

## SCOUT EXPLORATION, INC. Oil Spill Containment Pioneer

Rob Goldman  
[rob@goldmanresearch.com](mailto:rob@goldmanresearch.com)

March 14, 2013

Aaron Schweitzer  
[aaron@goldmanresearch.com](mailto:aaron@goldmanresearch.com)

### SCOUT EXPLORATION, INC. (OTC:BB – SCXN - \$0.19)

Price Target: \$1.00

Rating: Speculative Buy

#### COMPANY SNAPSHOT

Scout Exploration, Inc. is an early stage company engaged in the development of innovative solutions that include a unique airborne oil spill technology response system, designed to contain offshore and shoreline oil spills. This approach reduces response and containment time and thus the magnitude of the disaster, and can potentially save billions in cleanup and related costs. The Company plans to deploy a prototype which will be followed by testing and a series of pilot projects. Scout recently acquired the rights to the IDS Offshore Inc. technology, which was originally funded through a high profile incubator in Canada.

#### KEY STATISTICS

Price as of 3/13/13	\$0.19
52 Wk High – Low	\$0.40 – 0.01
Est. Shares Outstanding	16.55M
Market Capitalization	\$3.2M
3 Mo Avg Vol	22,000
Exchange	OTC:BB

#### COMPANY INFORMATION

IDS Offshore, Inc.  
Box 12093, Stn A  
St Johns, NL  
Canada A1B 3T5  
877.324.7245  
[www.scoutexploration.com](http://www.scoutexploration.com)

#### INVESTMENT HIGHLIGHTS

**Each year there are hundreds of offshore and shoreline oil spills, ranging from tens of millions of gallons to millions of barrels of oil in size, causing up to tens of billions of dollars' worth of ecological and business damages.**

**Through a recent transaction, Scout has acquired the rights to what may be the most effective method of oil spill containment and remediation.** The Company's proprietary technology and approach is highlighted by a unique airborne delivery method which substantially reduces response time and limits the damage caused by the accident.

**The size of the market is enormous and, if future tests prove successful, the Scout system could be broadly deployed around the world.**

**Near term milestones for the stock include financing for the production of a shoreline-based prototype to be followed by pilots and commercialization.**

**In our view, driven by company milestones and by the seemingly ever-present news of oil spill disasters around the globe, Scout could reach \$1.00 in the next 12-18 months, if not sooner.** In fact, much like security and defense or bomb detection stocks rise based on news of incidents around the globe, so too will SCXN likely rise as word of oil spills come to light. Thus, we rate SCXN Speculative Buy.

## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

### COMPANY OVERVIEW

Originally funded by a technology incubator, St John's, Newfoundland-based IDS Offshore Inc. recently sold the rights to its core airborne oil spill containment and response technology to Scout Exploration, Inc., which is commercializing the ground-breaking approach to oil spills. The rights to the proprietary platform were acquired by Scout in February 2013.

With hundreds of offshore and shoreline oil spills ranging from tens of millions of gallons to millions of barrels of oil in size, and causing up to tens of billions of dollars' worth of ecological and business damage, there is no "holy grail" method of containing these spills in use today. Current methods entail a significant lag prior to deployment of response measures, during which time spill damage can spread exponentially. Clearly, faster and more effective oil spill response represents an immanent challenge and opportunity for the oil exploration, production and transportation industries. Reliable solutions targeted for primary response—the first few hours immediately following an incident, before traditional response infrastructure can reach spills, have a critical impact on the scale of ecological damage and overall remediation costs.



**Image I. The 2010 BP (Deepwater Horizon) Gulf of Mexico Oil Rig Tragedy**

As a result, the unmanned, air deployed SCXN / IDS response systems target this period, and significantly reduce time to containment and oil spill spread. Equipment delivery by air has been an essential military tool for decades, and will become increasingly important in marine emergencies around the world. One of the key factors in the Scout / IDS system is that it leverages existing technology, infrastructure and air deployment methods to deliver an innovative, effective solution with a potential order of magnitude benefits.

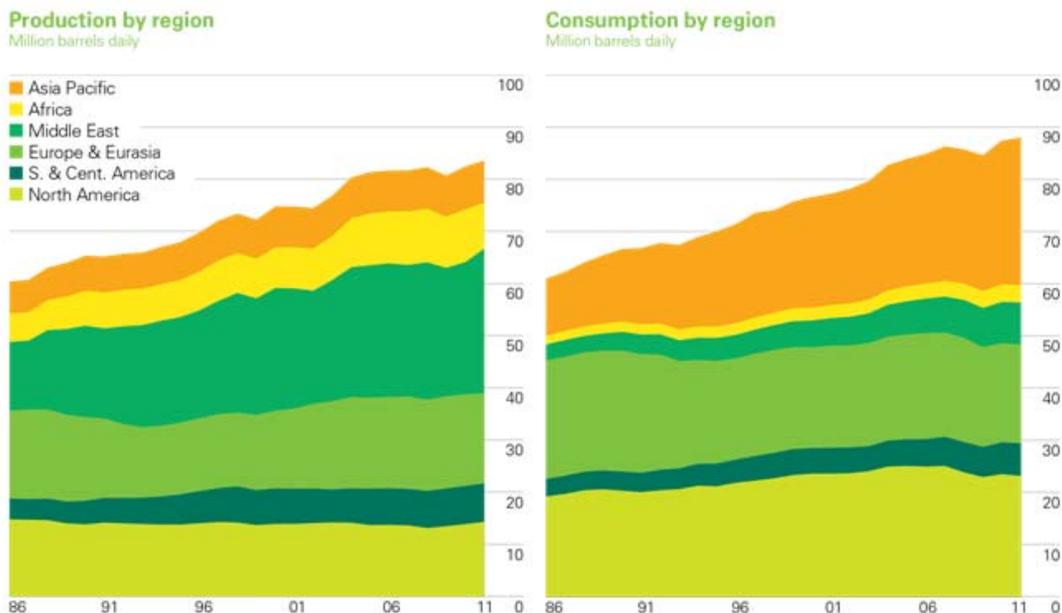
## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

After concluding a financing, we expect that the Company will produce and deploy a shoreline-based prototype for initial testing. Following a number of successful on-site tests, management will initiate a series of pilot projects, which will lead to commercialization and what we believe could be significant product revenue or perhaps even technology licensing for multiple systems deployed in a variety of “hot spots.”

### INDUSTRY OVERVIEW

Despite rising costs, there is still a high demand worldwide for oil which does not appear as if will slow down anytime soon. ‘Green Energy’ subsidized by government initiatives have neither demonstrated a competitive cost structure nor sufficient efficiency in comparison to traditional fossil fuels and oil. Additionally, there has been increased pressure on government to loosen regulation related to oil exploration, especially in the U.S. to accomplish several goals. These include the creation of jobs, an increase in the supply of oil in an effort to decrease prices, and create energy independence from unstable parts of the globe. For all these reasons, oil is not going anywhere soon.

Table I illustrates a 25-year history of oil supply and demand broken down by region. One point to notice is that there has been a huge spike in consumption in Asia as China and other economies have developed. Another compelling and telling fact that the charts show is the demand for oil over taking the supply in North America. The need for more exploration in this region is apparent if you subscribe to the ‘energy independence’ priority. Again, the point that is made, oil is not going anywhere soon.



World oil production increased by 1.1 million b/d in 2011, with OPEC accounting for nearly all of the increase despite a 1.2 million b/d reduction in Libyan production. The US had the largest growth in non-OPEC supply for a third consecutive year. World oil consumption increased by roughly 600,000 b/d. All of the net growth came from emerging economies in Asia, South & Central America, and the Middle East, offsetting declines in Europe and North America.

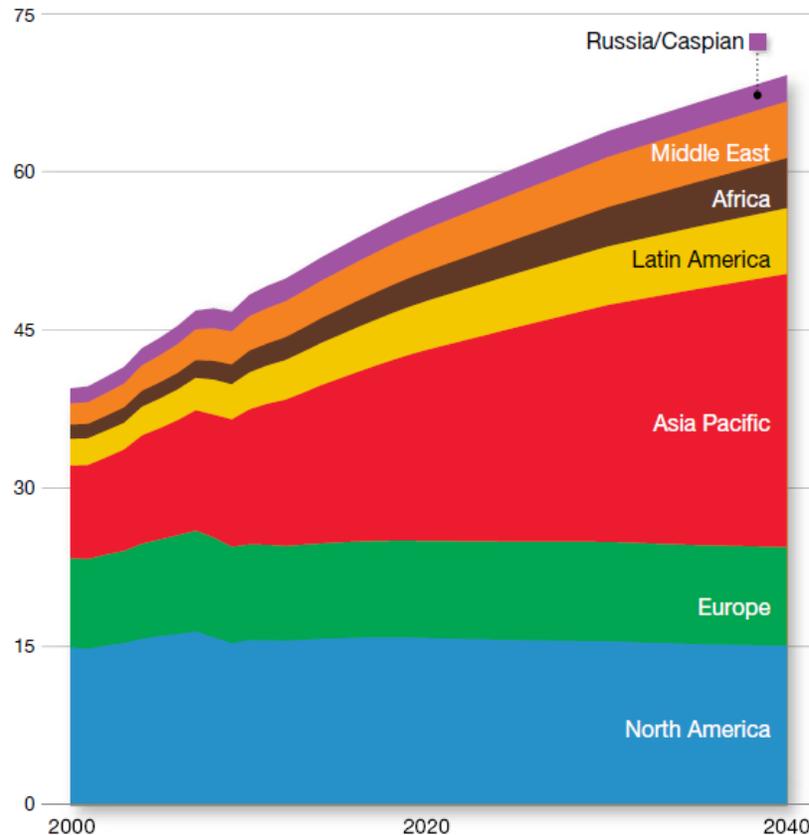
**Table I: Historical Worldwide Consumption of Oil 1986**  
 (Source: BP Statistical Review of World Energy -June 2012, bp.com/statisticalreview)

## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

Chart I illustrates the forecasted use of oil for transportation only broken down by region through 2040, and projects an increased demand for oil in transportation uses alone of approximately 80% from 200 to 2040.

### Transportation energy demand by region

Millions of oil-equivalent barrels per day



**Chart I. Projected Oil Use for Transportation by Region 2040**

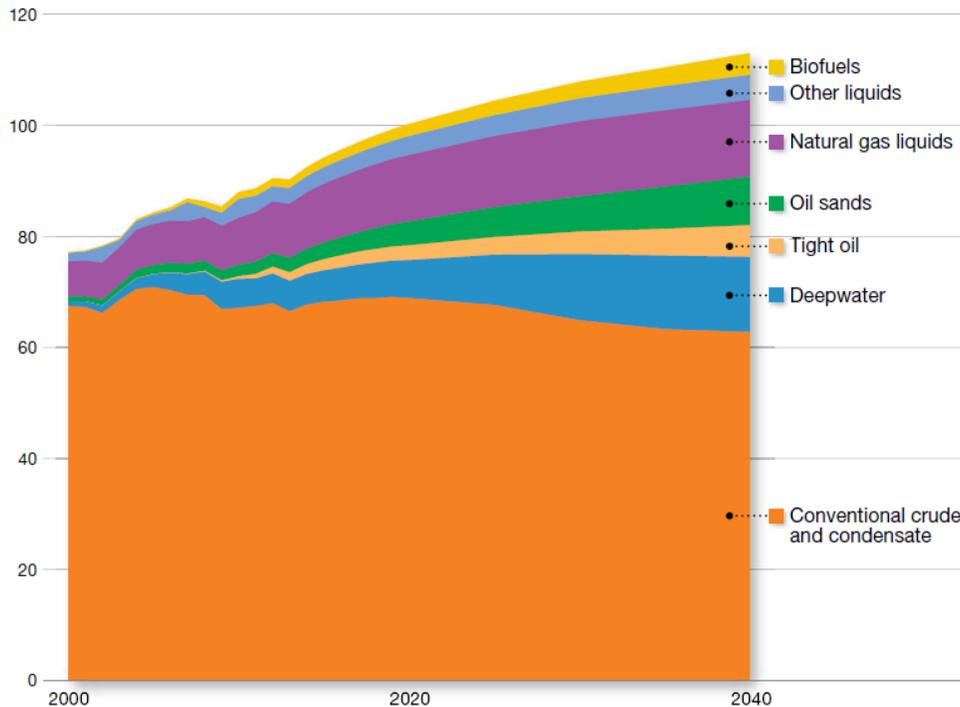
Source: The Outlook for Energy: A View to 2040 - Exxon Mobile, February 2013  
[http://www.exxonmobil.com/Corporate/energy\\_outlook\\_view.aspx](http://www.exxonmobil.com/Corporate/energy_outlook_view.aspx)

Chart II shows the forecasted supply of liquid energy sources and methods of extraction through 2040. One key point is to note the increase in deep water drilling as a method to obtain oil will increase. This will no doubt increase the chances for oil spills in oceans, lakes, and seas.

## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

### Liquids supply by type

Millions of oil-equivalent barrels per day



**Chart II: Projected Supply of Liquids and Oil by Method 2040**

Source: The Outlook for Energy: A View to 2040 - Exxon Mobile, February 2013

[http://www.exxonmobil.com/Corporate/energy\\_outlook\\_view.aspx](http://www.exxonmobil.com/Corporate/energy_outlook_view.aspx)

So what does it all mean? As exploration in deep water and other offshore methods increase there will be challenges presented for greater probability for oil spills and catastrophes. Scout Exploration is in a position to meet these challenges.

### THE PROBLEM

In order to understand the magnitude of the problem, one must look at the numbers of 2 of the biggest oil spill catastrophes. British Petroleum (NYSE – BP) has paid over \$40 billion and counting from the 2010 Gulf oil spill. The 1989 Exxon Valdez spill cost \$3.8 billion for clean-up and almost 25 years later the lawsuits still are coming forward.

According to the U.S. Department of Energy, 1.3 million gallons (4.9 million liters) of petroleum are spilled into U.S. waters from vessels and pipelines in a typical year and a major oil spill could easily double that amount. Between 1971 and 2000, the U.S. Coast Guard identified more than 250,000 oil spills in U.S. waters, according to a 2002 report from the U.S. Department of the Interior Minerals Management Service. Approximately 1.7 billion gallons (6.4 billion liters) of oil were lost as a result of tanker incidents from 1970 to 2009, according to

## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

International Tanker Owners Pollution Federation Limited, which collects data on oil spills from tankers and other sources. (Source: [www.livescience.com](http://www.livescience.com))

The cost to an oil company's bottom line is just the beginning in the clean-up of such hydrocarbon disasters. Degradation of marine environments, loss of wildlife diversity, destruction of fisheries and loss of livelihoods are lingering effects that can take decades to remedy. Additionally, public scrutiny, governmental pressures with new regulation, higher insurance rates, fines and fees, litigation, and share price decrease, act as catalysts for oil exploration firms to partner with innovative companies like Scout Exploration to quickly and effectively clean any disasters.

As an example, here are some figures from Scout Exploration into the more extensive costs associated with the BP Gulf Oil Spill of 2010.

- **405,000 people and 100,000 businesses made claims for damages, potentially \$25 billion in total.**
- BP paid \$713 million for lost taxes to various states.
- Oyster beds decimated by as much as 50% could take up to 10 years to recover.
- 70% of consumers polled expressed concern over Gulf Seafood contamination, and 23% reported reducing consumption due to safety concerns.
- Oxford Economics pegged damage to Gulf Coast Tourism at between 7 and 23 billion dollars.
- Wildlife destruction amounted to 6,045 birds, 609 marine turtles, and over 100 sea mammals. Many carcasses were simply never recovered and dolphin fatalities related to the spill may be 50 times greater than the number of carcasses recovered.
- Over 1,000 miles of shoreline were heavily or moderately oiled at the spill's peak.
- **Over 88,000 square miles closed to commercial and sport fishing—an area equivalent to the state of Utah.**
- **Oil covered approximately 40,000 square miles of the Gulf.**

### THE SOLUTION

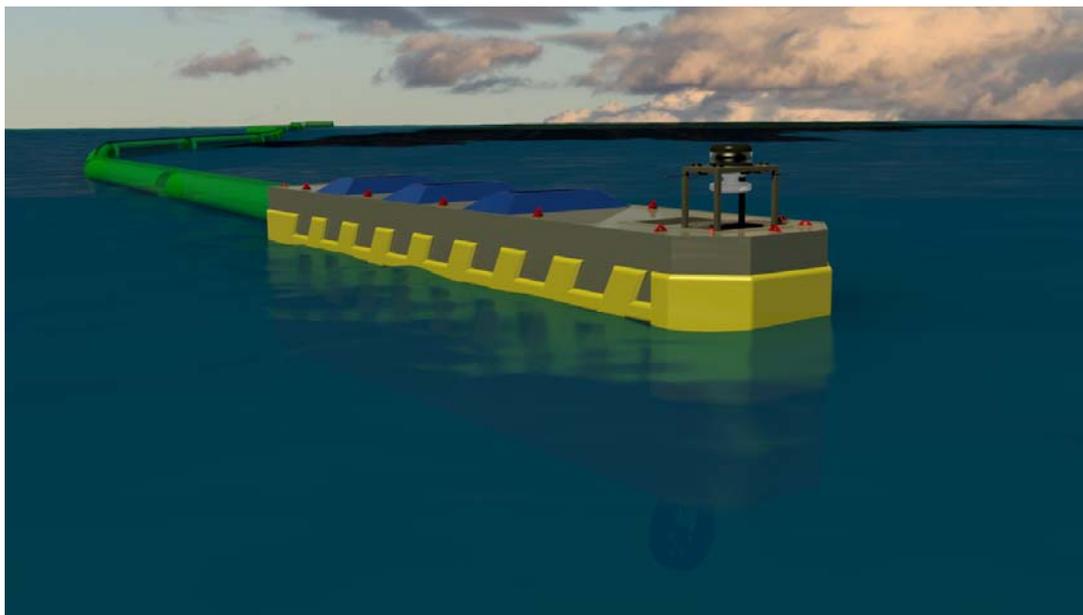
The original IDS Oil-Spill response has been under development since 2008 at the Canadian NRC Institute for Ocean Technology at St. John's, Newfoundland. This innovative spill and containment remediation system is unique because the initial response is cut down by an extremely significant amount. This reduction in response time is accomplished by leveraging existing infrastructure and training and deploying the Unmanned Spill Response Vessels (USRV) engineered to be deployed from the air, not by boat. The aircraft are deployed from strategic air base locations with continent wide coverage of ocean and inland waters and can include the use of a hot air balloon. This demonstrates the flexibility and adaptability of the system in tight inlets or other restrictive spaces.

As a result, this approach has the potential to reduce containment time by an order of magnitude over existing methods. Therefore, we believe that ultimately, both government agencies and the energy industry could be prompted to procure many systems for wide-scale deployment.

## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

Scout Exploration highlights five critical characteristics of the approach that enables it to stand out and achieve efficacy above other methods of containment, which according to our due diligence, has not been as readily addressed in this manner as one would think.

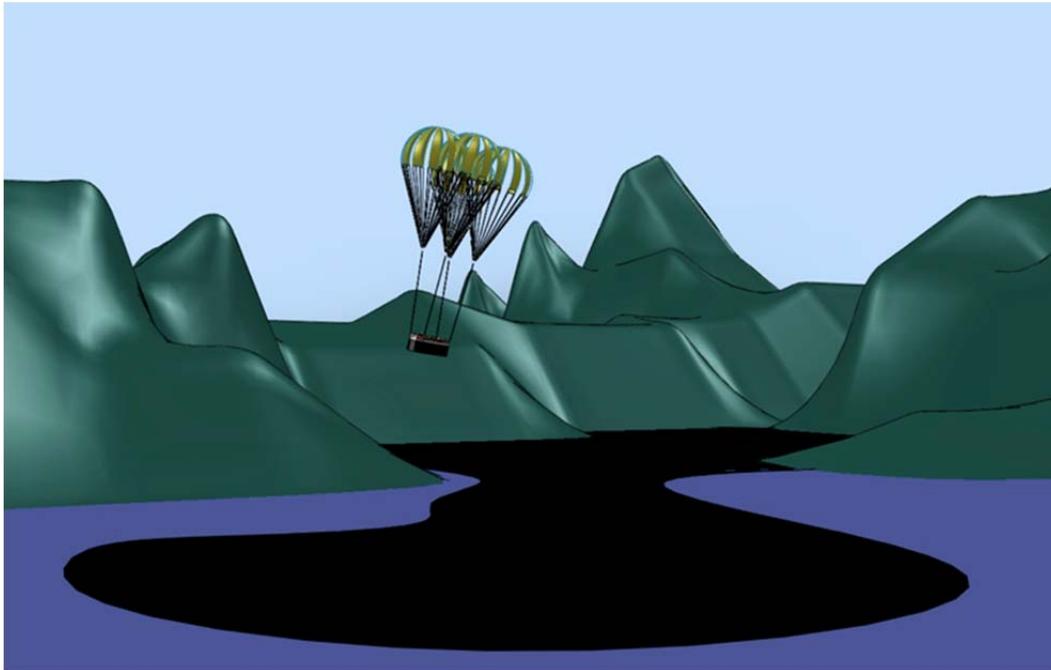
- ✓ **Response Ready:** Ensure that USRV modules compatible with existing transport aircraft systems are stored at key locations, ready-to-load for deployment to spill locations, day or night, anywhere.
- ✓ **Speed & Multiple Sites:** Air-deployment systems for front-line military operations put required equipment and resources where needed, quickly. Using these same techniques it is possible to place more oil-spill response equipment into action, more quickly than previously imaginable.
- ✓ **Scale & Flexibility:** With multiple USRVs in various configurations stationed at key air bases, overwhelming multi-layered containment becomes possible. USRV configurations will include deep sea at-source containment, coastal barrier containment and fresh or inland waterway containment.
- ✓ **Continental Response Network:** Based at strategic locations, the IDS Oil Spill Response system forms a coastal safety net to provide a national or continental network of first response oil spill containment technology. Using existing naval and/or coast guard facilities, along with commercial locations, the IDS system offers wide area mitigation to significantly reduce ecological damage and economic costs of oil spill incidents.
- ✓ **Technical Partners:** The IDS Oil Spill Response System has been developed in close cooperation with industry and government to date and the Company expects continued interest from these sectors as the project moves through public market funding and development.



**Image II: Graphic Image of IDS Containment System**

Source: (Scout Exploration, Inc.)

## SCOUT EXPLORATION, INC. (OTC:BB SCXN)



**Figure 8: Graphic Image of IDS Air Deployment System**

Source: (Scout Exploration, Inc.)

### **THE SCOUT EXPLORATION TEAM**

Scout Exploration has an experienced management team combining many years of experience in start-up ventures in oil and mineral exploration with academic and oil services development.

#### **John A. Roozendaal – President and Director**

Mr. Roozendaal was the founding director of VMS Ventures, Inc. His career has been primarily focused on the mineral exploration industry. He has over 15 years of experience in base and specialty metal projects in North America highlighted by nickel exploration program work done for Thompson Nickel Belt of Manitoba and for high-grade shear-hosted gold in the Yellowknife gold camp. Mr. Roozendaal also has oversight experience through serving as a director on several private and public boards. Mr. Roozendaal has a Bachelor of Science in Geology.

#### **John Walsh – Secretary and Director**

Mr. Walsh has served as the Secretary of Scout Exploration since March 2006. He has also served as the President and Director of Thelon Ventures Ltd. since 2003 and as an officer for International Ranger Corporation since 2006. He also served as a registered representative for Global Securities in Vancouver from 1997 through 2003.



## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

### **Rene Lange – Director**

Mr. Lange is President of IDS Offshore, the company that pioneered the IDS Offshore aerial response oil spill containment and response technology. He also is President of Radical Developments, a company that is developing smart all-weather loading systems for bulk cargo vessels. Mr. Lange obtained his Bachelor of Engineering degree in Ocean and Naval Architecture from Memorial University in St. John's Newfoundland and his professional experiences are vast and diverse ranging from the marine and offshore industry to advanced composites. He has experience working for a well-known marine consultancy firm in London and the Canadian Coast Guard with a focus on communications, autonomous warning stations, risk assessment and oil rig dismantling optimizations. He worked on advanced marine composites, boatbuilding, structural engineering and design while in Australia and New Zealand. Finally, he was employed for a major Canadian oil producer and his roles included behavioral based safety training aids, and a major oil spill response exercise development.

### **RISK FACTORS**

In our view, Scout's biggest risks in the near term involve financing along with building and deploying a prototype for the oil spill technology containment platform. As a result, there could be delays which would impact the stock and negatively impact management's model and timeframe. However, at this stage, we do not believe that these issues appear to be serious threats to Scout, as the need for this product and history of IDS' development will be in the Company's favor. Competition from larger firms or even from newer entrants with new technologies or approaches is another typical concern and is also consistent with firms of Scout's size and standing.

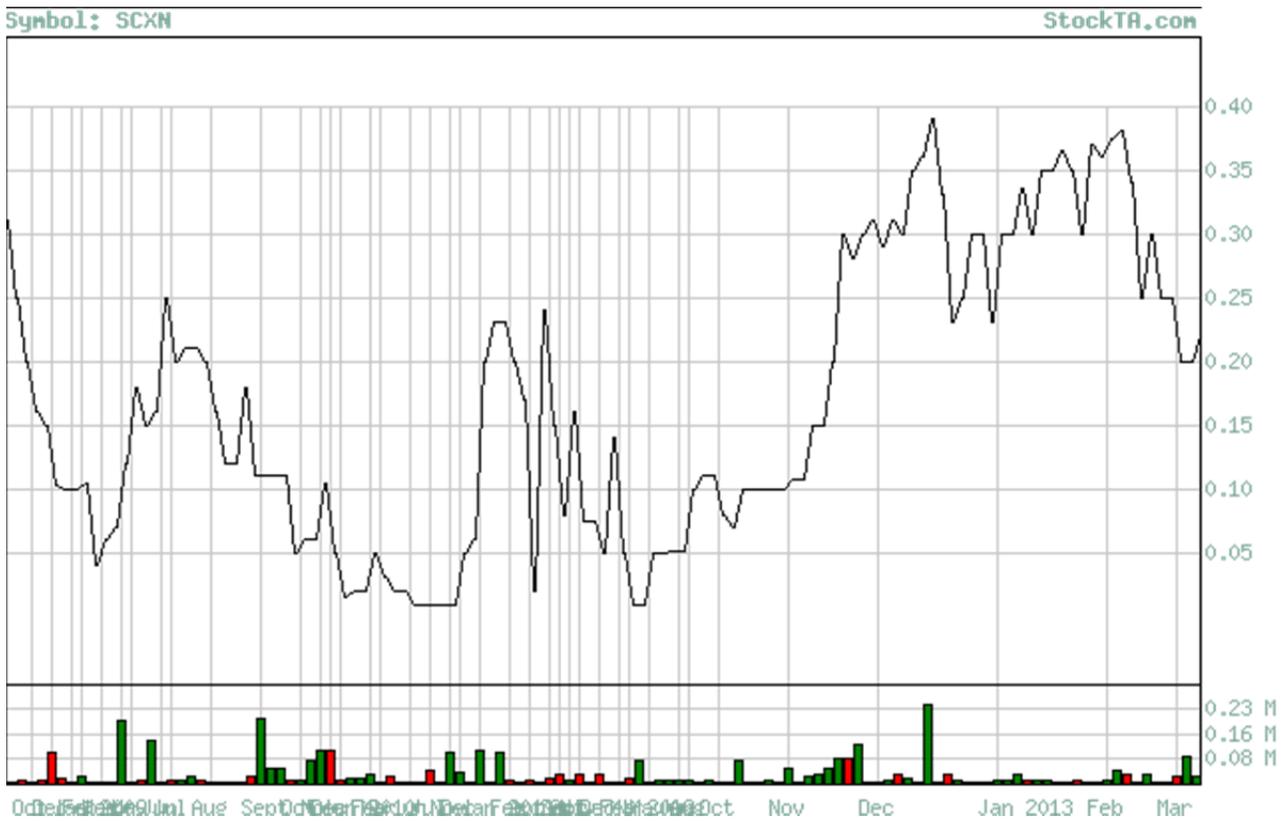
### **VALUATION AND CONCLUSION**

In our view, given the huge size of the market, the hundreds of instances each year, and need to truly address the problem, we believe that Scout is a unique way to play this market. Much like security and defense or bomb detection stocks rise based on news of incidents around the globe, so too will SCXN likely rise as word of oil spills come to light. Therefore, driven by company milestones and by the seemingly ever-present news of oil spill disasters around the globe, we would not be surprised to see Scout reach \$1.00 in the next 12-18 months, if not sooner. Thus, we rate SCXN Speculative Buy.

**SCOUT EXPLORATION, INC. (OTC:BB SCXN)**

**Recent Trading History For SCXN**

(Source: Stockta.com)





## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

### Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

### Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

### Disclaimer

This *Opportunity Research* report was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research* and *Goldman Opportunity Research*. The *Select* product reflects the Firm's internally generated stock ideas while the *Opportunity* product reflects sponsored research reports. It is important to note that while we may track performance separately, we utilize the same coverage criteria in determining coverage of all stocks in both research formats. While stocks in the *Opportunity* format may have a higher risk profile, they typically offer greater upside as well. *Goldman Small Cap Research* has been compensated by a third party in the amount of \$6,000 for a three-month research subscription service. The Firm does not accept any equity compensation. All information contained in this report was provided by unrelated third parties, GSCR due diligence and the Company's website. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report or note is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed.

This report does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with FINRA, the U.S. Securities and Exchange Commission or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, TWO TRIANGLE CONSULTING GROUP, LLC WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, TWO TRIANGLE CONSULTING GROUP, LLC WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT



## SCOUT EXPLORATION, INC. (OTC:BB SCXN)

LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: [www.goldmanresearch.com](http://www.goldmanresearch.com)