Verisante Technology Inc. (VRS)

Update Report – September 10, 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, while the Verisante Core, which is still in development, is applicable for lung, colon and cervical cancer detection.

Skin cancer is currently 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. Production and commercialization of the device is aimed to start later this year. Moreover, the FDA approval process for the Aura has been initiated in the United States.

Based on expected sales and profit margins for the Aura, we reiterate our buy recommendation for Verisante Technology with a price target of $2.40, which is more than 4 times today's stock price.

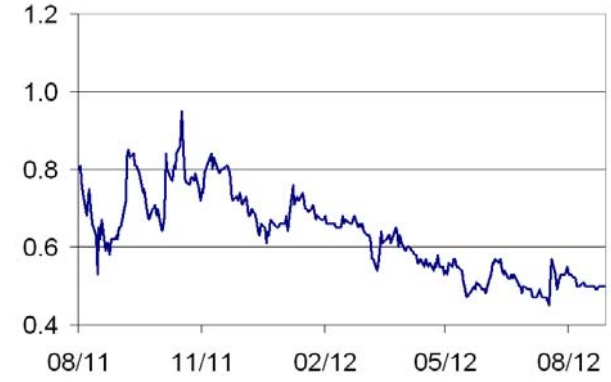
verisānte™

✓ Although the Aura faces competition once it enters the market, it has several competitive advantages like speed, versatility for all types of skin cancer, greater accuracy and a smaller probe.

✓ Verisante has the exclusive worldwide rights to the Aura and Core technologies, which were developed by the BC Cancer Agency together with the University of British Columbia.

✓ 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 significant increase compared with the 60% average specificity today. When these results are repeated in a follow-up study, 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$0.53
Sector	Medical Equipment
52-Week Price Range	C$0.50 - C$1.26
Shares Issued (m)	64.80
Market Cap (m)	C$34.35
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 Aura can be used for the detection of all major forms of skin cancer, including basal cell carcinoma, squamous cell carcinoma and melanoma and it has already been approved for sale in Canada, the European Union and Australia. Commercial sales will commence in the coming months.

Results from a 1,000 lesions study indicate that the Aura performs much stronger than its existing competitors.

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.

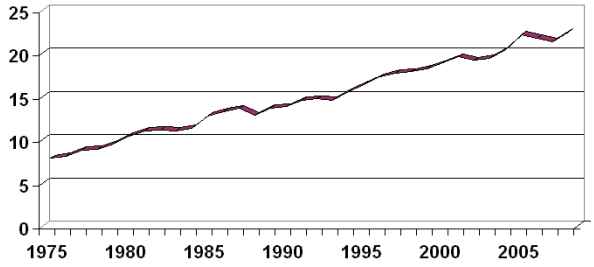
Results of a pilot study with the Core indicate that the Company's system could set a new standard for the detection of lung cancer.

The Aura

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 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.

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).

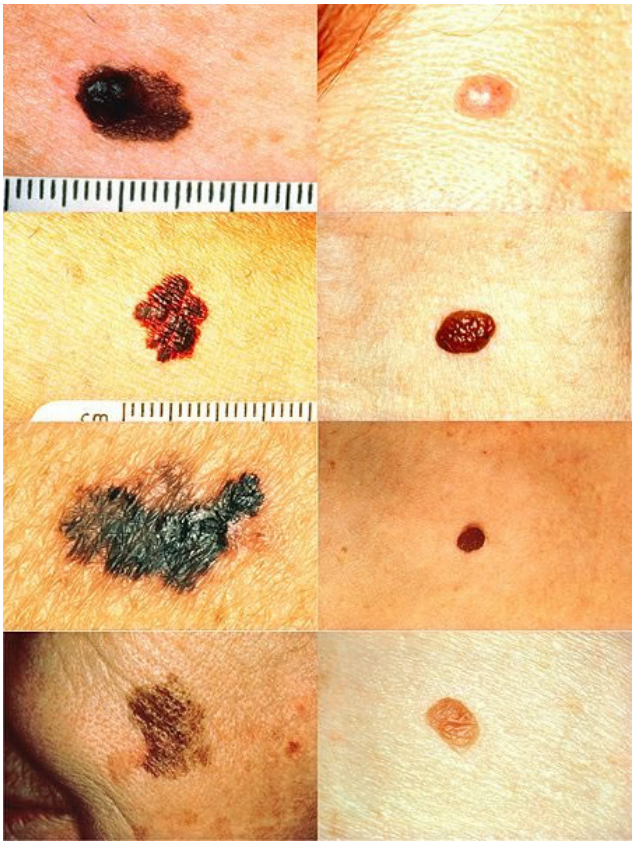
Skin cancer can happen to anybody, but it's mainly determined by genetic make-up and geographic location. Light-skinned, blond and redheaded

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.

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.



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 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.

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).

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 when a mole looks benign, its specific spectral signature provides an accurate diagnosis in less than a second.

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 additional diagnoses 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 late 2012 or early 2013 and Brazilian registration within 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.

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 10,000 dermatologists in the US that the whole system works and that they can make money with the Aura.

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 order to keep its own manufacturing capacity to a minimum, Verisante engaged StarFish Medical, one of the best OEMs in Canada, to provide engineering services and to manufacture the Aura. 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.

Late July of 2012, StarFish delivered the first two pre-production units, also called Gamma units, of the Aura. These will mainly be used for demonstration, sales and marketing support.

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.

The first Aura Gamma units will be used for extensive demonstration, sales and marketing support.

First Aura Units in the Field

Mid June 2012, Verisante placed the first Beta units of the Aura at the BC Cancer Agency Research Centre and the Skin Care Centre at Vancouver General Hospital for initial field testing. During these field tests, a doctor will first scan a patient's skin lesions with the Aura. When the doctor finds a suspicious lesion, it will be biopsied and analyzed. Subsequently, the Aura's diagnoses is compared with the clinical diagnosis and the pathologist's report.

The Company plans to field test the devices for about three months, which is fairly long. Verisante has deliberately opted for a fairly long in-field test period, because it wants to detect a minimum number of each type of skin cancer to make sure the device does the job.

Several other Beta units are still undergoing final safety and lab tests before they'll be placed in the filed at other dermatological and skin care centers.

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®
MEDICAL TECHNOLOGIES

Clarion Medical Technologies brings innovation to the Canadian Aesthetic and Medical marketplaces as represents over 40 technologies and products.

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. Verisante works closely with Clarion to prepare the launch of the Aura in Canada once productions begins.

Selections are actively ongoing for distribution partners in Australia and the European Union where Verisante intends to first target the U.K., Germany, Austria, Switzerland, Belgium, The Netherlands and Luxemburg. To put this in perspective, the latter three, the so-called Benelux countries, have a population that's only slightly less than Canada's and all the above countries combined have about 190 million inhabitants, or more than one third of the EU's total population.

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 (Also see 'Aura Economics' below).

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.

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. As a result, 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.

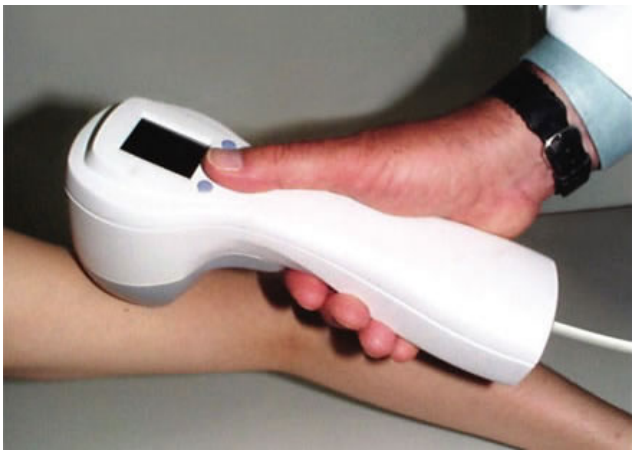
These are the numbers for the markets where the Aura has already been approved. An approval from the FDA to market the device in the US, would immediately double the Aura's market size. The US has a population of about 330 million people and it has around 10,000 dermatologists. In the United States, every year 2 million people, with a total of 3.5 million lesions, are diagnosed with skin cancer. 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. Because the Aura detects all major skin cancers, it 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.

Caliber Imaging & Diagnostics, formerly known as 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 takes a microscopic image of a lesion, which is then analysed by a derma pathologist to detect melanoma or other skin cancers. As such, the device it not really considered a direct competitor of the Aura, but is rather an alternative for an actual biopsy.

VivaScope is currently in use in the US, Europe and Australia, but its practical usefulness is questioned as it takes 10 to 20 minutes to scan one mole and it requires a derma pathologist to analyze the scan.

SciBase AB is a private Swedish company with a device known as Nevisense, which is used for screening and detecting malignant melanoma, especially for primary care physicians and dermatologists. SciBase is currently engaged in a large clinical study with the device in Europe, which includes 2,400 skin lesions from 1,900 patients and 260 melanomas. The device has not been approved by the FDA for sale in the US, but the FDA did grant IDE approval for the study.

Unfortunately, not a lot of information is available on Nevisense. SciBase did announced that, during the European study, the device achieved an overall sensitivity of 98% (lower confidence bound 95.5%) with 100% sensitivity on all stages of invasive melanomas. Specificity reached 33% (upper confidence bound 35.7%, lower confidence bound

30.4%). These results meet and exceed target study endpoints according to IDE-approval by the FDA. More detailed results will be presented pending full data analysis. Important to note though is that these study results haven't been peer reviewed yet.

Data from the pivotal study will provide the basis for the regulatory process for approval in the US as well as for market launch in Europe and Australia, all of which are planned for Q1 2013.

A major disadvantage of Nevisese compared with the Aura is that it takes about 5 minutes to scan one mole with the devise, compared to less than a second with the Aura.

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.

The results of this study were also published in the leading Journal of Thoracic Oncology, the official Journal of the International Association for the Study of Lung Cancer. And 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.

A larger clinical study is currently underway at the Lung Tumor Center at Vancouver General Hospital and is scheduled to be completed in the course of this year. 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

Second Quarter 2012 Results

Verisante recorded a loss of $659,297 for the three months ended June 30, 2012 compared to a loss of

$759,267 in the comparable quarter last year. The reduced loss is mainly attributed to Stock Based Compensation costs which decreased by $109,946.

Salaries and Professional Fees increased by $117,077 as the Company continues to require additional personnel as operations increase. Audit and accounting fees also increased year over year, attributed mainly to increased operations and transactions.

	06/30/12	06/30/11
Net Sales	-	-
Cost of Goods Sold	-	-
G & A Expenses	412,688	461,080
Amortization	161,931	51,443
Stock Based Compensation	66,903	176,849
Loss From Operations	**668,465**	**772,521**
Interest Income	8,648	13,521
Net Loss	**659,297**	**759,267**
Diluted Earnings Per Share	(0.01)	(0.02)
Diluted Shares Outstanding	64,802,232	32,397,144

Most important income statement data for the quarters ending June 30, 2012 and June 30, 2011. Source: Company Filings

In connection with the Company's increased operations and leasing of additional engineering and manufacturing space, rent increased by $18,132 in the three month period ending June 30 during 2012 over 2011.

During the six months ended June 30, 2012, Verisante paid $39,890 in royalties under its licensing agreement with the BC Cancer Agency compared to $76,932 in 2011. When the Company starts generating Aura sales, royalty payments will increase significantly.

Balance Sheet As Of June 30, 2012

Verisante has a healthy balance sheet thanks to two private placements it completed in the first half of 2011.

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.

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.

The Company has sufficient cash to execute all its plans in the foreseeable future.

	06/30/12	06/30/11
Cash and Cash Equivalents	487,216	1,933,583
Short Term Investments	3,055,089	3,000,000
Sales Taxes Receivable	294,863	98,335
Total Current Assets	4,002,780	5,103,377
Intangible Assets	3,209,963	1,509,880
Total Assets	**7,358,082**	**6,638,973**
Accounts Payable	201,030	157,168
Total Current Liabilities	201,030	157,168
Total Liabilities	**201,030**	**157,168**
Total Stockholder Equity	7,157,052	6,481,805

Most important balance sheet data for the periods ending June 30, 2012 and June 30, 2011. Source: Company Filings

Recent Events

Renewed Agreement with BC Cancer Agency

In June of this year, the Company renewed its Collaborative Research Agreement with the BC Cancer Agency for another 13 months. At the signing of the agreement, Mr. Braun said: "With this renewed partnership and the funds we have available, we expect to commercialize the Aura by the end of the year and make significant advancements in other technologies, such as the Verisante Core."

The BC Cancer Agency has assembled a world-class team of cancer imaging experts to work on technologies licensed by Verisante. Mr. Brian Schmidt, the Interim President of the BC Cancer Agency, said that he was very pleased with the progress Verisante is making to advance Aura, and

other cancer detection technologies developed by the Agency.

Verisante will contribute approximately $250,000 over the course of the CRA to fund continued development of the Aura and fund further research and development of the Core.

Verisante CEO Speaks at CAMRT – 1,500 Technologists Attend

Also in June, Mr. Braun, Verisante's President and CEO, spoke at the Canadian Association of Medical Radiation Technologists' (CAMRT) Annual General Conference. The conference was a success as about 1,500 technologists attended. Mr. Braun presented during the Canadian Innovation Showcase, a session that highlights Canadian companies who are breaking new ground with revolutionary approaches to diagnostic imaging and therapeutic treatment.

Mr. Braun, Verisante's President and CEO, spoke at the Canadian Association of Medical Radiation Technologists' Annual General Conference, where 1,500 technologists attended.

Attending conferences, like the CAMRT's, is important for Verisante to get frontline health care workers, like nurses and imaging technologists, informed about, and familiar with, the Verisante Aura. Although in most instances these medical professionals won't make the purchasing decision, they will operate the device on a daily basis. As such, they need to be on board to help make the Aura the preferred skin cancer detection tool in every medical centre.

Frontline health care workers are key to reduce the long wait times and bottlenecks in medical imaging centers. The adoption of faster and more accurate technologies, like the Aura, can save the health care system time and money while helping patients with improved outcomes and reduced wait times.

CAMRT

The Canadian Association of Medical Radiation Technologists (CAMRT) is Canada's national professional association and certifying body for medical radiation technologists and therapists. Approximately 12,000, CAMRT members work in over 1000 medical imaging locations in hospitals and private imaging clinics across Canada.

Third Party Acknowledgement for Aura

At an independent meeting of leading skin specialists in Toronto, Dr. Andrei Metelitsa, Clinical Assistant Professor at the University of Calgary, gave a presentation on the Verisante Aura, which was followed by an anonymous electronic survey amongst the participants. Over half of the doctors present indicated they would purchase the Aura when available.

Outlook

Verisante Technology has a bright future ahead. The Company continues to meet expected milestones for this year and it moves closer towards full commercialization of the Aura.

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 some 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 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 by using the device.

Numerous talks with dermatologists in private clinics and hospitals has learned Verisante's management that there's a wide difference in the number of patients that are being examined for skin cancer in each practice. Some dermatologists see 4 patients per day, while others see 40 to 50 patients per day. Verisante also learned that on average 1.5 suspicious lesions are analyzed per patient.

As for what a dermatologist should charge a patient, Verisante found out that MELA Sciences charges $100 per lesion and Molemap, an initiative by dermatologists in New Zealand and Australia, charges $130 to scan up to three lesions. Based on these numbers, it would be fair that a doctor charges $50 per lesion, or $75 per patient, when analyzing lesions with the Aura.

A dermatologist's fixed costs are easy to calculate. We assume that the Aura will cost $60,000, or $50 per day (20 business days per month), and that a servicing contract will cost about $6,000 annually, or $25 per day. Additionally, a dermatologist will need to use a new disposable tip per patient, which costs $10.

No. Patients	Revenue/ Day	Fixed Costs	Profit/ Day	Profit/ Year
4	300	115	185	44,400
10	750	175	575	138,000
40	3,000	475	2,525	606,000

The potential profitability of the Aura when used by different dermatologists and based on pricing information available at this moment.

The table above demonstrates that even when a dermatologist only sees 4 patients a day, the Aura provides a nice annual profit. A very busy practice that sees 40 patients or more each day, which certainly isn't an exception, can make $606,000 annually with just one Aura.

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 it 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 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 modest revenues of $1.4 million in 2012, $11.4 million in 2013 and $34.1 million in 2014. This leads to discounted earnings per share of -0.03, 0.05 and 0.13 for 2012, 2013 and 2014 respectively. This is slightly lower compared with our initial report because the launch of the Aura is taking a couple of months longer than expected at that time.

Amounts in $000's	2012E	2013E	2014E
Total Revenue	2,800	14,400	41,800
Discounted Net Income per Share	(0.04)	0.04	0.12

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

Applying the discounted $0.12 EPS projection to a 20x P/E multiple, which is reasonable for the medical equipment sector, we reach the

following calculation: $0.12 discounted EPS multiplied by 20 = $2.40.

Based on these calculations, we reiterate coverage of Verisante Technology with a buy recommendation and a price target of $2.40, which is more than 4 times today's stock price.

Share Data & Ownership

As of June 30, 2012 the Company had 64,802,232 common shares and no preferred shares outstanding. 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.

On June 30, 2012, Verisante had 4,889,570 options outstanding with an average exercise price of $0.26. Additionally, there were 13,670,625 warrants outstanding with an average exercise price of $0.44.

Type of Securities	Number of Securities
Common shares	64,802,232
Options	4,889,570
Warrants	13,670,625
Outstanding shares, warrants and options for Verisante Technology as of June 30, 2012.	

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 2009 – 6M 2012

PERIOD ENDING	FY 2009	FY 2010	FY 2011	6M 2012
Total Revenue	**30,459**	**11,409**	**2,249**	-
Cost of Revenue	7,280	8,640	-	-
Gross Profit	**23,179**	**2,769**	**2,249**	-
Operating Expenses				
Research and Development	285,447	214,623	6,667	-
General and Administrative	438,393	1,084,915	1,818,517	804,404
Stock Based Compensation	304,452	209,161	1,241,705	316,400
Royalty Payments	33,296	-	117,260	39,890
Others	87,685	141,464	375,113	315,435
Total Operating Expenses	1,149,273	1,650,163	3,559,262	1,476,129
Operating Income (Loss)	**(1,126,094)**	**(1,647,394)**	**(3,557,013)**	**(1,476,129)**
Other Income (Expenses)				
Government Grants	268,222	160,018	-	-
Interest Income	-	-	41,033	21,159
Foreign Exchange Gain (Loss)	(3,890)	2,774	(1,738)	377
Write-off of Inventory	-	-	(33,285)	-
Total Other Income (Expenses)	264,332	162,792	6,010	21,536
Net Income (Loss)	**(861,762)**	**(1,484,602)**	**(3,551,003)**	**(1,454,593)**
Net Income (Loss) per Share	**(0.03)**	**(0.04)**	**(0.06)**	**(0.02)**

Annual Income Statement FY 2009 – 6M 2012. Source: Company Filings

TSX Venture Exchange: VRS

Company Headquarters
306 - 2309 West 41st Avenue
Vancouver BC V6M 2A3
Canada

Company Contact
Thomas Braun, President & CEO
Phone: (604) 605-0507
info@verisante.com

This Company Report is prepared and distributed by Smallcaps.us
editor@smallcaps.us

About Smallcaps.us

Smallcaps.us, highlights solid and honest companies with a market cap below $100 million. We focus on fundamentally undervalued Companies with real revenues and earnings and we have a special interest in stocks with a high potential, innovative product or service.

Disclaimer

This publication has been prepared by Wizard Media Group, which owns and operates the website http://www.smallcaps.us. Wizard Media Group is not a registered financial advisor, nor is it a stockbroker or investment advisor.

This publication is provided for information purposes only and is not intended to be an offer, or the solicitation of an offer, to buy or sell the securities referred to herein.

Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. Wizard Media Group nor any of its employees shall be responsible for any investment decision.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. However its accuracy and completeness is not guaranteed. All opinions, forecasts and estimates herein reflect the judgment of Wizard Media Group on the date of this publication.

This Company Report may contain certain "forward-looking statements" within the meaning of applicable securities laws, including without limitation, statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, and (iii) other risks and uncertainties indicated from time to time in the Company's public filings.

Wizard Media Group receives $1,450 USD per month from Verisante Technology Inc. to develop and execute a communication plan to enhance the Company's exposure to the investor community. Any and all compensation received from companies profiled on Smallcaps.us is mentioned in the disclaimer.

Wizard Media Group and/or its employees may hold positions in companies mentioned. However, it is prohibited for Wizard Media Group and/or its employees to trade in financial instruments of companies one week prior to publication of the initial Company Report or a rating change until one week thereafter.

No part of this publication may be reproduced in any manner without the prior written consent of Wizard Media Group. © 2003 - 2012 Wizard Media Group.