical methods of our technology and processes;

Conduct studies to analyze the hematopeoietic stem cell to reconstitute the hematopoietic system with the assistance of stromal cells within animal model. Trials are planned using NOD SCID mice which are mice with insufficient immune systems that can be used to simulate human blood and immune systems. Using this model, the human hematopoietic stem cell may develop and differentiate Pluristem's in vitro production process to be analyzed in vivo.
Clarify and finalize our regulatory and medical strategy for meeting with the Food and Drug Administration.

Establish relations with medical clinical centers to conduct clinical trials .

Liquidity and Capital Resources

During the twelve month period ended June 30, 2006, we incurred a net loss of $2,439,724, as compared to a net loss of $2,098,108 in the twelve month period ended June 30, 2005. This increase in

net loss resulted in part from the increase of expenses related to our April 3, 2006 financing, as compared to net financing income last year, related mainly to the change in the fair value of outstanding warrants, partly offset by lower research and development costs (see Note 9 of our audited Financial Statements).

We obtained funds to carry on our business from private placements we conducted in October of 2004 and January of 2005, which raised gross proceeds of approximately $3,250,000 through the issuance of 32,500,000 units comprising one common share and one common share purchase warrants. As at June 30, 2006 we had cash of $2,374,152 which was sufficient to fund our operations for approximately 10 months.

Effective April 3, 2006, we issued senior secured convertible debentures, for gross proceeds of $3,000,000. In conjunction with this financing, we issued 47,393,364 common share purchase warrants exercisable for three years from the effective date of the Registration Statement of which the Prospectus is a part at an exercise price of $0.075. We paid a finder s fee of $300,000 in cash and 9,478,672 three year common share purchase warrants, half of which are exercisable at $0.075, with an expiration date approximately three years from such effective date and half of which are exercisable at $0.077, with an expiration date of April 30, 2009.

Also on April 3, 2006, in connection with a separate finder s fee agreement related to the issuance of the senior secured convertible debentures, we also issued 1,000,000 common share purchase warrants exercisable for three years at an exercise price of $0.075.

The senior secured convertible debentures, which mature on April 3, 2008, are convertible to common shares at the lower of 75% of the volume weighted average trading price for the 20 trading days prior to issuance of a notice of conversion by a holder of a debenture, or, if while the debentures remain outstanding we enter into one or more financing transactions involving the issuance of common stock or securities convertible or exercisable for common stock, the lowest transaction price for those new transactions.

Interest accrues on the debentures at the rate of 7% per annum, payable semi-annually on June 30 and December 31 of each year and on conversion and at the maturity date. Interest is payable, at the option of our company, either (i) in cash, or (2) in shares of Common Stock at the then applicable conversion price. If our company fails to deliver stock certificates upon the conversion of the debentures or the exercise of the warrants at the relevant specified time and in the relevant specified manner, our company may be required to make substantial payments to the holders of those debentures or warrants..

We registered the common shares, issuable upon conversion of the debentures and exercise of the warrants. The registration statement on form SB-2/A went effective on June 29, 2006.

We may prepay the amounts outstanding on the debentures by giving advance notice and paying an amount equal to 120% of the sum of (x) the principal being prepaid plus (y) the accrued interest thereon. The holders will continue to have the right to convert their debentures prior to the actual prepayment.

The holders of the debentures may require us to redeem any or all of the outstanding debentures upon the occurrence of any one or more of events of default specified in the debentures. The redemption is computed pursuant to a formula in the debentures which takes into account the conversion and market sales prices of our stock at that time.

The warrants, issued in connection with the debentures as of April 3, 2006, became first exercisable on the earlier of (i) the 65th day after issuance or (ii) the effective date of the Registration Statement. The holders of the warrants are entitled to exercise their warrants on a cashless basis following the first anniversary of issuance if the Registration Statement is not in effect at the time of exercise.

The holders of debentures are subject to certain limitations on their rights to convert the debentures. The principal limitation is that the holder may not, with certain limited exceptions, convert into a number of shares that would, together with other shares held by the holder, exceed 4.99% of our then outstanding shares after such conversion. The exercise of the warrants is subject to a similar limitation.

To secure our obligations under the debentures and other transaction agreements, we have granted a security interest in substantially all of our assets, including without limitation, its intellectual property, in favor of the investors under the terms and conditions of a security interest agreement dated as of the date of the debentures. The security interest terminates upon the earlier of (i) the date on which less than one-fourth of the original principal amount of the debentures are outstanding or (ii) payment or satisfaction of all of our obligations under the securities purchase agreement.

While we expect that we have sufficient funds to operate until early spring of 2007, we will have to raise additional funds from the market before we have any cash flow from operations. We believe that it will take several years for us to complete the approval process for our products in the United States or any other jurisdiction. In addition, future decisions regarding any acquisitions that we may choose to make or product development that is beyond the scope of what is described in our Plan of Operations will require additional capital, which must be raised through the issuance additional securities and/or incurring more debt.

Research and Development

Since June 10, 2003, the date we acquired Pluristem, Ltd., we set up and began research activities in our clean rooms and laboratory. We built bioreactors to conduct research and development in a 3-D environment and seeded stromal cells into the bioreactors to produce the stromal cell culture where the stem cells will be implanted. Throughout this period and into 2006, we will continue with the research and development activities referenced above. Since inception to June 30, 2006, we have spent $4,088,961 on research and development. We hope that eventually, all of this cost will be passed on to our customers.

Purchase or Sale of Equipment

With the acquisition of Pluristem Ltd., we obtained much of the specialized laboratory equipment that we need to conduct our research. This equipment included incubators, freezers, computers, hot plates, generators, microscopes, and other equipment. We expect that we now own most of the laboratory equipment that we will need to conduct our planned research and development for the next twelve months. We do not expect to purchase or sell any plant or significant equipment over the next twelve months. We plan to acquire 2 bioreactors that will be tuned for PLX I production. The cost of the 2 bioreactors is about $100,000. We plan to do the necessary alterations in our lab to enable manufacturing of the PLX I in a GMP standard early stage production environment.

Going Concern

Due to our being a development stage company and not having generated revenues, in the consolidated financial statements for the year ended June 30, 2006, we included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our consolidated financial statements contain additional note disclosures describing the circumstances that lead to this disclosure.

The continuation of our business is dependent upon us raising additional financial support. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Recently Issued Accounting Standards

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154 (FAS 154), Accounting Changes and Error Corrections a replacement of APB No. 20, Accounting Changes and FAS No. 3, Reporting Accounting Changes in Interim Financial Statements . FAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. APB Opinion 20 previously required that most voluntary changes in accounting principle to be recognized by including in the net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We estimate that the adoption of FAS 154 will not have a significant impact on our results of operations, financial condition and liquidity.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) Share-Based Payment (123(R)), which in revision of FASB Statement No. 123, Accounting For Stock-Based Compensation . Statement 123(R) supersedes APB Opinion No. 25, Accounting For Stock Issued To Employees , and amends FASB Statements No. 95, Statement of Cash Flows . Generally the approach in FASB Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grant of employees stock options, to be recognized in the income statements based on their fair value. Pro-forma disclosure is no longer an alternative. Statement 123(R) must be adopted no later than the period beginning after June 15, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

A Modified Prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remains unvested on the effective date.

A Modified Retrospective method which includes the requirements of the modified prospective method described above but also permits entities to restate, based on the amounts previously recognized under Statement 123 for purpose of pro-forma disclosure, all periods presented.

We plan to adopt Statement 123(R) using the modified prospective method.

We are unable to estimate the future impact that Statement 123(R) will have on our financial position, results of operations or cash flows due to unknown events, such as the type and number of share-based payments that will be granted, their terms, and their vesting periods.

In March 2005, the SEC released SEC Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). SAB-107 provides the SEC staff's position regarding the application of Statement 123(R), which contains interpretative guidance related to the interaction between Statement 123R and certain SEC rules and regulations, and also provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 highlights the importance of disclosures made related to the accounting for share-based payment transactions.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our financials.

Acquisition of technology rights

In the acquisition of stem cell production technology rights through the license agreement, we considered whether these rights meet the criteria of an asset or should be expensed. As a result of the negative cash flows that have occurred and are expected to continue in the foreseeable future, the PluriX Bioreactor system and license agreement technology assets which we acquired in the 2003 fiscal year were written off during the 2004 fiscal year.

Going Concern

Our annual financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The financial statements have been prepared assuming we will continue as a going concern. However, certain conditions exist which raise doubt about our ability to continue as a going concern. We have suffered

recurring losses from operations and have accumulated losses of approximately $7,089,080 since inception through the fiscal year ended June 30, 2006.

Off Balance Sheet Arrangements

Our company has no off balance sheet arrangements.

Item 7. Financial Statements

Our financial statements are stated in United States dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

The following audited consolidated financial statements are filed as part of this registration statement:

Report of Independent Registered Public Accounting Firm, dated September 18, 2006

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Changes in Stockholders' Equity (Deficiency)

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Company in the Development Stage)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Company in the Development Stage)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Stockholders Of

PLURISTEM LIFE SYSTEMS INC.

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

We have audited the accompanying consolidated balance sheet of Pluristem Life Systems Inc. (a development stage company) ("the Company") (formerly - A. I. Software Inc.), and its subsidiary as of June 30, 2006 and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for each of the two years in the period ended June 30, 2006 and for the period from May 11, 2001 (inception date) through June 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of June 30, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended June 30, 2006 and for the period from May 11, 2001 (inception date) through June 30, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1c to the consolidated financial statements, the Company has not yet generated revenues from its operations and is dependent on external sources for financing its operations. These factors, among others discussed in Note 1c, raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Kost Forer Gabbay & Kasierer

A member of Ernst & Young Global

Haifa, Israel

September 18, 2006

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED BALANCE SHEETS
In U.S. Dollars

	Note	June 30 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3	$2,374,152
Prepaid expenses		62,323
Other accounts receivable		101,071
Total current assets		2,537,546
LONG-TERM RESTRICTED LEASE DEPOSIT		28,665
SEVERANCE PAY FUND		56,889
PROPERTY AND EQUIPMENT, NET	4	254,694
DEFERRED ISSUANCE EXPENSES		546,935
Total assets		$3,424,729

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED BALANCE SHEETS
In U.S. Dollars (except share data)

	Note	June 30 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liabilities to know-how licensors	5	$218,750
Trade payables		285,103
Accrued expenses		163,867
Other accounts payable		66,660
Total current liabilities		734,380
LONG-TERM LIABILITIES		
Liability in respect of warrants	8	1,192,244
Conversion feature embedded in the Convertible Debenture	8	1,951,466
Convertible Debenture	8	114,285
Accrued severance pay		76,584
Total long-term liabilities		3,334,579
COMMITMENTS AND CONTINGENCIES	6	
STOCKHOLDERS' EQUITY		
Share capital:	7	
Common stock $0.00001 par value:		
Authorized: 1,400,000,000 shares		
Issued and Outstanding: 63,653,483 shares		636
Additional paid-in capital		6,444,214
Deficit accumulated during the development stage		(7,089,080)
Total stockholders deficiency		(644,230)
		$3,424,729

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS
In U.S. Dollars (except share and per share data)

		Year ended June 30,		Period from May 11, 2001 (inception) through June 30,
	Note	**2006**	**2005**	**2006**
Research and development costs		$1,481,482	$1,984,125	$4,468,305
Less participation by the Office of the Chief Scientist		(182,703)	(196,641)	(379,344)
Research and development costs, net		1,298,779	1,787,484	4,088,961
General and administrative expenses		1,033,490	873,649	4,193,909
In-process research and development write-off	1b	-	-	246,470
		(2,332,269)	(2,661,133)	(8,529,340)
Financial income (expenses), net	9	(107,455)	563,025	1,440,260
Net loss		$(2,439,724)	$(2,098,108)	$(7,089,080)
Basic and diluted net loss per share		$(0.04)	$(0.05)	
Weighted average number of shares used in computing basic and diluted net loss per share:		63,653,483	40,804,788	

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
In U.S. Dollars (except shares data)

	Common Stock Shares	Amount	Additional paid-in capital	Receipts on account of shares	Deficit Accumulated during the Development Stage	Total Stockholders' equity (deficiency)
Issuance of common stock July 9, 2001	**35,000,000**	**$350**	**$2,150**	**$-**	**$-**	**$2,500**
Balance as of June 30, 2001	**35,000,000**	**350**	**2,150**	**-**	**-**	**2,500**
Loss for the year ended June 30, 2002	-	-	-	-	(77,903)	(77,903)
Balance as of June 30, 2002	**35,000,000**	**350**	**2,150**	**-**	**(77,903)**	**(75,403)**
Issuance of common stock on October 14, 2002, net of issuance costs of $17,359	14,133,000	141	83,450	-	-	83,591
Forgiveness of debt	-	-	11,760	-	-	11,760
Stocks cancelled on March 19, 2003	(27,300,000)	(273)	273	-	-	-
Receipts on account of stock and warrants, net of finders fee and legal fees of $56,540	-	-	-	933,464	-	933,464
Loss for the year ended June 30, 2003	-	-	-	-	(462,995)	(462,995)
Balance as of June 30, 2003	**21,833,000**	**$ 218**	**$ 97,633**	**$933,464**	**$ (540,898)**	**$ 490,417**

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
In U.S. Dollars (except shares data)

	Common Stock Shares	Amount	Additional paid-in capital	Receipts on account of shares	Deficit accumulated During the development stage	Total Shareholders' equity (deficiency)
Balance as of July 1, 2003	**21,833,000**	**$ 218**	**$ 97,633**	**$933,464**	**$ (540,898)**	**$ 490,417**
Issuance of common stock and warrants on July 16, 2003, net of issuance costs of $70,110	725,483	7	1,235,752	(933,464)	-	302,295
Issuance of common stock on January 20, 2004	3,000,000	30	-	-	-	30
Issuance of warrants on January 20, 2004 as finder s fee	-	-	192,000	-	-	192,000
Common stock granted to consultants on February 11, 2004	1,000,000	10	799,990	-	-	800,000
Stock based compensation related to warrants granted to consultant on December 31, 2003	-	-	357,618	-	-	357,618
Exercise of warrants on April 19, 2004 (see Note 7f)	300,000	3	224,997	-	-	225,000
Loss for the year ended June 30, 2004	-	-	-	-	(2,010,350)	(2,010,350)
Balance as of June 30, 2004	**26,858,483**	**$ 268**	**$2,907,990**	**$ -**	**$ (2,551,248)**	**$ 357,010**

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
In U.S. Dollars (except shares data)

	Common Stock Shares	Amount	Additional paid-in capital	Receipts on account of shares	Deficit accumulated During the development stage	Total Shareholders' equity (deficiency)
Balance as of July 1, 2004	**26,858,483**	**$268**	**$2,907,990**	**$ -**	**$(2,551,248)**	**$357,010**
Stock-based compensation related to warrants granted to consultants on September 30, 2004	-	-	161,641	-	-	161,641
Issuance of common stock and warrants on November 30, 2004 related to the October 2004 Agreement net of issuance costs of $28,908	3,250,000	33	296,059	-	-	296,092
Issuance of common stock and warrants on January 26, 2005 related to the October 2004 Agreement net of issuance costs of $4,975	4,300,000	43	424,982	-	-	425,025
Issuance of common stock and warrants on January 31, 2005 related to the January 31, 2005 Agreement	7,000,000	70	-	-	-	70
Issuance of common stock and options on February 15, 2005 to former director of the Company	50,000	-(*)	14,500	-	-	14,500
Issuance of common stock and warrants on February 16, 2005 related to the January 31, 2005 Agreement	5,000,000	50	-	-	-	50

(*) Less then $ 1

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
In U.S. Dollars (except shares data)

	Common Stock		Additional paid-in	Receipts on account of	Deficit accumulated During the development	Total Shareholders' equity
	Shares	**Amount**	**capital**	**shares**	**stage**	**(deficiency)**
Issuance of warrants on February 16, 2005 for finder fee related to the January 31, 2005 Agreement	-	-	144,000	-	-	144,000
Issuance of common stock and warrants on March 3, 2005 related to the January 24, 2005 Agreement net of issuance costs of $24,000	12,000,000	120	1,175,880	-	-	1,176,000
Issuance of common stock on March 3, 2005 for finder fee related to the January 24, 2005 Agreement	1,845,000	18	(18)	-	-	-
Issuance of common stock and warrants on March 3, 2005 related to the October 2004 Agreement net of issuance costs of $6,038	750,000	8	68,954	-	-	68,962
Issuance of common stock and warrants to the Chief Executive Officer on March 23, 2005	2,400,000	24	695,976	-	-	696,000
Issuance of common stock on March 23, 2005 related to the October 2004 Agreement	200,000	2	19,998			20,000
Conversion of a liability in respect of warrants to additional paid in capital, net of issuance costs of $178,116			541,884			541,884
Net loss for the year ended June 30, 2005	-	-	-	-	(2,098,108)	(2,098,108)
Balance as of June 30, 2005	**63,653,483**	**$636**	**$6,451,846**	**-**	**$(4,649,356)**	**$1,803,126**

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
In U.S. Dollars (except shares data)

	Common Stock		Additional paid-in	Receipts on account of	Deficit accumulated During the development	Total Shareholders' equity
	Shares	Amount	capital	shares	stage	(deficiency)
Balance as of June 30, 2005	**63,653,483**	**$636**	**$6,451,846**	**-**	**$(4,649,356)**	**$1,803,126**
Exercise of warrants on November 28, 2005 to finders related to the January 24, 2005 Agreement	80,000	(*)	-	-	-	-
Exercise of warrants on January 25, 2006 to finders related to the January 24, 2005 Agreement	10,000	(*)	-	-	-	-
Reclassification of warrants from equity to liabilities due to application of EITF 00-19 (**)	-	-	(7,632)	-	-	(7,632)
Net loss for the year	-	-	-	-	(2,439,724)	(2,439,724)
Balance as of June 30, 2006	**63,743,483**	**$636**	**$6,444,214**	**$-**	**$(7,089,080)**	**$(644,230)**

(*) Less than $ 1

(**) See Notes 7 and 8

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
In U.S. Dollars

	Year ended June 30,		Period from May 11, 2001 (inception) through June 30
	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(2,439,724)	$(2,098,108)	$(7,089,080)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	42,536	34,232	186,569
Capital gain	-	(16,373)	(16,373)
Impairment of know-how	-	-	264,807
Amortization of deferred issuance costs	205,081	168,620	435,805
Amortization of discount on debentures	17,217	-	17,217
Stock-based compensation to consultants	114,800	161,641	1,460,452
In-process research and development write-off	-	-	246,470
Know-how licensors - imputed interest	18,791	12,332	54,600
Salary grant in shares and warrants	-	710,500	710,500
Decrease (increase) in other accounts receivable	46,710	(132,449)	(92,235)
Decrease (increase) in prepaid expenses	(1,024)	(4,389)	27,677
Increase in trade payables	100,030	72,198	275,696
Increase (decrease) in other accounts payable and accrued expenses	(16,639)	52,201	(302,332)
Increase in accrued interest due to related parties	-	-	3,450
Linkage differences and interest on long-term restricted lease deposit	2,204	(1,108)	(10)
Change in fair value of liability in respect of warrants	(150,000)	(749,880)	(1,979,850)
Accrued severance pay, net	12,825	(1,253)	19,695

Net cash used in operating activities	$(2,047,193)	$(1,791,836)	$(5,776,942)

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
In U.S. Dollars

	Year ended June 30,		Period from May 11, 2001 (inception) through June 30
	2006	**2005**	**2006**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of Pluristem Ltd. (1)	$-	$-	$31,899
Purchase of property and equipment	(48,140)	(68,975)	(242,772)
Proceed from sale of property and equipment	-	28,475	28,475
Purchase of long-term restricted lease deposit	-	19,851	19,581
Repayment of long-term restricted lease deposit	(3,653)	(25,000)	(29,699)
Purchase of know-how	-	-	(100,000)
Net cash used in investing activities	(51,793)	(45,649)	(292,246)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock and warrants, net of issuance costs	-	3,139,329	4,686,209
Issuance of warrants, net of issuance costs	-	-	1,246,397
Issuance of convertible Debenture and warrants, net of issuance costs	2,583,700	-	2,583,700
Short-term bank credit, net	-	(23)	(26)
Repayment of liability to Know-how licensor	-	(81,250)	(81,250)
Proceeds from notes and loan payable to related parties	-	-	78,195
Repayments of notes and loan payable to related parties	-	-	(69,885)
Net cash provided by financing activities	2,583,700	3,058,056	8,443,340
Increase in cash and cash equivalents	484,714	1,220,571	2,374,152
Cash and cash equivalents at the beginning of the period	1,889,438	668,867	-

Cash and cash equivalents at the end of the period	$2,374,152	$1,889,438	$2,374,152

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

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PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
In U.S. Dollars

	Year ended June 30,		Period from May 11, 2001 (inception) through June 30,
	2006	2005	2006
Non-cash investing and financing information:			
Unpaid know-how	$ -	$ -	$ 218,750
Supplemental disclosure with respect to cash flows:			
Cash paid for interest	$ -	$ -	$ 92

(1)Acquisition of Pluristem Ltd.

Estimated fair value of assets acquired and liabilities assumed at the acquisition date:

	Period from May 11, 2001 (inception) through June 30, 2006
Working capital (excluding cash and cash equivalents)	$ (427,176)
Long-term restricted lease deposit	18,807
Property and equipment	130,000
In-process research and development write-off	
	246,470
	$ (31,899)

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

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In U.S. Dollars

NOTE 1:-GENERAL

A. Pluristem Life Systems Inc. ("The Company"), a Nevada corporation, was incorporated and commenced operations on May 11, 2001, under the name A. I. Software Inc. that was changed as of June 30, 2003 to Pluristem Life Systems Inc.The Company has a wholly owned subsidiary, Pluristem Ltd. (the subsidiary) that was incorporated under the laws of Israel and began its operations in January 2004.

B. The Company was engaged in the development of artificial intelligence software through May 2003. The Company has not been successful in fully implementing its business plan and therefore, it was decided to concurrently pursue initiatives in the Biotech Industry as an extension to the existing activity.

On May 5, 2003 the Company entered into a license agreement with Weizmann Institute of Science and the Technion-Israel Institute of Technology to acquire an exclusive license for an innovative stem cell expansion technology ("the Technology").

On June 10, 2003, the Company acquired all of the issued and outstanding shares of Pluristem Ltd.. which was engaged in the research and development of expansion of cord blood hematopoetic stem cells, which was in line with the Technology, the rights which the Company had purchased in May 2003.

C. The Company is devoting substantially all of its efforts towards conducting research and development of critical cell expansion services to cord blood banks. In the course of such activities, the Company and its subsidiary have sustained operating losses and expect such losses to continue in the foreseeable future. The Company and its subsidiary have not generated any revenues or product sales and have not achieved profitable operations or positive cash flows from operations. The Company's deficit accumulated during the development stage aggregated to $7,089,080 through June 30, 2006 and incurred net loss of $2,439,724 and negative cash flow from operating activities in the amount of $2,047,193for the year ended June 30, 2006. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis.

The Company plans to continue to finance its operations with a combination of stock issuance and private placements and in the longer term, revenues from product sales. There are no assurances, however, that the Company will be successful in obtaining an adequate level of financing needed for the long-term development and commercialization of its planned products.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

D. On April 3, 2006 the Company issued Senior Secured Convertible Debentures and warrants in consideration for $3,000,000. According to EITF 00-19, "Accounting for derivative financial instruments indexed to, and potentially settled in, a Company's own stock", the Company recorded the convertible debentures and warrants as liabilities. The Company also reclassified the fair value of options and warrants previously granted to service providers and investors, in the amount of $7,632, from additional paid-in capital to liability (See Note 8).

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In U.S. Dollars

NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Functional currency of the subsidiary

It is anticipated that the majority of the subsidiary's revenues will be generated outside Israel and will be determined in U.S. Dollars ("dollars"). In addition, most of the financing of the subsidiary's operations has been made in dollars. The subsidiary's management believes that the currency of the primary economic environment in which its operations are conducted is the dollar. Thus, the functional and reporting currency of the subsidiary is the dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" ("SFAS" No. 52). All transaction gains and losses from the remeasurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with maturities of three months or less at the date acquired.

e. Long-term restricted lease deposit

Long-term restricted lease deposit with maturities of more than one year used to secure lease agreement is presented at cost. The deposit is in dollars and bears an average annual interest of approximately 2.5%.

f. Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Laboratory equipment	10
Computers and peripheral equipment	33
Office furniture and equipment	6-15

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In U.S. Dollars

NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Impairment of long-lived assets

The Company's long-lived assets and identifiable intangibles are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During the years ended June 30, 2006 and 2005 no impairments were record. Through June 30, 2004, due to the on-going losses and negative cash flows, the Company recognized an impairment of its know-how in the amount of $264,807.

h. Non-royalty-bearing grants

The Company receives non-royalty-bearing grants from the European Union Research and Development Program, and from the MOST and STRIMM consortiums, which are part of the Office of the Chief Scientist Magnet program. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred and are recorded as a reduction of research and development costs.

i. Accounting for stock-based compensation:

The Company's Board of Directors has adopted an Employee Stock Option Plan. (See Note 7). The Company has elected to follow Accounting Principles Board Statement No. 25 "Accounting for Stock Option Issued to Employees ("APB No. 25") and Financial Accounting Standards Board Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") in accounting for its employee stock option plan. Under APB 25, when the exercise price of an employee stock option is equivalent to or is above the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company adopted the disclosure provisions of statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - transition and disclosure" ("SFAS No. 148"), which amended certain provisions of Statement of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). The Company continues to apply the provisions of APB No. 25, in accounting for stock-based compensation.

Pro forma information regarding the Company's net loss and net loss per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method presented by SFAS No. 123.

The fair value for options granted in the year ended June 30, 2006 and 2005 is amortized over their vesting period of two years and was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted average assumptions:

	2006	2005
Expected dividend yield	0%	0%
Expected volatility	105%	102%

Risk-free interest rate	4.3%	4.2%
Expected life of up to	8 years	10 years

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NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES (continued)

Pro forma information under SFAS No. 123, is as follows:

	Year ended June 30,		Period from May 11, 2001 (inception) through June 30
	2006	2005	2006
Net loss available to Common stock- as reported	$2,439,724	$2,098,108	$7,089,080
Deduct - stock based employee compensation - intrinsic value	-	-	-
Add - stock-based employee compensation - fair value	538,003	558,628	1,206,516
Pro forma net loss	$2,977,727	$2,656,736	$8,295,596
Earning per share:			
Basic and diluted net loss per share as reported	$(0.04)	$(0.05)	
Pro forma basic and diluted net loss per share	$(0.05)	$(0.065)	

See Note 2Q (2) for recently issued accounting standards.

The Company applies SFAS No. 123 and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in conjunction with selling, goods or services" ("EIFT 96-18"), with respect to options and warrants issued to non-employees. SFAS No. 123 requires the use of option valuation models to measure the fair value of the options and warrants at the date of grant.

j. Research and Development costs

Research and development costs, net are charged to the Statement of Operations as incurred.

k. Basic and diluted net loss per share

Basic net loss per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net loss per share is computed based on the weighted average number of shares of Common stock outstanding during each year, plus dilutive potential shares of common stock and warrants considered outstanding during the year, in accordance with Statement of Financial Accounting Standard No. 128, "Earnings Per Share." ("SFAS No. 128")

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NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Basic and diluted net loss per share

Basic net loss per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net loss per share is computed based on the weighted average number of shares of Common stock outstanding during each year, plus dilutive potential shares of common stock and warrants considered outstanding during the year, in accordance with Statement of Financial Accounting Standard No. 128, "Earnings Per Share." ("SFAS No. 128")

m. Income taxes

The Company and its subsidiary accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This Statement prescribes the use of the liability method, whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiary provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

n. Concentration of credit risk

Financial instruments that potentially subject the Company and its subsidiary to concentrations of credit risk consist principally of cash and cash equivalents, which are invested in major banks in Israel. Management believes that the financial institutions that hold the Company's investments are financially sound and accordingly, minimal credit risk exits with respect to these investments.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

o. Severance pay fund

The subsidiary's liability for severance pay is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Severance expenses for the year ended June 30, 2005 and 2006 amounted to approximately $19,257 and $45,957, respectively.

p. Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, short-term bank credit, trade payables and other accounts payable, approximate their fair value due to the short-term maturity of such instruments.

Liability in respect of the warrants issued is presented at fair value estimated using the Black-Scholes option pricing model.

q. Reclassification

Certain amounts from prior years have been reclassified to conform to current period presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Impact of recently issued accounting standards

1. In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154 ("FAS 154"), "Accounting Changes and Error Corrections"- a replacement of APB No. 20, "Accounting changes" and FAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". FAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in the net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS154 require retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company estimates that the adoption of FAS 154 will not have a significant impact on its results of operations, financial condition and liquidity.

2. On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004) Share-Based Payment (123(R)), which in revision of FASB Statement No. 123, Accounting For Stock- Based Compensation . Statement 123(R) supersedes APB Opinion No. 25, Accounting For Stock Issued To Employees , and amends FASB Statements No.95, "Statement of cash flows". Generally the approach in FASB statement 123(R) is similar to the approach describe in statement 123. However, Statement 123(R) requires all share-based payments to employees, including grant of employees stock options, to be recognized in the income statements based on their fair value .Pro forma discloser is no longer an alternative. The Company expects to adopt statement 123(R) on July 1, 2006.

Statement 123(R), permits public companies to adopt its requirements using one of two methods:

A Modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of statement 123 (R) for all share-based payments granted after the effective date and (b) based on the requirements of statements 123 for all awards granted to employees prior to the effective date of statements 123 (R) that remains unvested on the effective date.

A Modified retrospective method which includes the requirements of the modified prospective method describe above but also permits entities to restate based on the amounts previously recognized under statements 123 for purpose of Pro forma disclosure all periods presented

The Company plans to adopt statement No. 123 (R) using the modified prospective method.

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using APB No. 25 s intrinsic value method and, as such, recognized no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R) s fair value method will have a significant impact on the Company s result of operations, although it will have no impact on the Company s overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net loss and net loss per share in Note 2i above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2:-SIGNIFICANT ACCOUNTING POLICIES (continued)

3. In March 2005, the SEC released SEC Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107). SAB 107 provides the SEC staff s position regarding the application of Statement 123R, which contains interpretive guidance related to the interaction between Statement 123R and certain SEC rules and regulations, and also provides the staff s views regarding the valuation of share-based payment arrangements for public companies. SAB 107 highlights the importance of disclosures made related to the accounting for share-based payment transactions

NOTE 3:-CASH AND CASH EQUIVALENTS

	Annual Interest %	**June 30 2006**
In dollars	4.5%	$2,203,137
In New Israeli Shekels (NIS)	-	171,015
		$2,374,152

NOTE 4:-PROPERTY AND EQUIPMENT, NET

	June 30 2006
Cost:	
Laboratory equipment	$294,412
Computers and peripheral equipment	48,570
Office furniture and equipment	10,428
	353,410
Accumulated depreciation:	
Laboratory equipment	73,459
Computers and peripheral equipment	23,051
Office furniture and equipment	2,206
	98,716
Depreciated cost	$254,694

Depreciation expenses amounted to $42,536 for the years ended June 30, 2006.

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NOTE 5: LIABILITY TO KNOW-HOW LICENSORS

a. On May 1, 2003, the Company entered into a License Agreement with the Weizmann Institute of Science and Technion-Israel Institute of Technology and other individuals, including two stockholders of the Company (the "Licensor") to acquire a license of stem cell expansion technology related to bone marrow transplants. The Company received an exclusive, worldwide license to use the technology over the life of the related patent. The license grants exclusivity over all products, uses and related intellectual property, and grants the Company the right to enter into sub-licenses. According to the License Agreement, the Company is committed to pay the Licensor the aggregate amount of $400,000 of which $181,250 has been paid as of the balance sheet date and the remainder is to be paid on December 15, 2006.

b. A royalty of 5% of monthly gross sales and a 12.5% royalty on any other payments received by the Company for one time payments, such as distribution or sub-license rights, is payable to the Licensor. The Company may also elect to pay 25% of all payments received under sub-licenses, in lieu of the 5% royalty on sales and the 12.5% royalty on lump sum payments.

c. The Company is responsible for any costs incurred for the enforcement of the patent and related intellectual property.

d. The Licensor has the option to assign the patent to the Company in exchange for issuance by the Company of additional common shares to the Licensor. This option is only exercisable by the Licensor within 60 days of the date on which the aggregate market capitalization of the Company's share capital reaches $25 million or more. If the Licensor exercises this option, the Company will issue 5% of the Company's fully diluted and outstanding share capital on the date of exercise to the Licensor.

NOTE 6:-COMMITMENTS AND CONTINGENCIES

a. The subsidiary leases facilities under operating lease agreements, which expire in December 2007. The average monthly payment is NIS 32,250 (approximately $7,300) and is linked to the Israeli Consumer Price Index ("CPI"). In order to secure these agreements, the subsidiary pledged a deposit with the bank in the amount of $25,000.

Lease expenses amounted $84,573 and $84,117 for the years ended June 30, 2005 and 2006, respectively.

b. The subsidiary leases 2 cars under operating lease agreement, which expire in May 2007 and October 2008. The average monthly payment is NIS 9,400 (approximately $2,090) and is linked to the CPI. In order to secure this agreement, the subsidiary pledged a deposit with the bank in the amount of $5,752.

Lease expenses amounted to, $15,042 and $32,617 for the years ended June 30, 2005 and 2006, respectively.

c. As to commitments in respect of know-how acquired - see Note 5.

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NOTE 7:-SHARE CAPITAL

a. The Company's authorized common stock consists of 1,400,000,000 shares with a par value of $0.00001 per share. All shares have equal voting rights and are entitled to one non-cumulative vote per share in all matters to be voted upon by stockholders. The shares have no pre-emptive, subscription, conversion or redemption rights and may be issued only as fully paid and non-assessable shares. Holders of the common stock are entitled to equal ratable rights to dividends and distributions with respect to the common stock, as may be declared by the Board of Directors out of funds legally available. The common stocks are registered and publicly traded on the Over-the-Counter Bulletin Board service of the National Association of Securities Dealers, Inc. under the symbol PLRS.OB.

b. On July 9, 2001, the Company issued 35,000,000 shares of common stock in consideration of $2,500, which was received on July 27, 2001.

On October 14, 2002, the Company issued 14,133,000 shares of common stock at a price of $0.007 per common share in consideration of $100,950 before offering costs of $17,359.

c. On March 19, 2003, two directors each returned 13,650,000 shares of common stock with a par value of $0.01 per share, for cancellation for no consideration.

d. On March 27, 2003 the Company's Board of Directors authorized a 14:1 split of the common stock. Accordingly, all references to number of shares, common stock and per share data in the accompanying financial statements have been adjusted to reflect the stock split on a retroactive basis.

e. In July 2003, the Company issued an aggregate of 725,483 units comprised of 725,483 common stock and 1,450,966 warrants to a group of investors, for total consideration of $1,235,752 (net of issuance costs of $70,110), under a private placement. The consideration was paid partly in the year ended June 30, 2003 ($933,464) and the balance was paid in the year ended June 30, 2004.

In this placement each unit was comprised of one common stock and two warrants, the first warrant is exercisable for one common stock at a price of $2.25 per stock, and may be exercised within one year. The second warrant is exercisable for one common stock at a price of $2.70 per stock, and may be exercised within five years. As of June 30, 2006 725,483 warrants were expired un exercised.

f. On January 20, 2004, the Company consummated a private equity placement with a group of investors (the "investors"). The Company issued 3,000,000 units in consideration for net proceeds of $1,272,790 (net of issuance costs of $227,210), each unit is comprised of 3,000,000 common stock and 3,000,000 warrants. Each warrant is exercisable into one common stock at a price of $0.75 per stock, and may be exercised until January 31, 2007. If the price of the common stock will be more than $1 within 10 consecutive trading days, then the Company may, by notice to the warrants' holders, reduce the expiry date of 1,500,000 warrants to 60 days from the day of notice. In case the Company fails to register the above-mentioned shares and the related shares resulting from the exercise of the warrants, it will be subject to penalties as detailed in the private placement agreement. On March 18, 2004, a registration statement on Form SB-2 has been declared affective and the above-mentioned common stocks have been registered for trading. If the effectiveness of the Registration Statement is suspended subsequent to the effective date of registration (March 18, 2004), for more than certain permitted periods, as described in the private equity placement agreement, the Company shall pay penalties to the investors in respect of the liquidated damages.

According to EITF 00-19, "Accounting for derivative financial instruments indexed to, and potentially settled in, a Company's own stock", the Company classified the warrants as liabilities according to their fair value as remeasured at each reporting period until exercised or expired. Changes in the fair value of the warrants will be reported in the statements of operations as financial income or expense.

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NOTE 7:-SHARE CAPITAL (continued)

As of June 20, 2004, the Company allocated the gross amount received of $1.5 million to the par value of the shares issued ($30) and to the liability in respect of the warrants issued ($1,499,970). The amount allocated to the liability was less than the fair value of the warrants at grant date. As of June 30, 2006, the fair value of the liability in respect for the warrants issued was $0. The fair value as of June 30, 2006 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4.3%, expected dividend yield of 0%, expected volatility of 99.6%, and expected life of 0.83 years.

The change in the carrying amount of the liability in respect of the warrants in the amount of $270,000 and $150,000, for the years ended June 30, 2005 and June 30, 2006, respectively was recognized in the statements of operations as financial income.

In addition, the Company issued 300,000 warrants to finders in connection with this private placement exercisable into 300,000 common shares at a price of $0.75 per common share until January 31, 2007. The fair value of the warrants issued in the amounts of $192,000 was recorded as deferred issuance costs and is amortized over a period of 3 years. On April 19, 2004, the finders exercised the warrants. The fair value of the warrants was estimated using the Black-Scholes option pricing model under the same weighted average assumptions.

g. In October 2004 the Company commenced a private placement offering (The October 2004 Agreement) accordingly to which it issued 8,500,000 units. Each unit is compromised of one common stock and one warrant. The warrant is exercisable for one common stock at an exercise price of $0.30 per stock, subject to certain adjustments, and may be exercised until November 30, 2006. The units were issued as follows:

In November 2004, the Company issued according to the October 2004 Agreement 3,250,000 units comprised of 3,250,000 common stock and 3,250,000 warrants to a group of investors, for total consideration of $296,092 (net of cash issuance costs of $28,908), and additional 120,000 warrants to finders as finders fee.

In January 2005 the Company issued according to the October 2004 Agreement an additional 4,300,000 units for total consideration of $425,025 (net of cash issuance costs of $4,975), and additional 90,000 warrants were issued to finders as finders fee.

In March 2005 the Company issued according to the October 2004 Agreement an additional 750,000 units for total consideration of $68,962 (net of cash issuance costs of $6,038), and additional 35,000 warrants were issued to finders as finders fee.

All warrants to the finders are exercisable with exercise price of $0.1 per stock until November 2006.

In March 2005 the Company issued, according to the October 2004 Agreement 200,000 common shares and 200,000 share purchase warrants to one Investor for total consideration of $20,000 which were paid to the Company in May 2005.

h. On January 24, 2005 the Company commenced a private placement offering (the January 24, 2005 Agreement) which was closed on March 3, 2005 and issued 12,000,000 units in consideration for $1,176,000 (net of cash issuance costs of $24,000). Each unit is compromised of one common stock and one warrant. The warrant is exercisable for one common stock at a price of $0.30 per stock and may be exercised until November 30, 2006. Under this agreement the Company issued to finders 1,845,000 shares and 475,000 warrants with exercise price of $2.5 per stock exercisable until November 2007.

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NOTE 7:-SHARE CAPITAL (continued)

i. On January 31, 2005, the Company consummated a private equity placement offering (the January 31, 2005 Agreement) with a group of investors (the "Investors") according to which it issued 12,000,000 units in consideration for net proceeds of $1,137,000 (net of issuance costs of $63,000). Each unit is comprised of one common stock and one warrant. Each warrant is exercisable into one common stock at a price of $0.30 per stock, and may be exercised until November 30, 2006. If the Registration Statement covering the Registrable Securities was not filed as contemplated by 70 days and if the Registration Statement covering the Registrable Securities was not effective until August 31, 2005, The Company would have paid the Investor 2% of the purchase price for each 30 day period beyond the applicable date until the filing or the registration is completed. The January 31, 2005 Agreement includes a finder s fee of a cash amount equal to 5% of the amount invested ($60,000) and issuance of warrants for number of shares equal to 5% of the number of shares that were issued (600,000) with an exercise price of $0.1 per stock, subject to certain adjustments, exercisable until November 30, 2006.

According to EITF 00-19, "Accounting for derivative financial instruments indexed to, and potentially settled in, a Company's own stock", the Company classified the warrants as liabilities according to their fair value as remeasured at each reporting period until exercised or expired. Changes in the fair value of the warrants will be reported in the statements of operations as financial income or expense.

As of the date of the issuance the Company allocated the gross amount received of $1.2 million to the par value of the shares issued ($120) and to the liability in respect of the warrants issued ($1,199,880). Issuance expenses in the amount of $63,000 and finders fee in the amount of $144,000 were recorded as deferred issuance costs. The amount allocated to the liability was less than the fair value of the warrants at grant date. On May 13, 2005 the Registration Statement became effective and the Company became no longer under possible penalties. As such, the liability and the deferred issuance costs related to the agreement has been classified to the Stockholders Equity as Additional Paid in Capital. As of May 13, 2005, the fair value of the liability in respect of the warrants issued was $720,000 and the amount of the deferred issuance costs was $178,116. The change in the carrying amount of the liability in respect of the warrants, recoded as income, in the year ended June 30, 2005 amounted to $479,880

The fair value as of May 13, 2005 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 3.75%, expected dividend yield of 0%, expected volatility of 104%, and expected life of 1.54 years.

j. On March 23, 2005, the Company issued 2,400,000 shares of common stock and 2,400,000 common stock purchase warrants as a bonus to the chief executive officer, Dr. Shai Meretzki, in connection with the issuance of a Notice of Allowance by the United States Patent Office for patent application number 09/890,401. Each warrant is exercisable until November 30, 2006 into one common share at a price of $0.30 per share. Salary expenses of $696,000 were recognized during year ended June 30, 2005 in respect of this bonus based on the quoted market price of the Company's stock and the fair value of the options granted determined using the Black Scholes valuation model.

k. Following the Board resolutions and authorizations from January 28, 2004, the Company issued on February 11, 2004, an aggregate amount of 1,000,000 common stock to a number of consultants and service providers as compensation for carrying out investor relations activities during the year 2004.

Total compensation, measured as the grant date fair market value of the stock, amounted to $800,000 and was recorded as an operating expense in the statement of operations in the year ended June 30, 2004.

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NOTE 7:-SHARE CAPITAL (continued)

l. On November 28, 2005, 80,000 warrants, which were issued to finders as finder fees in related to the October 2004 Agreement , were exercised to shares.

m. On January 25, 2006, 10,000 warrants, which were issued to finders as finder fees in related to the October 2004 Agreement , were exercised to shares.

n. Stock Option Plan 2003 ("ESOP")

Under the Company's 2003 Stock Option Plan (the "Plan"), options may be granted to officers, directors, employees and consultants of the Company or its subsidiary.

Pursuant to the Plan, the Company reserved for issuance 4,100,000 of its common stock. As of June 30, 2006, 68,941 common stock of the Company are still available for future grant under the terms of the Plan.

Each option granted under the Plan is exercisable through the expiration date of the Plan which is December 2013 unless stated otherwise. The exercise price of the options granted under the plan may not be less than the nominal value of the stock into which such options are exercised. The options vest primarily over two years. Any option which are cancelled or forfeited before expiration, become available for future grants.

Options to employees:

On December 2003, the Company granted 2,976,591 options to employees and directors at an exercise price of $0.76. All options were granted with an exercise price that exceeded the quoted market price of the Company's stock on the date of grant. Fair value (determined using the Black-Scholes valuation model) of options granted was $0.29 at date of grant. During the year ended June 30, 2004, 156,734 options to employees were forfeited.

During the year ended June 30, 2005, 451,170 options with an exercise price of of $0.3 per share were granted to the Company s Chief Financial Officer. Fair value (determined using the Black-Scholes valuation model) of options granted was $0.35 at date of grant. On February 15, 2005 the Company issued 50,000 shares and 70,495 options to former director and Chief Executive Officer of the Company. The exercise price of the options is $0.3 per share and they are fully vested and exercisable till February 15, 2008. Fair value (determined using the Black-Scholes valuation model) of options granted was $0.26 at date of grant. Compensation expenses of $14,500 were recognized during the year ended June 30, 2005 in accordance with APB 25. During the year ended June 30, 2005, 15,415 options to employees were forfeited.

During the year ended June 30, 2006, 239,683 options with an exercise price of $0.1 per share were granted to employees and directors of the Company and no options were forfeited.

As of June 30, 2006, 3,565,790 options to employees are exercisable.

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NOTE 7:-SHARE CAPITAL (continued)

On October 17, 2004 the Board of Directors decided to reduce the exercise price of the options that were granted to the Company s employees and directors from $0.76 to $0.3. On September 21, 2005 the Board of directors decided to reduce the exercise price of the options that were granted to the Company s employees and directors from $0.3 to $0.12. According to APB Opinion No. 25 and FIN 44 when the exercise price of a fixed stock option award is reduced, the award shall be accounted for as a variable plan from the date of modification to the date the award is exercised, forfeited, or expires unexercised. The reduction of the exercise price did not result in compensation expenses in the years ended June 30, 2005 and 2006.

Options to consultants:

In the framework of the stock option plan, the Company issues warrants to consultants, for carrying out investor relation's activities. On December 2003, the Company granted 669,189 options to consultants at a weighted average exercise price of $0.92.

In July 2004, the Company's board of directors approved to modify the terms of 500,000 options granted to a consultant on December 2003 (of which 250,000 are with an exercise price of $1 and 250,000 with an exercise price of $1.25) to provide for a cashless exercise of the options. The Board of directors also resolved that the options' exercise price will be reduced to $0.4 and that the options will be fully vested. In addition, it was resolved to grant the consultant additional 500,000 options with an exercise price of $0.4, vested immediately and with a cashless exercise feature. The additional 500,000 options were granted outside of the terms of the options plan. In June 2005 the consultant agreed to cancel the 1,000,000 options and to be granted 600,000 shares of the Company s common stock. Since the fair value of the options that were cancelled and the shares that were issued were equal, no additional compensation expenses were recorded.

As of June 30, 2006, 169,189 options to consultants are exercisable.

The Company accounted for its options to consultants under the fair value method in accordance of SFAS 123 and EITF 96-18. The fair value for these warrants was estimated using Black-Scholes option-pricing model with the following weighted-average assumptions at grant date: risk-free interest rates of 4.2%, expected dividend yield of 0%, expected volatility of 84%, and a weighted-average contractual life of the warrants of up to 10 years. Compensation expenses of $161,641 and $0 were recognized during the year ended June 30, 2005 and 2006, respectively in accordance with EITF 96-18.

o. Stock Option Plan 2005 ("ESOP")
Under the Company's 2005 Stock Option Plan (the "Plan"), options may be granted to officers, directors, employees and consultants of the Company or its subsidiary.

Pursuant to the Plan, the Company reserved for issuance 15,000,000 of its common stock.

Each option granted under the Plan is exercisable trough the expiration date of the Plan which is January 2016 unless stated otherwise. The exercise price of the options granted under the plan may not be less than the nominal value of the stock into which such options are exercised. The options vest primarily over two years. Any option which are cancelled or forfeited before expiration, become available for future grants.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY

(A Development Stage Company)

(Previous Name - A. I. SOFTWARE INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In U.S. Dollars

NOTE 7:-SHARE CAPITAL (continued)

Options to employees:

On September 21, 2005 the Board of Directors appointed a new Chief Executive Officer, and approved to grant him 4,500,000 stock options exercisable at a price of $0.12 per share to be vested over a three years period. On January 17, 2006 the Company granted him the stock options from the 2005 plan and resolved to reduce the exercise price to $0.1 and also to revise the vesting period to two years. The reduction of the exercise price did not result in compensation expenses in the year ended June 30, 2006. The award shall be accounted for as a variable plan from the date of modification to the date the award is exercised, forfeited, or expires unexercised.

On January 17, 2006, the Company granted from the Plan 5,490,000 stock options to employees and directors. The options will have a two years vesting period with six months grace period (i.e. vesting equally monthly during the remaining 18 months). The option s exercise price was determined to be the stock price at the date of grant which was $0.10. Fair value (determined using the Black-Scholes valuation model) of options granted was $0.08 at date of grant.

Options to consultants:

On November 21, 2005 the Board of Directors approved Dr. Shai Maretzki s consulting agreement with the Company (which was signed on the same date) for a period of 2.5 years. Under this agreement the Company granted him 1,500,000 stock options under the Plan and upon the formal approval of the Plan by Tax Authorities. The options will have a two years vesting period with six months grace period (i.e. vesting equally monthly during the remaining 18 months). The options were granted on January 17, 2006 at the price of $0.10.

On January 17, 2006, the Company granted to consultants 1,150,000 stock options from the Plan. The options will have a two years vesting period with six months grace period (i.e. vesting equally monthly during the remaining 18 months). The option s exercise price is $0.10.

The Company accounted for its options to consultants under the fair value method in accordance of SFAS 123 and EITF 96-18. The fair value for these options was estimated using Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rates of 4.3%, expected dividend yield of 0%, expected volatility of 105%, and a weighted-average contractual life of the warrants of up to 10 years. Compensation expenses of $114,800 were recognized during the year ended June 30, 2006, in respect with those options.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In U.S. Dollars

NOTE 7:-SHARE CAPITAL (continued)

A summary of the Company s share option activity (except options to consultants) under the Plans is as follows:

	2006		2005	
	Number of options	Weighted average exercise price	**Number of options**	Weighted average exercise price
Outstanding at the beginning of the year	3,326,107	(*) $0.3	2,819,857	$0.30
Granted	10,229,683	$0.10	521,665	$0.30
Forfeited -		-	15,415	$0.30
Options outstanding at the end of the year	13,555,790	$0.10	3,326,107	$0.30
Options exercisable at the end of the year	3,565,790	$0.12	3,122,140	$0.30

(*) Repriced in September 2005 to $0.12 (see Note 7n)

The Company s outstanding options to consultants as of June 30, 2006 are as follows:

Issuance date	**Options for Ordinary Shares**	**Exercise Price per Share**	**Options Exercisable**	**Exercisable Through**
December 31, 2003	169,189	$0.4	169,189	December 31, 2013
January 17, 2006	2,650,000	$0.1	-	January 17, 2016

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8:-CONVERTIBLE DEBENTURE

1. On April 3, 2006, the Company issued Senior Secured Convertible Debentures (the Debentures), for gross proceeds of $3,000,000. In conjunction with this financing, the Company issued 47,393,364 warrants exercisable for three years at an exercise price of $0.075. The Company paid a finder's fee of 10% in cash and issued 9,478,672 warrants exercisable for three years, half of which are exercisable at $0.075 and half of which are exercisable at $0.077. The company also issued 1,000,000 warrants in connection with the separate finder's fee agreement related to the issuance of the debenture exercisable for three years at an exercise price of $0.075.

1a. The Debentures, which mature on April 3, 2008, are convertible to common shares at the lower of 75% of the volume weighted average trading price for the 20 days prior to issuance of a notice of conversion by a holder of a Debentures or, if while the Debentures remain outstanding the Company enters into one or more financing transactions involving the issuance of common stock or securities convertible or exercisable for common stock, the lowest transaction price for those new transactions.

Interest accrues on the Debentures at the rate of 7% per annum, is payable semi-annually on June 30 and December 31 of each year and on conversion and at the maturity date. Interest is payable, at the option of the Company, either (1) in cash, or (2) in shares of Common Stock at the then applicable conversion price. If the Company fails to deliver stock certificates upon the conversion of the Debentures at the specified time and in the specified manner, the Company will be required to make substantial payments to the holders of the Debentures.

1b. The Warrants, issued as of April 3, 2006, become first exercisable on the earlier of (i) the 65th day after issuance or (ii) the effective date of the Registration Statement. Holders of the Warrants are entitled to exercise their warrants on a cashless basis following the first anniversary of issuance if the Registration Statement is not in effect at the time of exercise.

The Company agreed to register the common shares issuable upon conversion of the Debentures and exercise of the warrants within 30 days after the Closing Date. The Registration Statement was filed and has gone effective as June 30, 2006.

Should the Registration cease to be effective during the time before the Convertible Debenture have matured, the Company will be required to pay substantial penalties to the holders of the Convertible Debenture.

Provided the Registration Statement is effective, the Company may prepay the amounts outstanding on the Debentures by giving advance notice and paying an amount equal to 120% of the sum of the principal being prepaid plus the accrued interest thereon. Holders will continue to have the right to convert their Debentures prior to the actual prepayment.

Holders of the Debentures may require the Company to redeem any or all of the outstanding Debentures upon the occurrence of any one or more of events of default specified in the Debentures.

Holders of Debentures are subject to certain limitations on their rights to convert the Debentures. The principal limitation is that the holder may not, with certain limited exceptions, convert into a number of shares that would, together with other shares held by the holder, exceed 4.99% of the then outstanding shares of the Company after such conversion. The exercise of the Warrants is subject to a similar limitation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8:- CONVERTIBLE DEBENTURE (continued)

To secure the Company's obligations under the Debentures and other transaction agreements, the Company has granted a security interest in substantially all of its assets, including without limitation, its intellectual property, in favour of the investors under the terms and conditions of a Security Interest Agreement dated as of the date of the Debentures. The security interest terminates upon the earlier of (i) the date on which less than one-fourth of the original principal amount of the Debentures issued on the Closing Date are outstanding or

(ii) payment or satisfaction of all of the Company's obligations under the Securities Purchase Agreement.

The conversion price of the Debentures and the exercise price of the Warrants are subject to adjustment. Under the agreements with the holders of the Debentures, the Company agreed that if the Company makes certain offers or sales of its Common Stock (or securities convertible into Common Stock) to any third party during the period from the Closing Date until the date that less than one-fourth of the aggregate principal amount of the Debentures issued remain unconverted, adjustments would be made to the conversion price of the then unconverted Debentures and to the exercise price of the then unexercised Warrants. The exercise price of the Warrants also are subject to adjustment in the event of certain capital adjustments or similar transactions, such as a stock split or merger. In addition, in certain cases, the investors may be entitled to receive additional warrants to purchase additional shares.

The Company also agreed that until less than one-fourth of the aggregate principal amount of the Debentures issued remain unconverted, without the prior written consent of more than 51% of the then outstanding Debentures, the Company will not enter into any new transaction for the offer or sale of the Company's securities when such transaction provides for a variable conversion price or a variable exercise price. The Company also agreed that until the effective date of the Registration Statement it will not enter into any other transaction for the offer or sale of any of its securities and, commencing on the effective date and for six months thereafter, the Company will not enter into any transaction granting the investors in that new transaction registration rights.

In accordance with EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and potentially settled in a Company's Own Stock" (EITF 00-19), the Company allocated the consideration paid for the convertible debenture and the warrants as follows:

The warrants were recorded as a liability based on their fair value in the amount of $951,467. The Company estimated the fair value of the warrants using a Black and Scholes option pricing model, with the following assumptions: volatility of 83%, risk free interest rate of 4.8%, dividend yield of 0%, and an expected life of 36 months. Changes in the fair value are recorded as interest income or expense, as applicable.

The fair value of the conversion feature of the debenture, in the amount of $1,951,466 was recorded as a liability.

The balance of the consideration, in the amount of $97,067, was allocated to the debenture. The discount in the amount of $2,912,933 is amortized according the effective rate interest method over the debentures contractual period (24 months).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8:- CONVERTIBLE DEBENTURE (continued)

The balance of such debenture as of June 30, 2006 is comprised as follows:

Convertible Debenture	$97,068
Accrued discount	17,217
	$114,285

Finder s fee of 10% in cash and the fair value of 10,478,672 warrants amounted to $534,646 were recorded as deferred issuance expenses and are amortized over the debentures contractual period. The Company estimated the fair value of the warrants using a Black and Scholes option pricing model, with the following assumptions: volatility of 83%, risk free interest rate of 4.8%, dividend yield of 0%, and an expected life of 36 months.

The Company recorded in the year ended June 30, 2006 $67,847 as financial expenses in respect to the discount amortization and accrued interest.

According to EITF 00-19, in order to classify warrants and options (other than employee stock options) as equity and not as liabilities, the Company should have sufficient authorized and unissued shares of common stock to provide for settlement of those instruments that may require share settlement. Under the terms of the convertible debentures dated April 3, 2006, the Company may be required to issue an unlimited number of shares to satisfy the debenture s contractual requirements. As such, on April 3, 2006, the Company's warrants and options (other than employee stock options) were classified as liabilities and measured at fair value with changes recognized currently in earnings. Such reclassification amounted to $7,632.

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NOTE 9:-FINANCIAL INCOME NET

	Year ended June 30,		For the period from May 11, 2001 (date of incorporation) through June 30,
	2006	2005	2006
Foreign currency translation differences	$ 3,126	$ 8,921	$ 23,660
Interest on short-term bank credit and bank's expenses	5,217	9,449	18,839
Interest accrued on know-how licenses	18,791	12,332	64,972
Interest income on deposits	(42,607)	(12,467)	(71,533)
Deferred issuance expenses amortization	205,081	168,620	435,805
Discount amortization	17,217	-	17,217
Interest expenses of debenture	50,630	-	50,630
Change in fair value of warrants	(150,000)	(749,880)	(1,979,850)
	$107,455	$(563,025)	$(1,440,260)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
In U.S. Dollars

NOTE 10:-INCOME TAX

Reconciliation of the theoretical tax expense (benefit) to the actual tax expense (benefit):

In the year ended June 30, 2006 the main reconciling items from the statutory tax rate of the Company (34%-35%) to the effective tax rate (0%) is carryforward tax losses for which a full valuation allowance was provided.

Net operating losses carryforward:

The Company has accumulated losses for tax purposes as of June 30, 2006 of approximately $4,700,000, which may be carried forward and offset against taxable income until 2024.

The subsidiary has accumulated losses for tax purposes as of June 30, 2006 in the amount of approximately $2,500,000 that may be carried forward and offset against taxable income in the future for an indefinite period.

Utilization of U.S. net operating losses may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

Deferred Income taxes

As of June 30, 2006, the Company and its subsidiary have provided valuation allowances of approximately $2.5 million in respect of deferred tax assets resulting from tax loss carryforward. Management currently believes that since the Company and its subsidiary have a history of losses it is more likely than not that the deferred tax regarding the loss carryforward and other temporary differences will not be realized in the foreseeable future.

Tax rate

The Company taxed based on tax laws in it country of residence.

Taxable income of Israeli companies is subject to tax at the rate of 34% in 2005, 31% in 2006, 29% in 2007 27% in 2008, 26%, in 2009 and in 2010 and thereafter - 25%.

NOTE 11:-TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Balances with related parties

	June 30,	
	2006	2005

Know-how licensors (included current maturities)	$ 37,500	$ 33,977
Accrued expenses	$(2,452)	$29,493
Salary expenses	$164,802	$888,293

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.
None

Item 8A. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this annual report, being June 30, 2006. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president and chief executive officer. Based upon that evaluation, our company's president and chief executive officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's president and chief executive officer as appropriate, to allow timely decisions regarding required disclosure.

Item 8B Other Information

Not Applicable

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

As at June 30, 2006 our directors and executive officers, their ages, positions held, and duration of such, are as follows:

Name	Position Held With Company	Age	Date First Elected or Appointed
Zami Aberman	Chief Executive Officer, President and Director	52	September 26, 2005 November 21, 2005
Yossi Keret	Chief Financial Officer	40	May 30, 2004
Ora Burger	Vice President, Development	39	October 26, 2005

Dr. Shai Meretizki	Chief Technology Officer	38	October 17, 2004
Doron Shorrer	Director	53	October 2, 2003
Hava Meretzki	Director	38	October 2, 2003
Isaac Braun	Director	53	July 6, 2005

Israel Ben-Yoram	Director	43	January 26, 2005

Business Experience

The following is a brief account of the education and business experience of each director and executive officer during at least the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which they were employed.

Zami Aberman

Mr. Aberman became our Chief Executive Officer and President on September 26, 2005 and a director of our company on November 21, 2005. Mr. Aberman became our acting Chairman of the Board on April 3, 2006. Mr. Aberman has 20 years of Experience in Marketing and Management in the Hi-Tech Industry. He held Chief Executive and Chairman positions in Israel, the USA, Europe, Japan and Korea. He operated within high-tech global companies in the fields of Automatic Optical Inspection, network security, Video over IP, software, chip design and robotic markets. Mr. Aberman serve as the chairman of Rose Hitech Ltd., a private investment company; as chairman of VLScom Ltd., a private company specializing in video compression for HDTV and video over IP and as a director of Ori Software Ltd., involved in data management. Before those positions he served as the President and CEO of Elbit Vision Systems), a public company traded on the OTCBB market (EVSNF.OB) which supplies inspection systems for the microelectronic industry. As well, Mr. Aberman served as President and CEO of Netect Ltd specializing in the field of Internet security software, he was the Co-Founder, President and CEO of Associative computing Ltd, developing an associative parallel processor for real-time video processing, he served as chairman of Display Inspection Systems Inc specializing in laser based inspection machines and he served as President and CEO of Robomatix Technologies Ltd, a public company (RBMXF.OB).

In 1992, Mr. Aberman was awarded the Rothschild Prize for excellence in his field from the President of the State of Israel. Aberman holds a B.Sc. in Mechanical Engineering from Ben Gurion University in Israel.

Yossi Keret

Mr. Keret was appointed as our Chief Financial Officer on May 30, 2004. Before his appointment as our Chief Financial Officer, Mr. Keret acted as the Chief Financial Officer of M.L.L. Software and Computers Industries Ltd. (TASE:MLL) where he oversaw the company s three subsidiaries. Prior to his employment at M.L.L., he was the Chief Financial Officer of Internet-Zahav Group, Ltd. (NASDAQ:IGLD) the leading Israeli ISP with revenues in excess of $45 million, 900 employees and three subsidiaries. As the Chief Financial Officer of Top Image Systems Ltd. (NASDAQ:TISA), Mr. Keret directed all activities that led to a NASDAQ listing, formulated systems which increased sales growth 60% during his 5 year term and opened branches and subsidiaries in Europe and USA . He began his career at Kost Forer and Gabai Accountants - a member of E&Y International.

Mr. Keret holds a B.A. from Haifa University in Economics and Accounting, is a Certified Accountant in Israel and is working toward an MBA from Heriot-Watt University.

Ora Burger

Dr. Burger was appointed as our Vice President, Development on October 26, 2005. Dr. Burger was recruited to Pluristem in 2003 to promote the research of hemapoietic stem cells (HSC) growing and expanding in a physiological like microenvironment 3-D culture in our company' novel PluriX(TM) bioreactor. She was subsequently promoted to manage turnkey projects in research and development - specifically the production of transplantable HSC using a 3-D biodegradable scaffolding platform in the PluriX(TM) bioreactor. This project is co-sponsored by the Chief Scientist of the Israeli Ministry of Industry and Trade under the most prestigious Magneton grant program directed toward facilitating technology transfer to the forefront of innovation from the University to leading high-technology and biotechnology companies.

Prior to joining our company, Dr. Burger served as a Research and Development Advisor in several emerging-growth biotechnology companies validating technologies for further development. She acted as Director of Research and Development for Diagnostic Technology where she led the development of ELISA kit, intended for the prenatal diagnose of pregnancy complications such as preeclampsia, preterm delivery and fetal growth restriction.

Dr. Burger holds a B.A. and MSc. in plant science from the faculty of agronomy of the Hebrew University and a DSc. in Biotechnology Engineering from Technion. She completed postdoctoral training at Technion and Tel Aviv University, Sackler School of Medicine, working on therapeutic models to cure the damage of Helicobacter pylori, a bacterial infection which causes ulcers, gastritis, and gastric cancer. Her work was recently re-illuminated following the 2005 Nobel Prize in Medicine to the scientists who discovered the clinical central importance of the subject: Ulcer Derived from Bacterial Infections. Dr. Burger was until recently a lecturer in Biotechnology and Food Engineering Faculty at the Technion institute.

Dr. Shai Meretzki

Dr. Shai Meretzki was the founder and is the chief technology officer of our wholly owned subsidiary, Pluristem, Ltd. He received his Ph.D. in biotechnology at the Technion-Israel Institute of Technology in 2002. Dr. Meretzki has conducted extensive research on the subject of stem cell expansion. His research project for his Ph.D. thesis was Stationary packed bed bioreactor for propagation of transplantable human haemopoietic stem cells. From 1995 to 1996, Dr. Meretzki was employed at the Department of Chemical Engineering at the Technion-Israel Institute of Technology. From 1997 to 2001, he was an instructor teaching medical students cell biology and hematology at the Rappaport Faculty of Medicine in Haifa, Israel. From 2001 to 2002, Dr. Meretzki was in charge of biological and chemical research and development for Polyheal, Ltd. in Nesher, Israel.

Doron Shorrer

Mr. Shorrer was appointed a director on October 2, 2003. Mr. Shorrer, ISR (CPA) was Chairman of the Board of Phoenix Insurance Company, one of the largest insurance companies in Israel and Mivtachim Pension Benefit Group, the largest pension fund in Israel. Prior to these positions, Mr. Shorrer held senior appointments that included Arbitrator at the Claims Resolution Tribunal for Dormant Accounts in Switzerland; Economic and Financial Advisor, Commissioner of Insurance and Capital Markets for the State of Israel; Member of the board of directors of Nechasim of the State of Israel; Member Committee for the Examination of Structural Changes in the Capital Market (The Brodet Committee); General Director of the Ministry of Transport; Co-Founder and director of an accounting firm with offices in Jerusalem, Tel-Aviv and Haifa; Member of the Lecture Staff of the Amal School Chain; Chairman of a Public Committee for Telecommunications; and Economic Consultant to the Ministry of Energy.

Among many areas of expertise, Mr. Shorrer formulates, implements and administers business planning in the private and institutional sector in addition to consulting on economic, accounting and taxation issues to a large audience ranging from private concerns to government ministries. Mr. Shorrer holds a B.A. in Economics and Accounting and an M.A. in Business Administration (specialization in finance and banking) from the Hebrew University of Jerusalem and is a Certified Public Accountant (ISR).

Hava Meretzki

Ms. Meretzki was appointed a director on October 2, 2003. Ms. Meretzki, Adv. is a partner in the law firm of Ben-Noun Meretzki in Haifa, Israel. Ms. Meretzki specializes in civil, trade and labor law and is presently Vice-Chairman for the National Council of the Israel Bar Association. Ms. Meretzki previously was a director of the Israel Electric Company. Ms. Meretzki received a Bachelors Degree in Law from the Hebrew University in 1991, and in 1992 was admitted to the Israel Bar Association.

Isaac Braun

Mr. Braun was appointed a director on July 6, 2005. Mr. Braun is a business veteran with entrepreneurial, industrial and manufacturing experience. He has been a co-founder and board member of several hi-tech start-ups in the areas

of e-commerce, security, messaging, search engines and biotechnology. Mr. Braun is involved with advising private companies on raising financing and business development.

Israel Ben-Yoram

Mr. Ben-Yoram was appointed a director on January 26, 2005. Mr. Ben-Yoram has been a director and partner in the accounting firm of Mor, Ben-Yoram and Partners in Israel since 1985 to present. This accounting firm currently employs over 15 employees in the field of auditing, consulting, and accompanying projects. Since 1992 to present, Mr. Ben-Yoram has also served as a shareholder and the head director of Mor, Ben-Yoram Ltd., a private company in Israel in parallel to the operation of the Mor, Ben-Yoram and Partners accounting firm. This company provides management services, economic consulting services and other professional services to businesses. Mr. Ben-Yoram received a B.A. in accounting from the University of Tel Aviv, an M.A. in Economics from the Hebrew University of Jerusalem, an LLB and an MBA from Tel Aviv University and an LLM from Bar Ilan University.

Significant Employees

We currently do not have any significant employees aside from our directors and officers.

Family Relationships

Shai Meretzki, our former Chief Executive Officer and the founder and chief technology officer of our wholly owned subsidiary, Pluristem, Ltd. and Hava Meretzki, one of our directors, are husband and wife.

Audit Committee and Audit Committee Financial Expert

On October 2, 2003, our board of directors created an audit committee and adopted an audit committee charter. On July 6, 2005 we appointed Hava Meretzki, Israel Ben-Yoram and Isaac Braun as members of our Audit Committee. However, our board of directors has determined that we do not have a member of our audit committee that qualifies as an audit committee financial expert as defined in Item 401(e) of Regulation S-B. Mr. Israel Ben-Yoram and Mr. Isaac Braun are independent as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended. Ms. Hava Meretzki is not considered independent as she is married to our former Chief Executive Officer and the founder and chief technology officer of our wholly owned subsidiary, Pluristem, Ltd., Dr. Shai Meretzki. We believe that the members of our audit committee are collectively capable of analysing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. During the fiscal year 2006, the audit committee met a total of 4 times.

Other Committees of the Board

On October 2, 2003, our board of directors also created a compensation committee and a corporate governance committee. Our board of directors adopted a compensation committee charter and appointed Doron Shorrer and

Hava Meretzki as members of our compensation committee. Our board of directors also adopted a corporate governance committee charter and appointed Doron Shorrer and Hava Meretzki as members of our corporate governance committee

Involvement in Certain Legal Proceedings

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

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 offences);

3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of 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 Commission or the Commodity 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

Effective October 2, 2003, our board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, members of our board of directors, our officers including our Chief Executive Officer (being our principal executive officer) and our Chief Financial Officer (being our principal financial and accounting officer), contractors, consultants and advisors.

Our Code of Business Conduct and Ethics is filed with the Securities and Exchange Commission as Exhibit 14.1 to this annual report for the year ended June 30, 2005. We will provide a copy of the Code of Business Conduct and Ethics to any person without charge, upon request. Requests can be sent to: Pluristem Life Systems Inc. c/o Clark Wilson LLP, Suite 800 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports regarding ownership of, and transactions in, our securities with the Securities and Exchange Commission and to provide us with copies of those filings. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended June 30, 2006, all filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with, with the exception of the following:

Name	**Number of Late Reports**	**Number of Transactions Not Reported on a Timely Basis**	**Failure to File Requested Forms**
Braun Isaac[1]	1	1	Nil
Aberman Zami[1][2]	2	1	Nil
Meretzki Shai[2]	1	1	Nil

[1] The named officer, director or greater than 10% stockholder, as applicable, filed a late Form 3 Initial Statement of Beneficial Ownership of Securities.

(2) The named officer, director or greater than 10% stockholder, as applicable, filed a late Form 4 Initial Statement of Beneficial Ownership of Securities.

Item 10. Executive Compensation.

The following table summarizes, to the end of fiscal year ended June 30, 2006, the compensation Zami Aberman, who has served as our Chief Executive Officer, since September 26, 2005, Shai Meretzki, who has served as our Chief Executive Officer from October 17, 2004 to September 26, 2005, Dr. Ze evi Mendi, who served as our Chief Executive Officer from June 10, 2004 to October 17, 2004, Dr. Irit Arbel, who served as our Chief Executive Officer and a director from May 30, 2003 to June 10, 2004, and Mr. Harvey M.J. Lawson, who served as our Chief Executive Officer from May 11, 2001 to May 30, 2003 and as a director from May 11, 2001 to February 11, 2004. No other officers or directors received annual compensation in excess of $100,000 during the most recently completed fiscal year and are considered to be named executive officers for the purposes of our executive compensation disclosure on this annual report.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation Awards		Payouts	
Name and Principal Position	**Year**	**Salary (US$)**	**Bonus (US$)**	**Other Annual Compen-sation (US$)**	**Securities Underlying Options/ SARs Granted**	**Restricted Shares or Restricted Share Units**	**LTIP Payouts (US$)**	**All Other Compen-sation**
Zami Aberman	2006	135,38	30,000	N/A	4,500,000	Nil	Nil	Nil
	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chief Executive Officer	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shai Meretzki	2006	164,802163,869	N/A	N/A	4,351,170	Nil	Nil	Nil
Chief Executive Officer	2005	105,000	Nil	Nil	2,851,170	Nil	Nil	Nil
	2004		Nil	Nil	Nil	Nil	Nil	Nil
Ze evi Mendi	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Chief Executive Officer	2005	47,236	Nil	10,000(1)	70,495[(1)]	Nil	Nil	Nil
	2004	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dr. Irit Arbel	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Former Chief Executive	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Officer and Director	2004	108,000	Nil	Nil	563,962	Nil	Nil	Nil
Harvey Lawson	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Former Chief Executive	2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Officer & Director	2004	N/A	N/A	N/A	56,396	N/A	N/A	N/A

[(1)] Dr. Mendi was issued 50,000 common shares upon his termination as a director at a deemed price of $0.20 per share for his services as our Chief Executive Officer and 70,495 options to purchase shares of our common stock, exercisable at a price of $0.30 per share until February 15, 2008, for his services as a director of our company.

Option Grants in the Last Fiscal Year

During the fiscal year ended June 30, 2006, there were 6,000,000 stock options granted our named executive officers, 4,500,000 to Zami Aberman and 1,500,000 to Dr. Shai Meretzki.

Aggregated Option/Exercises in Last Fiscal Year And 2005 Fiscal Year End Option/Values

During the fiscal year ended June 30, 2006, no stock options were exercised by our named executive officers.

Long-Term Incentive Plans-Awards in Last Fiscal Year

We have no long-term incentive plans, other than the Stock Option Plan described below.

Stock Option Plan

On November 25, 2003, we adopted our 2003 Stock Option Plan, under which options to purchase up to 4,100,000 shares of our common stock can be granted to our directors, officers, employees and consultants. We granted a total

of 3,645,780 options on December 30, 2003 with various exercise prices and expiration dates, to directors, officers, employees and consultants. On June 10, 2004 the former chief executive officer left our company and 156,734 of her options expired and were returned to the option pool. As at June 30, 2004, there were 610,954 unallocated options remaining under the 2003 Stock Option Plan. On July 6, 2004 we granted 451,170 options to the company's new chief financial officer. On February 15, 2005 we granted 70,495 options to Mendi Ze'evi, our former director and chief executive officer, exercisable at a price of $0.30 per share until February 15, 2008. During the last quarter of 2004, 15,415 options expired and were returned to the option pool. During the year ended June 30, 2005, several of our employees left our company and 1,735,734 options expired and were returned to the option pool. On January 17, 2006 we granted 239,683 to two of our directors, exercisable at a price of $0.12 per share until May 1, 2013.

On June 30, 2006, there were 365,020 of our common stock still available for future grant under the 2003 Stock Option Plan

On November 21, 2005, we adopted our 2005 Stock Option Plan, under which options to purchase up to 15,000,000 shares of our common stock can be granted to our directors, officers, employees and consultants. We granted a total of 12,140,000 options on January 17, 2006 at an exercise price of $0.10, expiring January 16, 2016, to directors, officers employees and consultants.

On June 30, 2006, there were 2,360,000 of our common stock still available for future grant under the 2005 Stock Option Plan.

On July 22, 2004 we granted 500,000 options exercisable at a price of $0.40 per share until July 22, 2014 outside of our stock option plan. These options and an additional 500,000 options included in the 2003 Stock Option Plan expired, unexercised, on March 30, 2005.

On September 18, 2006, we increased the number of options to purchase shares of common stock available under our 2005 Stock Option Plan by 15,000,000 shares of our common stock which can be granted to our directors, officers, employees and consultants. The 2005 Stock Option Plan now covers 30,000,000 shares of our common stock. As of September 19, 2006, there were 17,360,000 of our common stock available for further grant under the 2005 Stock Option Plan.

Compensation of Directors

We reimburse our directors for expenses incurred in connection with attending board meetings and on April 15, 2004, we approved of the following compensation for directors: annual compensation of $8,400 plus applicable taxes; meeting participation fees of $750 plus taxes; and for meeting participation by telephone, 50% of the regular meeting compensation. During the fiscal year ended June 30, 2006 we paid a total of $60,501 to directors as compensation.

Other than as described in the paragraph above, we have no present formal plan for compensating our directors for their service in their capacity as directors. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board. The board may award special remuneration to any director undertaking any special services on behalf of our company other than services ordinarily required of a director. Other than indicated in this annual report, no director received and/or accrued any compensation for his or her services as a director, including committee participation and/or special assignments during the fiscal year ended June 30, 2006.

We granted 2,500,000 stock options to directors of our company during the year ended June 30, 2006.

Executive Employment Agreements

There are no written employment or consulting agreements between our company and any of our directors and executive officers, except for the following:

(a) an agreement with Yossi Keret dated May 29, 2004, under which Mr. Keret is paid 33,000 New Israeli Shekels per month (US$7,290 at a conversion rate of 4.52645 NIS to the $US);

(b) a consulting agreement dated September 26, 2005 with Zami Aberman, under which Mr. Aberman is paid an equivalent of US$13,000 per month in New Israeli Shekels at the then current exchange rate plus Value Added Tax; and

(c) a consulting agreement dated November 24, 2005 with Meretzki Consulting Ltd., a company incorporated under the laws of the state of Israel and wholly owned by Dr. Shai Meretzki, under which Meretzki Consulting Ltd. is paid a monthly retainer of 60,000 New Israeli Shekels ($12,755.50 USD at current exchange rate) plus Value Added Tax. Dr. Shai Meretzki is provided with a cellular phone and a company car pursuant to the terms of the consulting agreement.

For a portion of fiscal 2005, we paid Dr. Mendi Ze'evi, our former Chief Executive Officer, a monthly gross compensation of $15,000. During the year ended June 30, 2005, we paid Dr. Ze evi a total of $47,236. On October 17, 2004, Dr. Mendi Ze evi ceased to be CEO of our company and his contract was not renewed.

Arrangements and plans to provide pension, retirement or similar benefits for directors or executive officers will be decided upon by the compensation committee. We do not have any material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that we have agreed to pay Mr. Aberman two (2%) percent of any financings we conduct through August 2007 and we have agreed to pay Mr. Keret certain bonuses for financings, depending on the amount raised. We have no plans or arrangements in respect of remuneration received or that may be received by our executive officers to compensate such officers in the event of termination of employment (as a result of resignation, retirement, change of control) or a change of responsibilities following a change of control, where the value of such compensation exceeds $60,000 per executive officer, except Dr. Shai Meretzki, whose termination provisions provide for 6 months payment on termination, which at current salary would total approximately $120,000. Additionally, Mr. Aberman s stock options fully vest upon a change of control.

Pension, Retirement or Similar Benefit Plans

There are no arrangements or plans in which we provide pension, retirement or similar benefits for directors or executive officers, except that our directors and executive officers may receive stock options at the discretion of our board of directors. We do not have any material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that stock options may be granted at the discretion of our board of directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

The following table sets forth, as of September 5, 2006, certain information with respect to the beneficial ownership of our common stock by each security holder known by us to be the beneficial owner of more than 5% of our common stock and by each of our current directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

Title of Class	**Name and Address of Beneficial Owner**	**Amount and Nature of Beneficial Owner[1]**	**Percentage of Class***
Common Shares	Zami Aberman Chief Executive Officer, Chairman of the Board, President and Director 63 Rabutzky Street	1,848,000[2]	2.4%

Raanana, Israel

Common Shares	Shai Meretzki Chief Technology Officer of Pluristem, Ltd. 38 Raul Wallenberg Haifa, Israel	10,668,170[3]	14.3%
Common Shares	Joseph Corso 15 Ottavio Promenade Staten Island, NY 10307	7,000,000	9.5%
Common Shares	Hava Meretzki Director 38 Raul Wallenberg Haifa, Israel	584,377[4]	0%
Common Shares	Doron Shorrer Director 33 Koreh Hadorot Street Jerusalem, Israel	779,170[5]	0%
Common Shares	Israel Ben-Yoram Director 24 Barkan Street Rishon Lezion, Israel	401,089[6]	0%
Common Shares	Isaac Braun Director 9 Zeharia Street, POB 402 Bene Barak, Israel	405,594[7]	0%
Common Shares	Yossi Keret Chief Financial Officer Hanesi im Street 6/19 Hod Hasharon, Israel	861,170[8]	0%
Common Shares	Ora Burger Vice President, Development 5 Bulchin St. Haifa 32882 Israel	443,838[9]	0%
Common Shares	Directors and Officers (as a group)	15,991,408[10]	19.4%

0% is indicated for amounts less than 1%

[1] Based on 73,909,663 shares of common stock issued and outstanding as of September 5, 2006. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power

with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants or right to purchase or through the conversion of a security currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for purposes of computing the percentage ownership of the person holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

(2) Mr. Aberman was granted 4,500,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 1,848,000 includes all options to be vested to and including November 16, 2006.

(3) 4,802,000 of which are registered under the name of A.R.Y. Holdings Ltd., which are owned and controlled by Dr. Shai Meretzki. 451,170 of which are options to purchase shares of common stock granted on December 30, 2003 that are currently exercisable or exercisable within 60 days. 2,400,000 of which were granted in connection with the issuance of Notice of Allowance by the United States Patent Office for our patent application number 09/890,401. 2,400,000 of which are warrants to purchase shares of common stock granted in connection with the issuance of Notice of Allowance by the United States Patent

Office for our patent application number 09/890,401. Dr. Meretzki was granted 1,500,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 10,668,170 includes all options to be vested to and including November 16, 2006.

(4) Representing options to purchase shares of our common stock granted on December 30, 2003 and January 17, 2006 that are currently exercisable or exercisable within 60 days. Ms. Meretzki was granted 600,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 584,377 includes all options to be vested to and including November 16, 2006.

(5) Representing options to purchase shares of our common stock granted on December 30, 2003 and January 17, 2006 that are currently exercisable or exercisable within 60 days. Mr. Shorrer was granted 800,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 779,170 includes all options to be vested to and including November 16, 2006.

(6) Representing options to purchase shares of our common stock granted on January 17, 2006 that are currently exercisable or exercisable within 60 days. Mr. Ben-Yoram was granted 600,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 401,089 includes all options to be vested to and including November 16, 2006.

(7) Includes warrants exercisable into 75,000 shares of our common stock that are currently exercisable or exercisable within 60 days and 234,594 options to purchase shares of our common stock granted on January 17, 2006 that are currently exercisable or exercisable within 60 days. Mr. Braun was granted 600,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 405,594 includes all options to be vested to and including November 16, 2006.

(8) Representing options to purchase shares of our common stock granted on May 18, 2004 and January 17, 2006 that are currently exercisable or exercisable within 60 days. Mr. Keret was granted 1,000,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 861,170 includes all options to be vested to and including November 16, 2006.

(9) Representing options to purchase shares of our common stock granted on December 30, 2003 and January 17, 2006 that are currently exercisable or exercisable within 60 days. Ms. Burger was granted 1,000,000 options to purchase shares of common stock pursuant to our 2005 Stock Option Plan, exercisable at $0.10 per share until January 16, 2016. These options vest as follows: 25% on July 16, 2006, 4% on the 7 month and each successive month anniversary to and including the 23 month anniversary and the balance on the 24 month anniversary. The number 443,838 includes all options to be vested to and including November 16, 2006.

(10) Includes options to purchase 6,236,408 shares of our common stock and warrants to purchase 2,475,000 shares of our common stock, that are currently exercisable or exercisable within 60 days.

Changes in Control

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change of control of our company.

Item 12. Certain Relationships and Related Transactions.

Except as otherwise indicated below, we have not been a party to any transaction, proposed transaction, or series of transactions in which the amount involved exceeds $60,000, and in which, to its knowledge, any of its directors,

officers, five percent beneficial security holder, or any member of the immediate family of the foregoing persons has had or will have a direct or indirect material interest.

Dr. Shai Meretzki is a signatory of the License Agreement with the Weizmann Institute of Science and the Technion-Israel Institute of Technology because he was an inventor of the technology listed in the License

Agreement. Dr. Meretzki is our former Chief Executive Officer and an affiliate of our company through his indirect acquisition of shares of our common stock.

The promoters of our company are our directors and officers.

PART IV

Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

Exhibits required by Item 601 of Regulation S-B

(3) Articles of Incorporation and Bylaws

3.1 Articles of Incorporation (incorporated by reference from our registration statement on Form SB-2 filed September 10, 2001).

3.2 Bylaws (incorporated by reference from our registration statement on Form SB-2 filed September 10, 2001).

3.3 Restated Bylaws (incorporated by reference from our Quarterly Report on Form 10-QSB filed November 19, 2003).

(10) Material Contracts

10.1 Software Development Agreement (incorporated by reference from our registration statement on Form SB-2 filed September 10, 2001).

10.2 Exclusive, World Wide Patent and Technology License and Assignment Agreement (incorporated by reference from our Current Report on Form 8-K filed May 6, 2003).

10.3 Form of Common Stock and Warrant Purchase Agreement between our company and each of the following investors who participated in the October 25, 2004 Private Placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.4 Form of Investors Rights Agreement between our company and each of the following investors who participated in the October 25, 2004 Private Placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.5 Form of Escrow Agreement between our company and each of the following investors who participated in the October 25, 2004 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.6 Form of Warrants between our company and each of the following investors who participated in the October 25, 2004 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.7 Form of Agents Warrants between our company and each of the following agents who participated in the October 25, 2004 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.8 Agreement dated January 12, 2005 between our company and Carlthon Corp. in respect of the January 24, 2005 private placement.

10.9 Form of Common Stock and Warrant Purchase Agreement between our company and each of the investors who participated in the January 24, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.10 Form of Investors Rights Agreement between our company and each of the following investors who participated in the January 24, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.11 Form of Escrow Agreement between our company and each of the following investors who participated in the January 24, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.12 Form of Warrants between our company and each of the following investors who participated in the January 24, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.13 Form of Common Stock Purchase Agreement between our company and each of the following financial advisers who participated in the January 24, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.14 Form of Agents Warrants between our company and each of the following agents who participated in the January 24, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.15 Finder s Fee Agreement for 1,200,000 shares between our company and Carlthon Corp. in respect of the January 24, 2005 private placement. (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.16 Form of Private Placement Subscription Agreement between our company and each of the following investors who participated in the January 31, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.17 Form of Investors Rights Agreement between our company and each of the following investors who participated in the January 31, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.18 Form of Escrow Agreement between our company and each of the following investors who participated in the January 31, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.19 Form of Warrants between our company and each of the following investors who participated in the January 31, 2005 private placement (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.20 Agent s Purchase Agreement between our company and Yokim Asset Management Corp. in respect of the January 31, 2005 private placement. (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.21 Agent s Warrant for 600,000 warrants between our company and Yokim Asset Management Corp. in respect of the January 31, 2005 private placement. (incorporated by reference from our registration statement on Form SB-2 filed April 27, 2005).

10.22 Form of Securities Purchase Agreement between our company and each of the investors who participated in the April 3, 2006 senior secured convertible debenture private placement (incorporated by reference from our 8-K filed April 3, 2006).

10.23 Form of Debenture between our company and each of the investors who participated in the April 3, 2006 senior secured convertible debenture private placement (incorporated by reference from our 8-K filed April 3, 2006).

10.24 Form of Warrants between our company and each of the investors who participated in the April 3, 2006 senior secured convertible debenture private placement (incorporated by reference from our 8-K filed April 3, 2006).

10.25 Form of Registration Rights Agreement between our company and each of the investors who participated in the April 3, 2006 senior secured convertible debenture private placement (incorporated by reference from our 8-K filed April 3, 2006).

10.26 Form of Security Interest Agreement between our company and each of the investors who participated in the April 3, 2006 senior secured convertible debenture private placement (incorporated by reference from our 8-K filed April 3, 2006).

(21) Subsidiaries

Pluristem, Ltd., an Israeli company.

(31) Rule 13a-14(a)/15d-14(a) Certifications

31.1* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Zami Aberman.

31.2* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Yossi Keret.

(32) Section 1350 Certifications

32.1* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Item 14. Principal Accounting Fees and Services

Audit Fees

The aggregate fees billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for professional services rendered for the audit of our annual financial statements included in our annual report on Form 10-KSB for the fiscal year ended June 30, 2006, for the review of quarterly financial statements included in our quarterly reports on Form 10-QSB for the quarters ending September 30, 2005, December 31, 2005 and March 31, 2006 and for the review of our SB-2 were $56,000.

The aggregate fees billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for services rendered for the audit of our annual financial statements included in our annual report on Form 10-KSB for the year ended June 30, 2005 and for the review of quarterly reports on Form 10-QSB for the quarters ending September 30, 2004, December 31, 2004 and March 31, 2005, were $50,000.

Audit Related Fees

None

We do not use Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally or by other service providers. We do not engage Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, to provide compliance outsourcing services.

Tax Fees

The aggregate fees billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, in the year ended June 30, 2006 for the professional services rendered for tax related matters were $26,000.

The aggregate fees billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, in the year ended June 30, 2005 for the professional services rendered for tax related matters were $5,000.

Other Fees Application to Chief Scientist of Israel

The aggregate fees billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for the application to the Chief Scientist of Israel were $10,000. Other services in 2006 included assistance in submitting an application to the Office of the Chief Scientist of Israel. In 2005 no other services were given and billed.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, is engaged by us to render any auditing or permitted non-audit related service, the engagement be:

1. approved by our audit committee; or

2. entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the audit committee before the services were rendered.

The audit committee has considered the nature and amount of fees billed by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Kost Forer Gabbay & Kasierer's

independence.

SIGNATURES

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

Pluristem Life Systems Inc.

By: /s/ Zami Aberman
(Zami Aberman, Chief Executive Officer,
Principal Executive Officer)

Date: September 21, 2006

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

By: /s/ Yossi Keret
(Yossi Keret, Chief Financial Officer,
Principal Financial Officer and Accounting
Officer)

Date: September 21, 2006