Verisante Technology Inc. (VRS)

Initial Report – May 7, 2012

Verisante Technology, Inc. is a medical device company committed to commercializing innovative systems for the early detection of cancer. The Verisante Aura is used for skin cancer detection and the Verisante Core for lung, colon and cervical cancer detection.

Skin cancer is currently still diagnosed based on visual examination by a dermatologist or general practitioner, leading to unnecessary biopsies and high costs. Results from both a preliminary clinical study on 274 lesions as well as a much larger follow-up study on 1,000 lesions, demonstrate that the Verisante Aura has significant diagnostic accuracy in distinguishing malignant from benign skin lesions, thus reducing unnecessary biopsies by 50 to 100 percent.

Verisante has received approval to market the Aura in Canada, the 27 EU member states, and Australia. The Company aims to start production and commercialization of the device in the second half of 2012.

Based on expected sales and earnings numbers we initiate coverage of Verisante Technologies with a buy recommendation and a price target of $2.60, which is more than 4 times today's stock price.

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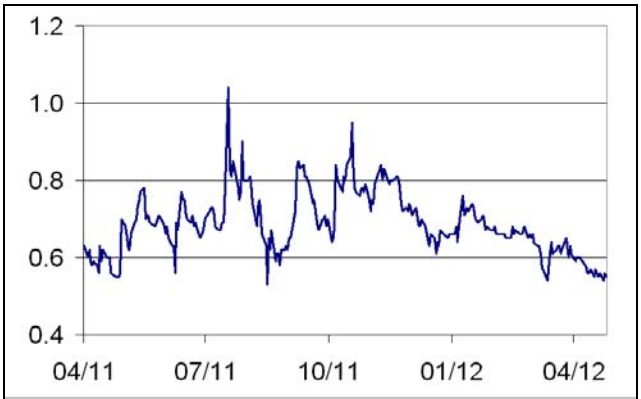
✓ Although the Aura will face competition once it enters the market, it has competitive advantages (speed, versatility for all types of skin cancer, greater accuracy, smaller probe) over all of them.

✓ Verisante also initiated the US Food and Drug Administration (FDA) approval process for the Aura. An initial meeting with the FDA is scheduled for the second quarter of this year.

✓ During a 26-patient pilot study, the Core was able to detect precancerous lung lesions with a sensitivity of 96% and specificity of 91%, which is a massive increase compared with the 60% average specificity today. These results indicate that the Core could set a new standard for the early detection of lung cancer.

✓ One of Verisante's major tasks is to navigate the regulatory frameworks of the various markets it wishes to enter. After all, a great product cannot be profitable if it is mired in a regulatory morass. The Company's CEO and CFO are specialists in regulatory and compliance filings.



Market Data	
Price	C$0.56
Sector	Medical Equipment
52-Week Price Range	C$0.50 - C$1.26
Shares Issued (m)	59.51
Market Cap (m)	C$33.33
Listings	VRS.V (TSX Venture)
	VRSEF (OTCQX)
	V3T.F (Frankfurt)
Website	http://www.verisante.com

The Company

Verisante is a medical device Company incorporated in March 2006 and committed to commercializing innovative systems for the early detection of cancer. The Verisante Aura for skin cancer detection and the Verisante Core for lung, colon and cervical cancer detection utilize a proprietary cancer detection platform while the operating software and probe technology are unique to each device.

Verisante has the exclusive worldwide rights to a technology developed by the BC Cancer Agency together with the University of British Columbia and refined and tested at the Skin Care Centre at Vancouver General Hospital, for in vivo, real-time, non-invasive skin lesion measurements for the detection of skin cancer.

The device called the Aura, can be used for the detection of all major forms of skin cancer, including basal cell carcinoma, squamous cell carcinoma and melonoma. It has been approved for sale in Canada, the European Union and Australia. Commercial sales will commence in he coming months.

The technology upon which Aura is based is also fully extensible to early detection systems for other types of cancer, including lung, gastro-intestinal, colorectal and cervical cancers. The Verisante Core series of devices will focus on these types of cancers.

Results of a pilot study with the Core indicate that the Company's system could set a new standard for the detection of lung cancer.

The Aura

Introduction

The Verisante Aura is a non-invasive optical device that helps medical professionals to determine if a suspect skin lesion is either skin cancer or a benign disorder.

The Aura is a much needed device as the number of skin cancers outnumbers all other cancers combined. And although the mortality rate for skin cancer is lower than other cancers, it can lead to death or disfigurement if left untreated. Similar to most other cancers, early detection is key. When melanoma is diagnosed and treated in the earliest stages, the survival rate is 99% and it costs about $1,800 to treat it. In the late stages, the survival rate drops to 15%, while the cost to treat it increases to $170,000.

Currently, skin cancer is diagnosed based on visual examination by a dermatologist or general practitioner. Unfortunately, the accuracy to correctly diagnose the condition is highly variable and dependent upon the level of formal training and experience of the clinician. Study results show that physicians in the US, on average, biopsy more than 40 suspicious lesions to find one melanoma, leading to unnecessary suffering and high costs.

The Verisante Aura scans for 21 different cancer biomarkers in less than 2 seconds thus providing immediate, accurate results.

Results from both a preliminary clinical study on 274 lesions as well as a much larger follow-up study on 1,000 lesions, demonstrate that the Verisante Aura has significant diagnostic accuracy in distinguishing malignant from benign skin lesions. As such, it offers the potential for reducing unnecessary biopsies by 50 to 100 percent.

Verisante has received approval to market the Aura in Canada, the 27 EU member states and Australia. The Company aims to start production and commercialization of the device in those countries in second half of 2012.

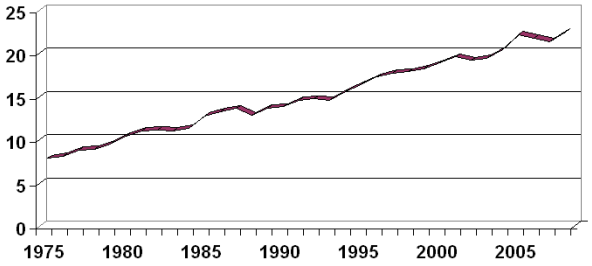
Verisante also initiated the U.S. Food and Drug Administration (FDA) approval process. A meeting will be held with the FDA to determine if Verisante can immediately file a Pre-Market Approval application (PMA) for the Aura, based on previous study results, or if it needs to conduct a clinical study in the United States as well.

A few devices, in different stages of development, compete with the Aura. Based on available information and study results, the Verisante Aura, has one or more distinct advantages over each of its competitors' devices.

Skin Cancer On The Rise

Skin cancer is the most common form of cancer and the number of incidents continues to rise at a rate of 3% per year. In fact, it now outnumbers all other cancer cases combined.

Australia is the skin cancer capital of the world. In Queensland, the sunshine state of the country, roughly 70 percent of the population is diagnosed with the condition in their lifetime. In Canada, there is a lifetime risk of 1 in 6 to get skin cancer and in the United States that number is 1 in 5. In Germany the incidence of skin cancers has tripled since 1980.



Incidence rates per year and per 100,000 people in the United States for melanoma of the skin between 1975 and 2008. Source: Surveillance, Epidemiology and End Results (SEER).

Basal-cell carcinoma (BCC) is the most common type of skin cancer as it accounts for approximately 80% of skin cancer diagnoses. It rarely kills, but it can cause significant destruction and disfigurement by invading surrounding tissues.

Squamous-cell carcinoma (SCC) accounts for about 16% of skin cancer cases and usually occurs on portions of the body commonly exposed to the sun. The risk of metastasis (spread of a disease from one organ to another non-adjacent organ) is low, but is already much higher than with basal-cell carcinoma.

Melanoma finally, is the least common form of skin cancer with about 4% of all cases. It's by far the most dangerous type however and causes the majority (75%) of skin cancer related deaths.

According to a report from the World Health Organization about 48,000 melanoma related deaths occur worldwide per year. While the mortality rate for skin cancer is lower than other cancers, it can lead to death or disfigurement if left untreated. Similar to most other cancers, early detection is key to saving the lives of skin cancer patients.

Skin cancer can happen to anybody, but it's mainly determined by genetic make-up and geographic location. Light-skinned, blond and redheaded people, for example, are most susceptible to it. The table below illustrates that Caucasians are 23 times more likely to get a melanoma than black people.

Race/Ethnicity	Incidence Rate per 100,000 People
White	25.3
Black	1.1
Asian	1.5
American Indian	3.8
Hispanic	4.8

Incidence rates by race for melanoma of the skin in the United States between 2004 and 2008. Source: Surveillance, Epidemiology and End Results (SEER).

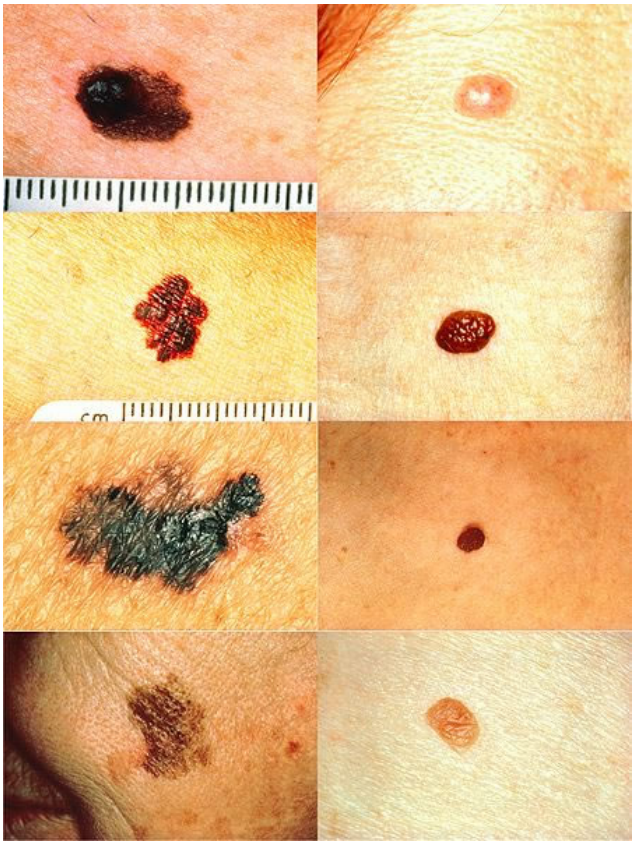
As far as geographic location is concerned, people in Australia, New Zealand, North America (especially Texas and Florida), Latin America, and Northern Europe are more likely to get skin cancer due to the combination of sun exposure and the degree of skin pigmentation in the population.

Current Screening Method

Skin cancer is currently diagnosed based on visual examination by dermatologists or general practitioners. They use the so-called ABCD-rule to determine whether a lesion should be biopsied. The definitive diagnosis requires excision of the suspect lesion, an undesirable and in many cases not practical solution especially in individuals with many suspect lesions.

The accuracy of clinicians in correctly diagnosing skin cancer is highly variable and dependent upon the level of formal training and experience of the clinician. According to a paper by Welch, et al, based

on SEER data from the National Cancer Institute, U.S. physicians typically biopsy more than 40 suspicious lesions to find one melanoma. Also, an Australian study, published in the British Journal of Dermatology, on 8,600 patients who went to a walk-in skin cancer clinic, showed only 33.8 percent **sensitivity** for melanoma.



ABCD rule illustration: On the left side from top to bottom: melanomas showing (A) Asymmetry, (B) a border that is uneven, ragged, or notched, (C) coloring of different shades of brown, black, or tan and (D) diameter that had changed in size. The normal moles on the right side do not have abnormal characteristics (no asymmetry, even border, even color, no change in diameter).

The Need For The Aura

The poor diagnosis numbers above prove that there's a need for a device which can rapidly screen and distinguish melanomas from other more benign lesions. Such a device is valuable for both dermatologists and general practitioners, who are responsible for flagging suspicious lesions and referring patients to dermatologists for follow up. That's where the Aura comes into play.

The Aura was jointly developed by the BC Cancer Agency (BCCA) and the University of British Columbia. Later, it was refined and tested at the Skin Care Centre at Vancouver General Hospital. The Aura uses a patent protected technology that provides instant data about the molecular structure of moles, indicating to dermatologists whether a biopsy is recommended or not.

The device uses Raman spectroscopy, a technique that subjects skin lesions to laser lights which measures the vibrational state of the bonds within molecules, causing a shift in the light, that is reflected back to the sensor. The magnitude and direction of this shift reveals the kind of molecules contained in the lesion. Because different skin lesions have different molecules in differing concentrations, it produces a diagnostic signature. So even if a mole looks benign, its specific spectral signature provides an accurate diagnosis in less than a second.

SENSITIVITY & SPECIFICITY

Sensitivity and specificity are statistical measures of the performance of a binary classification test.

Sensitivity measures the proportion of actual positives which are correctly identified as such (e.g. the percentage of sick people who are correctly identified as having the condition). Specificity measures the proportion of negatives which are correctly identified (e.g. the percentage of healthy people who are correctly identified as not having the condition).

As such, a perfect predictor would have 100% sensitivity (i.e. predict all people from the sick group as sick) and 100% specificity (i.e. not predict anyone from the healthy group as sick).

Preliminary clinical results, published in 2008, on the first 274 lesions scanned with the Aura show that the device caught each of the 34 cases of melanoma, which were confirmed by biopsy.

In a much larger follow-up study, measurements on over 1,000 lesions were acquired from 848 patients. The results of the analysis showed that Aura had a sensitivity of 99% with a specificity of 17% in differentiating all major skin cancers from benign lesions. At a sensitivity of 95%, Aura's specificity

increased to 41%. For melanoma versus benign lesions, Aura had a sensitivity of 99% with a specificity of 15%. At a sensitivity of 95%, specificity increased to 38%.

The Aura probe is small allowing it to scan hard to reach parts of the body such as around the eyes and ears.

These studies demonstrate that the Verisante Aura has significant diagnostic accuracy in distinguishing malignant from benign skin lesions and offers the potential for reducing unnecessary biopsies by 50 to 100 percent.

When skin cancer is diagnosed based on visual examination by a clinician, the biopsy ratios (the number of non-melanoma lesions that undergo biopsy for each confirmed melanoma) can range from 58:1 to 21:1, for new versus experienced general practitioners, and can be as high as 200:1 if all atypical pigmented lesions were to be biopsied to rule out melanoma.

When using the Aura to diagnose melanoma versus benign pigmented lesions at a sensitivity of 99% and a specificity of 15%, the biopsy ratio would be 5.6:1. At a sensitivity of 95% and a specificity of 38%, the biopsy ratio could decrease to 4.2:1. When using the Aura to diagnose skin cancer and pre-cancerous lesions versus benign lesions, at a sensitivity of 99% and a specificity of 17%, the Aura has a biopsy ratio of 1.03:1, and with a sensitivity of 90% and a specificity of 64%, the biopsy ratio can be as low as 0.49:1.

With the rising incidence of all types of skin cancers, innovative tools such as the Aura will become increasingly important to the healthcare system because it assists medical professionals in diagnosing skin cancer. This reduces the number of surgical biopsy procedures, which has significant economic benefits. Moreover, the Aura requires less extensive user training and expertise than other traditional diagnostic approaches.

Approval Process

With these study results, Verisante initiated the approval process for the Aura in Canada, the European Union and Australia.

First, in July of 2011, the Company successfully completed the certification process for ISO 13485:2003, an internationally recognized quality management standard for medical device manufacturers and a necessity for obtaining regulatory approval in the aforementioned countries.

The first country where Verisante obtained a license to market and sell the Aura was Canada in October of 2011. Interesting to know is that Health Canada's approval also clears the way for the Company to register the Aura for sale in Mexico and Brazil without having to do any further studies. Verisante has begun the registration process for these countries and expects to obtain Mexican registration in 2012 and Brazilian registration in 24 months.

One month later, it received notification of conformity to the European Medical Device Directive, allowing sales of the Aura in all the 27 EU member states, a $78 billion medical device market with over 21,000 dermatologists and 350 million people.

Late 2011, the device also received regulatory approval in Australia.

The Aura was approved to be used by all medical professionals, and not just dermatologists. This is important, because in most countries a general practitioner is the first line of defense as there's a shortage of dermatologists. This label also allows for medical imaging technologists and nurses to operate the device. Any lesion which is recommended for follow up would be referred to a medical doctor for intervention.

FDA Approval

Verisante initiated the US Food and Drug Administration (FDA) approval process for the Aura after it received approval in Canada and the EU. Simply because that's the chronology the FDA prefers for a non-US based company.

To help obtain FDA approval, Verisante hired Emergo Group, a regulatory consultant that helps medical device companies get marketing approval. Emergo Group is putting together a large technical file that will be submitted to the FDA in the second quarter of this year.

Emergo Group assists companies to get access to medical device markets worldwide. It helps Verisante to get FDA approval for the Aura.

After the FDA has had the opportunity to go through the information, a pre-Investigational Device Exemption meeting will be held with the FDA to receive regulatory guidance. The FDA may then decide that Verisante can immediately file a Pre-Market Approval application (PMA) for the Aura or that it needs to do a clinical study in the United States first to show the device's efficacy before filing a PMA. What may help Verisante is that Health Canada also requires a device to show that it's effective before it receives approval. And since the Aura received the OK from Health Canada, the FDA might decide it's not necessary to conduct a study.

If the FDA does decide that Verisante needs to do an additional study in the US, the Company would select a handful of sites that have a high flow through of patients who come in to be biopsied. Those patients would be scanned with the Aura, which takes less than one second, after which they're biopsied in the traditional way. Subsequently, the result of the Aura scan is compared with the pathology report.

Verisante roughly estimates a cost of between $1,000 to $1,500 per patient for the study. So if it had to do a study on 1,000 patients, it would cost between $1 million and $1.5 million in total and would probably take a few months to collect sufficient data. Following this route, Verisante expects FDA approval to take approximately 2 years.

A significant advantage of doing an additional clinical study in the US would be that by the time Verisante gets FDA approval, it will have lots of experience with manufacturing and distributing the Aura, and it will have figured out any potential problems before the device hits the US market.

Additionally, the countries where the Aura is currently approved, will serve as a test market for the United States so that when FDA approval is received, the Company has enough marketing data to show the thousands of potential American customers (there are 10,000 dermatologists in the US) that the whole system works and that they can make money with the Aura. This should result in immediate orders.

One final piece of important information, is that the FDA has previously required an endpoint sensitivity of 95% for a device that detects melanoma (see 'Competition' below). This bodes well for the Aura since the 1,000 lesion study showed 99% sensitivity.

Manufacturing

In August of 2011, Verisante engaged StarFish Medical, one of the best OEMs in Canada, to provide engineering services and expertise to get the Aura ready for manufacturing.

StarFish has a proven track record in medical device development and manufacturing and has established strong compliance with all industry standards. It has a good size facility and a fairly large staff.

For more than ten years, StarFish has provided practical and innovative solutions in all aspects of medical device design and manufacturing, from product definition and technical engineering to formal product development and volume production in a quality environment.

Starfish is equipped to manufacture approximately 40 Auras per month. Once demand surpasses that amount, it will assist Verisante to transition to a larger OEM. The problem with engaging a larger OEM right away is that they usually want a larger contract. And when a new product enters the market it's hard to estimate exactly how many units are going to be sold. As a result, most companies start with a smaller OEM.

Ten beta Aura systems are currently being completed, tested and placed for field testing.

Actual manufacturing and production is set to begin in the second half of the year.

Distribution

Next to choosing the right manufacturer, it's equally important to select a suitable distribution partner. For Canada, Verisante entered into an exclusive agreement with Clarion Medical Technologies to assist with the sales, distribution, and servicing of the Aura.

Clarion has solid relationships with the leading dermatologists and dermatology clinics across Canada and lots of experience in introducing innovative technologies to the dermatological community. Its current line of products directly relates to UV damage and skin care treatments, in addition to dermatological products and devices utilizing optical technologies for a variety of other medical applications. The Aura seems a natural addition to Clarion's existing product line.

Selections are ongoing for a distribution partner for Australia and the European Union where Verisante intends to target Germany, Austria and Switzerland first.

Revenue Model

Although no units have been sold yet, Verisante has already done its homework where the Aura's pricing is concerned. The Company aims to charge $60,000 for the device in Canada, or $1,000 per month amortized over a 60 months period, which is competitively priced compared to other devices in the dermatological field.

Next to the revenue stream from sales of the device, Verisante will also have recurring revenues as the Aura requires the use of a disposable end cap, or tip, to be replaced after each patient for health and sanitary reasons.

A third revenue source is servicing contracts. After the initial warranty of one year runs out, the lease company will require customers to go onto a service plan. The industry standard for such a plan is 10 percent of the capitalized cost of the equipment. Based on a $60,000 sales price for the Aura, the service plan will add approximately $6,000 per year per customer in revenues. To put the significance of this in perspective, other companies in the dermatological field, like the aesthetic laser company Syneron, get almost half of their revenue from service contracts.

The Company has projected that after the first few years the recurring revenue stream from the service plans and the sales of caps will exceed revenues from device sales. After approximately 5 years, Verisante sees its revenues equally divided between device sales, cap sales and service plan income.

For Europe and Australia, an exact price for the Aura still has to be set, but the Company believes the device will be somewhat more expensive because of higher costs for the warranty coverage and transportation.

The Aura Market

Market Size

There are three ways to measure the size of the market for Verisante's Aura:

- The number of potential patients based on the total population of the markets where the device is approved;
- The number of skin cancer cases within the markets where Aura is approved; and
- The number of potential customers for the device based upon the number of dermatologists and general practitioners active within a market.

Taking the **total population** to measure the potential size of the Aura market isn't as far stretched as it may sound, because more countries and institutions, like the American Cancer Society, suggest that every person should get screened regularly for skin cancer.

This is logical as early detection is key to saving the lives of melanoma patients and saving healthcare costs. When melanoma is diagnosed and treated in the earliest stages, the survival rate is 99 percent and it costs about $1,800 to treat it. In the late stages, the survival rate decreases to 15 percent, while the cost to treat it increases to $170,000. Germany even offers a reimbursement of 150 Euro under their state health insurance, which covers skin cancer screenings every two years for people aged 35 and older.

The European Union, where the Aura has been approved, has a total population of 350 million. Canada has a population of 35 million and Australia has close to 22 million people.

What the **number of skin cancers** is concerned, in Europe, statistics show that especially Germany seems to have a high need for the Aura as the

number of skin cancers has tripled since 1980 in that country. It's now about 20 percent higher than the rest of Europe, with melanoma accounting for 2,217 deaths each year.

The BC Cancer Agency predicts that one in six Canadians will be diagnosed with skin cancer at some point in their lifetime. According to the latest report by the Canadian Partnership Against Cancer, the number of estimated skin cancer cases in Canada in 2004 was more than 80,000. The report anticipates that number to rise above 200,000 by 2031. The same report estimates the total cost of treating skin cancer in Canada was over $500 million in 2004. Estimated costs to treat all types of skin cancers in Canada will rise to almost $1 billion by 2031.

In Australia matters are even worse. According to the Australian Government Department of Health, Australia has the highest skin cancer incidence rate in the world, at nearly four times the rates in Canada, the US and the UK. And thirteen times the global average. Australians are four times more likely to develop skin cancer than any other form of cancer. Approximately two in three Australians will be diagnosed with skin cancer before the age of 70. General practitioners in Australia have more than 1 million patient consultations per year for skin cancer.

A final way to estimate the market size, is to have a look at the **number of existing dermatologists**. In Europe, there are approximately 21,000 dermatologists, Germany being the main market with 5,500. In Canada there are 500 and Australia has about 300.

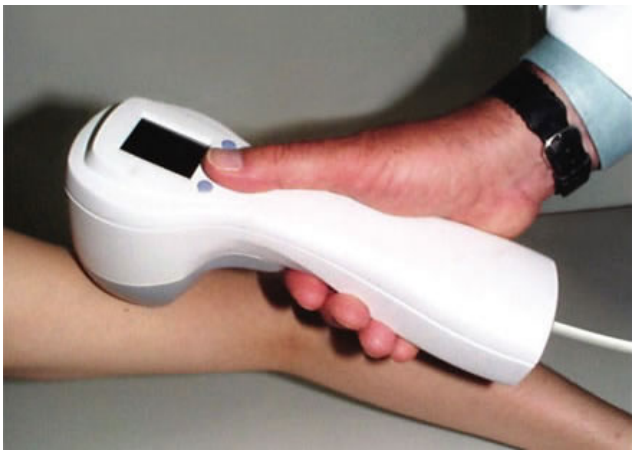
These are the numbers for the markets where the Aura has already been approved. An approval from the FDA to market the device in the US, would immediately double the Aura's market size. The US has a population of about 330 million people and it has around 10,000 dermatologists. In the United States, every year 2 million people are diagnosed with skin cancer where it now accounts for half of all cancers.

Once approval has been received, Verisante plans to market the Aura to dermatologists first, followed by general practitioners, hospitals, cancer agencies and medical imaging laboratories.

Competition

Verisante's Aura has three main competitors, which are in different stages of development.

MELA Sciences is a US public company (NASDAQ: MELA) headquartered in Irvington, New York. Its product, the MelaFind uses multispectral dermoscopy and computerized diagnostic algorithms for the detection of melanoma. Although the MelaFind has received FDA approval in November of 2011, it has a number of disadvantages compared with the Aura.



The probe of the MelaFind is quite big compared with the Aura's.

First of all, the MelaFind was approved by the FDA based on a study which showed a sensitivity of 98% and specificity of about 9.5% in the detection of melanoma. At 95% sensitivity (the minimum amount required by the FDA in the MelaFind study), the Aura's 1,000 lesion clinical trial data showed 41% specificity.

A second major distinction is that the Melafind is only approved for melanoma and its technology could only ever work for melanoma. So basically, it only covers 4% of the skin cancer market, and because the Aura detects all major skin cancers, the Aura covers the entire market, or 25 times the size of MelaFind's.

Additionally, MelaFind's label says that it can only be used by board certified dermatologists, while the Aura has been given approval to be used by all medical professionals.

Also, Mela Sciences charges dermatologists $50 for each lesion they scan and suggests they charge patients double. With the Aura, dermatologists only have to buy a $10 disposable cap for each patient.

And finally, it takes about 2 minutes to analyse one lesion with MelaFind, while the Aura takes under one second.

Lucid Inc. is also publicly traded in the US (OTCBB: LCDX) and is headquartered in Rochester, New York. Their product, Vivascope, is a confocal imaging device that has been cleared by the FDA for sale in the US. Vivascope is a device that images lesions for the detection of melanoma and other skin cancers. The images are then analysed by a pathologist for diagnosis.

VivaScope is currently in use in the US, Europe and Australia, and seems to be competitive with the Aura, except that it takes 10 to 20 minutes to scan one mole with the VivaScope and it requires a derma-pathologist to analyze the scan.

SciBase AB is a private Swedish company with a device known as the SciBase Electrical Impedance Spectrometer, or "SEIS", which is used to determine the malignancy of a mole. SciBase is currently engaged in a clinical study with the device. The product has not been approved by the FDA for sale in the US.

Unfortunately, not a lot of information is available on the SEIS. SciBase did announced that it was able to separate benign moles from malignant ones with a sensitivity exceeding 98% and specificity over 20% better than study dermatologists. An IDE approval has been granted for the study in the US by the FDA.

The Core

Verisante Technology is also developing a very promising device for the early detection of lung cancer, called the Core.

Lung cancer is the biggest cancer killer in the world, so it's really important to have a technology that can first of all detect lesions and secondly which can make the distinction between harmless benign lesions and malignant cancerous lesions.

Preneoplastic lesions of the bronchial tree have a high probability of developing into malignant tumors. Currently, the best method for localizing them for further treatment is a combined white light bronchoscopy and autofluorescence bronchoscopy. The average specificity from large clinical trials for this combined detection method is approximately 60%, leading to many false positives.

False positives are not desirable because, unlike with skin biopsies, doing a biopsy of lung tissue can lead to infections, hospitalization and sometimes even death. This is logical as a skin biopsy can be stitched up or treated with some kind of antibiotic cream, while that obviously is impossible inside someone's lung.

The Core is very similar to the Aura, except that the probe is a fiber optic probe which fits down the biopsy channel of a bronchoscope. The bronchoscope is put down a patient's airway, into the lungs. Using white light and fluorescence visualization suspicious lesions can be found. Then the Raman spectroscopy is used to determine if the lesion is malignant and should be biopsied.

During a 26-patients pilot study the Core was able to detect precancerous lung lesions with a sensitivity of 96% and specificity of 91%, which is a massive increase compared with the 60% average specificity today. These results indicate that the Core could set a new standard for the early detection of lung cancer.

A larger clinical study is currently underway at the Lung Tumor Center at Vancouver General Hospital and is scheduled to be completed around the coming summer. Based on those results, Verisante will seek to get approval in Canada from Health Canada, the CE Mark in the European Union and Australian registration.

The Company owns, co-owns, or has the exclusive rights to all of the technology used in the pilot study, which was funded by the Canadian Institutes of Health Research and the Canadian Cancer Society. Additionally, the Core technology is extensible to the detection of gastro intestinal tract cancers including colorectal cancer, and cervical cancer for which Verisante also has the exclusive world wide rights.

The Core Market

The market potential for the Core is strong as there are approximately 1.4 million lung cancer deaths per year worldwide. Especially people who have smoked their entire lives are at risk.

Verisante believes that the major markets for the Core are Canada, the United States, Europe and also countries like China, where, due to industrialization and increased smoking, lung cancer rates are skyrocketing.

The United States and Europe both have about a thousand hospitals that do bronchoscopy, so those are all potential customers for the Core.

Financials

Third Quarter 2011 Results

Verisante recorded a loss of $987,663 for the three months ended September 30, 2011 versus a loss of $400,248 in the comparable quarter last year. The bigger loss can mainly be attributed to an increase in both Stock Based Compensation of $435,370 and General and Administration costs of $156,288.

	09/30/11	09/30/10
Net Sales	-	-
Cost of Goods Sold	-	-
G & A Expenses	390,809	234,521
Stock Based Compensation	513,338	77,968
Loss From Operations	**1,002,501**	**395,991**
Interest Income	14,805	-
Net Loss	**987,663**	**400,248**
Diluted Earnings Per Share	(0.02)	(0.01)
Diluted Shares Outstanding	59,507,526	34,962,635

Most important income statement data for the quarters ending September 30, 2011 and September 30, 2010. Source: Company Filings

Salaries constituted the majority of the increase in General and Administration costs, increasing to $326,465 for the nine months ending September 30, 2011 from $102,953 for the same period in 2010. Professional fees also increased by $72,924, from $50,877 in 2010 to $123,801 in 2011 as the Company increases staffing levels related to commercialization efforts. On September 30, 2011, the Company had four fulltime employees and nine full-time and part-time scientific and engineering consultants. Finally, there was also an increase in promotional costs.

It's good to see that Verisante is "fabless", meaning that it handles very little in-house and outsources as much as possible to keep fixed costs low. Thanks to this structure, initial sales will immediately have a positive effect on the bottom line.

Balance Sheet As Of September 30, 2011

Verisante has a healthy balance sheet thanks to two private placements it completed in the first half of last year.

In February of 2011, the Company completed a private placement of 4,000,000 units at a price of $0.25 per unit for gross proceeds of $1,000,000. Each unit consisted of one common share of the Company and one common share purchase warrant. Each full warrant entitled the holder to acquire a common share at a price of $0.30 for a period of two years from the date of issuance.

	09/30/11	09/30/10
Cash and Cash Equivalents	3,119,720	567,698
Short Term Investments	3,000,000	-
Sales Taxes Receivable	152,639	33,872
Inventory	-	33,482
Total Current Assets	6,416,037	865,111
Intangible Assets	1,877,599	719,430
Total Assets	**8,332,884**	**1,600,195**
Accounts Payable	218,832	107,425
Total Current Liabilities	218,832	107,425
Total Liabilities	**218,832**	**107,425**
Total Stockholder Equity	8,114,052	1,492,770

Most important balance sheet data for the periods ending September 30, 2011 and September 30, 2010. Source: Company Filings

Two months later, the Company closed another financing for 12,500,000 units at a price of $0.40 per unit for gross proceeds of $5,000,000. Each unit consisted of one common share of the Company and one common share purchase warrant. Each full warrant entitled the holder to acquire a common share at a price of $0.50 for a period of two years from the date of issuance.

Thanks to these placements, the Company has sufficient cash to execute all its plans in the foreseeable future.

Recent Events

Core Named Top 10 Cancer Breakthrough of 2011

In January of 2012, the Canadian Cancer Society awarded the Core's research study using the Laser Raman Spectroscopy as one of the Top 10 cancer research achievements for 2011.

The research study, published in the Journal of Thoracic Oncology, showed that the Verisante

Core's Laser Raman Spectroscopy System was able to detect pre-cancerous lung lesions with 96 percent sensitivity and 91 percent specificity when used in combination with existing methods. The Canadian Cancer Society recognized that based on this study the Core could improve early detection of lung cancer and reduce the number of false positives associated with other methods.

TSX Venture Top 50

In February of 2012, Verisante was named the top ranking Technology and Life Sciences Company in the TSX Venture 50. The TSX Venture Exchange's annual list of its top 50 emerging publicly traded companies is a ranking of the strongest performers from five industry sectors: clean technology, diversified industries, mining, oil & gas and technology & life sciences.

Out of 183 companies, Verisante ranked number one on the list of leading Technology and Life Sciences companies for the year. Companies are selected based on four equally weighted criteria – return on investment, trading activity, market capitalization growth, and analyst coverage.

In honor of this award, Mr. Thomas Braun, Verisante's President and CEO, was asked to participate in the opening of the TSX Venture Exchange on Tuesday April 3, 2012.

This number one ranking by the TSX Venture Exchange really underscores the breakthrough the Company has had in 2011. It was also recognized by a selection of Canada's professional investment community, including Fund managers, analysts, bankers, and retail brokers, who named Verisante the "Pick of the Street" in the Technology and Life Sciences Sector of the TSX Venture Exchange.

Aura Awarded With "Best of What's New"

Late last year, the editors of Popular Science magazine named Verisante's Aura a top technology innovation of 2011, receiving one of the magazine's coveted "Best of What's New" awards.

Each year, Popular Science, the world's largest science and technology magazine, with 6.8 million monthly readers, reviews thousands of products in search of the top 100 tech innovations of the year. The winners are awarded inclusion in the much anticipated December issue of Popular Science, which is the most widely read issue of the year. Best of What's New Awards are presented to 100 new products and technologies in 11 categories.

Outlook

Verisante has a bright future ahead. It's currently building the first 10 beta units of the Aura and is on track to start full production in the second half of 2012.

The technology behind the Aura has the potential to become the best in class modality for field imaging for the localization of cancerous lesions. Once Verisante has launched the Aura it also intends to remain best in class through continuous improvement and acquisition of the latest technologies. For example, over the past 18 months the Company as acquired the rights to a broad portfolio of over 24 patents and pending patents for cancer detection, including white light reflectance imaging, fluorescence imaging, rapid Raman spectroscopy, and rapid multi-spectral imaging.

Although the Aura will face limited competition once it enters the market, it has competitive advantages (speed, detection of all major skin cancers, greater accuracy, smaller probe) over all of them. Because the cost of the device will most likely be comparable with the competition, we believe customers will opt for the Aura.

A pre-IDE meeting with the FDA is on the agenda where the Company will receive formal guidance from the FDA on what it needs to do to get approval

to market the Aura in the United States. Approval in the US will open up a huge additional market for the Aura.

Studies at the Lung Tumor Center at Vancouver General Hospital with Verisante's Core device, to detect long cancer, are scheduled to be completed during the summer of 2012. Initial results with the Core were very promising.

Aura Economics

Despite all the benefits the Aura has, it's equally important that it's attractively priced so that physicians can make enough money with it.

Let's assume that a physician scans 4 patients per day and that he charges $200 per patient, with a cost per patient (salary, a disposable cap, fixed costs, etc) of roughly $60. That would make a monthly (20 business days) profit of $6,400, which significantly exceeds the expected $1,000 monthly amortized lease price.

Verisante's management also spoke with numerous Canadian dermatologists to find out if patients would be willing to pay for skin cancer screening with the Aura. The response was "Yes, they would". This was vital, as third-party reimbursement is not available for skin cancer screening, except in Germany where the German health insurance service pays 150 Euros to doctors for each screening.

Valuation

Because the Core is still in the clinical study phase and because we have no idea at this stage when and if the device will enter the market, we'll exclude the Core from our revenue and earnings model.

Verisante has said it will most likely charge $60,000 for the Aura itself and $10 for each disposable cap. Based on averages in the medical device industry, we assume that gross margins will be close to 50% for the device and 95% for the caps. Additionally, Verisante will start to make money with service contracts once devices have been installed more than one year. We expect margins on service contracts to be in the neighborhood of 50%.

The Company will initially target the almost 22,000 dermatologists in Canada, Europe and Australia. The general practitioners market, which is several times the size of the dermatologists market, will be handled right after that.

We conservatively estimate that Verisante will be able to sell 120 Aura's during the first year after it has been launched. For the second year, we foresee a sales estimate of 360 devices. And for the third year, we expect sales to hit 900 devices because the Aura will also be approved in US by that time. It's clear if the FDA decides that no additional studies in the US are necessary, sales numbers will have to be adjusted upwards for the first two years.

Based on these numbers, we estimate that Verisante will reach revenues of $2.8 million in 2012, $14.4 million in 2013 and $41.8 million in 2014. This leads to discounted earnings per share of -0.03, 0.05 and 0.13 for 2012, 2013 and 2014 respectively.

Amounts in $000's	2012E	2013E	2014E
Total Revenue	2,800	14,400	41,800
Discounted Net Income per Share	(0.03)	0.05	0.13

Annual sales and earnings FY 2012E – 2014E. Source: Smallcaps.us estimates

Applying the discounted $0.13 EPS projection to a 20x P/E multiple, which is very reasonable for the medical equipment sector, we reach the following calculation: $0.13 discounted EPS multiplied by 20 = $2.60.

Based on these calculations, we initiate coverage of Verisante Technologies with a buy recommendation and a price target of $2.60, which is more than 4 times today's stock price.

Share Data & Ownership

As of September 30, 2011, there were 59,507,526 common shares outstanding spread over more than 2,000 shareholders. The principal owners of the Company's common stock are Thomas Braun (16.80%), Blumont Capital (2.10%) and Fidelity (1.09%).

It's very positive to see that management is a large shareholder, as it will try to advance the Company, and its share price, while keeping dilution to a minimum.

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees. The maximum number of outstanding options must be no more than 6,617,468 options at any point in time. The term of the options must be no longer than 10 years and the directors determine the vesting period. On September 30,

2011, Verisante had 3,845,000 options outstanding with an average exercise price of $0.33.

Type of Securities	Number of Securities
Common shares	59,507,526
Options	3,845,000
Warrants	16,037,600
Outstanding shares, warrants and options for Verisante Technology Inc. as of September 30, 2011.	

Additionally, there were 16,037,600 warrants outstanding with an average exercise price of $0.44.

Management

One of Verisante's major tasks is to navigate the regulatory frameworks of the various markets that it wishes to enter. After all, a great product can't be profitable if it's mired in a regulatory morass. The Company's CEO and CFO are specialists in regulatory and compliance filings.

Additionally, to continue to improve and develop the Aura and Core, Versante has attracted qualified and dedicated physicians and scientist to its product development and clinical advisory boards.

➢ Thomas Braun - President and CEO

Prior to founding Verisante, Mr. Braun practiced corporate securities law at Braun and Co., specializing in representing small high tech public companies. Mr. Braun earned a BA degree from the University of Western Ontario, a Juris Doctor (JD) degree from the University of British Columbia, and a Master of Laws (LLM) degree from the University of San Francisco specializing in International Business Transactions. He is a member of the State Bar of California, and the American Bar Association; and is also a member of the Law Society of British Columbia and the Canadian Bar Association. He is also admitted to practice before the Federal Court for the Northern District of California and the Ninth Circuit Court Appeals.

➢ Anna Trinh - CFO, Corporate Counsel

Ms. Trinh obtained a Bachelor of Commerce (Finance) and a Bachelor of Laws degree from the University of British Columbia and was admitted to the British Columbia Bar in August 2007. She's a member of the Law Society of British Columbia, the Canadian Bar Association (BC) and the Canadian Corporate Counsel Association. Ms. Trinh has over ten years experience in advising OTC and Venture Listed Companies regarding regulatory and other compliance filings, general corporate finance and corporate management matters.

➢ Branko Palcic – Ph. D.

Dr. Branko Palcic holds a Ph.D. in Biophysics from McMaster University. He is currently both an Honorary Professor for the Department of Pathology and Laboratory Medicine, and was an Adjunct Professor for the Department of Physics, at the University of British Columbia. He was the founder and Senior Scientist of the Cancer Imaging Department, as well as the Director of Technology Development, with the BC Cancer Agency. Dr. Palcic's research interests include the development of methods for detection, diagnosis, and prognosis of early cancer and precancerous lesions.

➢ Dr. Haishan Zeng – Ph. D.

Dr. Haishan Zeng holds a Ph.D. in Biophysics from the University of British Columbia. He is currently a Senior Scientist in the Integrative Oncology Department (Imaging Unit) at the BC Cancer Agency and also an Associate Professor of Dermatology and Skin Science at the University of British Columbia. Dr. Zeng's research focus is on the optical properties of biological tissues and light-tissue interaction and their applications in medical diagnosis and therapy and is named on numerous patents, including the patents that Verisante Technology has licensed from the BC Cancer Agency.

Annual Income Statement FY 2008 – 9M 2011

PERIOD ENDING	FY 2008	FY 2009	FY 2010	9M 2011
Total Revenue	-	**30,459**	**11,409**	-
Cost of Revenue	-	7,280	8,640	-
Gross Profit	-	**23,179**	**2,769**	-
Operating Expenses				
Research and Development	369,823	285,447	214,623	6,667
General and Administrative	542,220	438,393	1,084,915	1,173,141
Stock Based Compensation	15,000	304,452	209,161	941,057
Royalty Payments	-	33,296	-	97,096
Others	4,188	87,685	141,464	259,960
Total Operating Expenses	931,231	1,149,273	1,650,163	2,477,921
Operating Income (Loss)	**(931,231)**	**(1,126,094)**	**(1,647,394)**	**(2,477,921)**
Other Income (Expenses)				
Government Grants	40,445	268,222	160,018	-
Interest Income	5,659	-	-	28,326
Foreign Exchange Gain (Loss)	9	(3,890)	2,774	(2,660)
Write-off of Inventory	-	-	-	(33,285)
Total Other Income (Expenses)	46,113	264,332	162,792	(7,619)
Net Income (Loss)	**(885,118)**	**(861,762)**	**(1,484,602)**	**(2,485,540)**
Net Income (Loss) per Share	**(0.04)**	**(0.03)**	**(0.04)**	**(0.05)**

Annual Income Statement FY 2008 – 9M 2011. Source: Company Filings

TSX Venture Exchange: VRS

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