JOINT INDUSTRY PROJECT TO DEVELOP AN IMPROVED METHODOLOGY FOR WELLBORE STABILITY PREDICTION

PARTICIPATION AGREEMENT

August 28, 2006

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JOINT INDUSTRY PROJECT PARTICIPATION AGREEMENT

THIS AGREEMENT, effective as of the _______ day of ____________, 2006, is by and between Knowledge Systems, Inc., having a principal office at One Sugar Creek Center Blvd.; Suite 1100; Sugar Land, Texas 77478; USA (hereinafter “Contractor”), and other parties who execute this Agreement or a counterpart thereof (hereinafter “Participants”).

Article 1. PURPOSE OF AGREEMENT

The purpose of this Agreement is to provide for the performance of a joint industry project (hereinafter called “Project”) to identify and develop best practices for wellbore stability analysis to improve the safety and efficiency of drilling operations. Project results are for use by and for the benefit of Participants in the Project, according to the tasks formulated in the document “A Proposal to Develop an Improved Methodology for Wellbore Stability Prediction” presented to the Drilling Engineering Association by Knowledge Systems, Inc. dated August 14, 2006 (hereinafter called “Project Proposal”). Certain parts of the Project Proposal are included and made a part of this Agreement by reference.

Article 2. SCOPE OF PROJECT

The Project carried out under this Agreement shall comprise the tasks listed in the Executive Summary in Section 1 of the Project Proposal.

Article 3. RESPONSIBILITIES

3.1. Contractor. Contractor shall initiate and administer all work necessary to perform the Project and provide to each Participant the deliverables as set out in Attachment B hereto entitled “Deliverables”, and in accordance with the schedule set forth in Article 7. Contractor shall conduct whatever business is necessary to conduct the Project, and will (subject to the rights of the Participants as provided herein) administer the Project.

3.2. Participants. Each Participant shall be charged a firm, flat fee for participation in the Project in accordance with Article 4 hereof. In return for such fee, each Participant will receive one copy of all information and other deliverables described in Attachment B and which are generated during the Project (hereinafter “Project Results”), as more fully set forth hereinafter and subject to the limitations of Article 5. Each Participant shall have the right to have up to two representatives attend each technical review session.
Article 4. PROJECT PARTICIPATION COSTS AND PAYMENT SCHEDULE

4.1. Project Costs and Project Funding. A minimum of six (6) Participants will be required to initiate the Project. The budgeted cost of the Project will be $1,483,500 based on a total of fifteen (15) participants, however this budgeted cost will be scaled in accordance with the number of participants as set forth in Attachment C hereto, entitled “Project Budget”. The aggregate total of all funds committed to be provided by all Project Participants under the terms of Agreements with the Contractor substantially like this one shall be called the “Project Funding.” In the event that the Project Funding committed by Project Participants by December 31, 2006 is less than $550,000, the Project will not be undertaken, and any funds paid to Contractor pursuant to this Agreement will be refunded to Participant by January 15, 2007. If the Project Funding exceeds $550,000, but is less than or greater than $1,483,500, the Project Scope will be modified by the Contractor to utilize the available funds based on suggestions and inputs from Project Participants.

4.2 Participant Costs. The fixed participation cost to each Participant hereunder shall be $98,900.

4.3. Payment Schedule.

4.4.1. Participants shall have the option to either pay the participation cost specified in Paragraph 4.2 above in one payment for the total amount due thirty days after execution of this Agreement, or in two equal payments, one in the amount of $49,450 due thirty days after execution of this Agreement and the second in the amount of $49,450 due by January 31, 2007. Participants that pay the total amount due in a single payment within thirty (30) days after the execution of this Agreement will be given a 2.5% discount for early payment.

4.4.2. The Contractor will submit separate invoices to all Participants. Invoices not paid within forty-five (45) days of receipt shall be past due and are liable for interest at the maximum interest rate of ten (10) percent per year. All payments stipulated in this Agreement are payable in U.S. dollars to the Contractor at the address specified on the invoice. Wire transfer instructions will be provided on the invoice for Participants that prefer this option.

Article 5. PROJECT RESULTS

5.1. Description. During the life of this Agreement, only Participants will have the right to receive project results as set forth in this Article 5 and Attachment B ("Project Deliverables"). After the completion of the Project as set out in Article 2, Contractor will deliver to each Participant one complete set of all Project Results. Participants will also receive interim Project Results as they become
available, which will be within a reasonable time, not to exceed three (3) months, after completion of each task.

5.2. **Use of Information and Project Results**

5.2.1. Each Participant and each of its respective affiliates shall have a perpetual irrevocable royalty-free right to make use of the Project Results in any of its respective operations whether wholly or jointly owned; provided that, in any jointly owned operation with parties who are not Participants hereunder, each non-Participant must first sign a written agreement that it will make no use of Project Results whatsoever except in such jointly owned operation; and that it will not disclose Project Results to any third party pursuant to the provisions of this Article 5.

5.2.2. As used in this Agreement, the term “affiliate” shall mean and include a controlling parent company or companies, if any, of any Participant, and all present and future companies, in which any Participant, or any one or more controlling parent companies, directly and indirectly, owns or controls fifty percent (50%) or more of the outstanding stock carrying the right to vote for or appoint directors.

5.2.3. Contractor’s staff is composed primarily of qualified professionals who shall act in good faith in their respective operations; however, all Project Results resulting from the Project shall be furnished to Participants hereunder without any representation, guaranty, or warranty concerning the completeness, accuracy, correctness, soundness, and/or reliability thereof, and the use of such Project Results (including, but not limited to, any technique included therein) shall be solely at the risk of the Participant or affiliate receiving and using same. The Contractor shall not be liable for any damage resulting (i) from incompleteness, inaccuracy, incorrectness, unsoundness, and/or unreliability of any Project Results resulting from the Project, or (ii) from the use of such Project Results (including, but not limited to any technique included therein), and the provisions of this sentence and the immediately preceding sentence shall survive any termination of this Agreement.

5.3 **Disclosure of Information and Project Results By Participants**

5.3.1. Project Results obtained from the Project are and shall remain the property of Contractor. Participants shall use their reasonable efforts to not publish or release Project Results except as provided herein. As stated in Section 5.2 of this Article, however, each Participant and its affiliates shall have the right of immediate and perpetual use of Project Results obtained from the Project from and after the time it is furnished to Participant hereunder. Participant shall protect Project Results from disclosure to third parties in the same
manner as it protects its own confidential information and shall not (except in accordance with this Article 5) release Project Results to third parties without first obtaining the written permission of Contractor. Contractor shall protect the Project Results from disclosure to third parties in the same manner as it protects its own confidential information and shall not (except in accordance with this Article 5) release Project Results to third parties without first obtaining written permission of all Participants. The provisions of this Article 5 shall survive any termination of this Agreement for a period of three (3) years following the completion or termination of the Project.

5.3.2. Project Results may be released by Participants to consultants, contractors or other agents of Participants if a secrecy and limited use agreement preventing unauthorized disclosure and use of Project Results on terms no less stringent than in this Article 5 is first signed by same.

5.3.3. Project Results may be released by Participants to their respective affiliates if each such affiliate agrees to observe and be bound by all the provisions of this Agreement relating to the use and publication of Project Results as though such affiliate were a Participant hereunder.

5.3.4. The restrictions of this Article 5 shall not apply to Project Results which now are or hereafter become, through no fault of the receiving party, part of the public knowledge; or which are already in the possession of the Participant or any of its affiliates prior to receipt of same pursuant to this Agreement; or which are obtained from other sources without a secrecy obligation and without breach of this Agreement; or which at any time hereafter are independently developed by a Participant or any of its affiliates through personnel who did not use such Project Results.

Article 6. OTHER PARTICIPANTS

The Project shall be open to all parties provided any such party meets the conditions herein. A party may become a Participant by executing a counterpart of this Agreement and delivering it to Contractor.

Article 7. COMMENCEMENT, DURATION AND TERMINATION

7.1 Project Commencement

The Project with the deliverables as described in Attachment B hereto shall commence on or about February 1, 2007, or when a minimum of six (6) Participants have signed Participation Agreements, whichever is the later.
7.2 **Duration**

The duration of the Project shall be 18 months in accordance with the schedule in Attachment A hereto.

7.3 **Early Termination by Contractor**

Contractor may elect to terminate the Project by giving thirty (30) days written notice to Participants; in such event, this Agreement shall terminate. Contractor will document and provide to Participants within a reasonable time, not to exceed three (3) months, all Project Results obtained prior to any Project termination. In the event of such termination prior to the conclusion of the entire Project, as defined by the Scope of Project in Article 2, then the Contractor will be entitled to retain Fees billed for work completed up to that time with any balance to be returned to the Participant.

7.4 **Early Termination by Participants**

Participants in the Project shall not have the right to withdraw from the Project until they have paid the participation fee indicated in Article 4.

7.5 **Contract Termination**

This Agreement shall terminate sixty (60) days after completion of the Project and delivery of all Project Results to Participants.

**Article 8. OWNERSHIP OF EQUIPMENT**

All equipment, material, and supplies purchased for use in the Project shall be the sole property of Contractor.

**Article 9. PROJECT MANAGER**

William Standifird, employed by Contractor, shall be Contractor’s Project Manager during the entire Project, unless otherwise agreed by Contractor and Participants.

**Article 10. OTHER PROVISIONS**

10.1 **Liability of Parties**

10.1.1 Each party hereto assumes and shall be responsible for all losses, claims, damages, judgments, costs, expenses, and liabilities for injuries to or death of its personnel or third parties, or for damage to or destruction of its or third-party property arising out of its operation under this Agreement and in
connection with the subject matter of this Agreement, and shall indemnify and hold all the other parties hereto harmless from such losses, claims, damages, judgments, costs, expenses, and liabilities.

10.1.2 Nothing herein shall be construed to create a partnership or impose a partnership obligation or liabilities or an association for profit on Contractor or any Participant. If, for Federal Income Tax purposes, this Agreement or any performance hereunder is regarded as a partnership, each of the parties hereto hereby elects under the authority of Section 761(a) of the Internal Revenue Code of 1986 to be excluded from the application of all the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986.

10.2 Patent Rights

Any patents arising from inventions of Contractor in the course of his project shall be Contractor’s property. Participants are hereby granted a worldwide, royalty-free, nonexclusive, irrevocable license to make, have made, have used, and use any invention under any patent arising from the Project of this Agreement. The licenses herein granted are nondivisible, nontransferable, nonassignable, (except as provided in Article 5 hereof) and without the right to grant sublicenses except to the extent necessary to allow full use of the Project Results as provided for in Article 5 hereof. These rights shall only apply to those patents which cover inventions conceived during the period in which the Participant is a member of the Project. The provision of this paragraph shall survive any termination of this Agreement.

10.3 Software Rights

Contractor shall retain all rights to software developed in all phases of this project and shall be free to market this software to third parties during and after termination of the Project.

10.4 Independent Contractor

In performing under this Agreement, Contractor shall at all times act as an independent contractor. Nothing herein shall be construed or applied so as to create the relationship of principal and agent, partnership, or employer and employee between Contractor and Participants. Contractor shall not make any commitment or incur any charge or expense in the name of any Participant.
10.5 **Contract Interpretation**

This Agreement shall be deemed to be made under and shall be governed by the laws of the State of Texas in all respects, including matters of construction, validity, and performance.

10.6 **Assignment of Interests**

The Participants shall not assign nor transfer their interest in this Agreement nor any part thereof without the written consent of Contractor, which will not be unreasonably withheld, and any such assignment or transfer made without such consent shall be void and need not be recognized by Contractor, provided, however, such interest can be assigned or transferred to a successor of all or essentially all of the Participants’ business to which this Agreement pertains.

10.7 **Counterparts**

This Agreement may be executed in counterparts and all such counterparts shall be construed together and shall constitute one instrument.

10.8 **Entirety of Agreement**

This Agreement sets forth the entire and only Agreement between the Contractor and Participants with respect to the subject matter hereof and supersedes and cancels all previous understandings, negotiations, commitments, representations, and agreements with respect hereto.

EXECUTED as of the date set out first above.

KNOWLEDGE SYSTEMS, INC.                    (Company Name)

By: ____________________________  By: ____________________________
Name: ____________________________  Name: ____________________________
Title: ____________________________  Title: ____________________________
Date: ____________________________  Date: ____________________________
Attachment A

PROJECT SCHEDULE

The Project shall commence on or about February 1, 2007 and the duration of the Project shall be approximately 18 months.

An initial organizational and planning meeting will be held at the offices of Knowledge Systems, Inc. in Sugar Land, Texas within one month of the commencement of the Project. Consideration will be given to revising the scope of the Project work as outlined in Article 4 depending on the level of participation that has been obtained.

Periodic reports detailing the progress of the Project will be provided to all Participants at quarterly intervals or less. Joint Industry Project meetings will be held, at such times to be determined by the Project Manager, once certain milestones have been reached to present the current status of the work and to obtain guidance and direction from the Participants.

A final Project meeting will be held at the offices of Knowledge Systems, Inc. in Sugar Land, Texas. At this meeting, the final Project results will be presented to Participants. This meeting will be the final semi-annual Joint Industry Project meeting.
Attachment B

DELIVERABLES

There are a number of specific deliverables that will be provided to the participants in this Joint Industry Project.

1. Monthly project status reports and more detailed interim project progress reports every six months during the Project.

2. Based on a study of the analysis results from this Project, an improved methodology will be determined for the prognosis of wellbore stability. This methodology is anticipated to be some combination of methods, models, data and procedures that result in an improved prognosis. It may include new models that better fit the analysis results, recommendations for different approaches for generating velocity data from surface seismic data, and/or recommended well planning procedures.

3. Any new models, algorithms and/or methods for wellbore stability analysis that are developed as a result of this Project will be distributed to each Participant in digital programmatic form such that they can be directly used in DrillWorks Expert as a User Defined Method or User Defined Program, or, alternatively they can be built into other software by the Participant. Each Participant will be able to distribute unlimited copies of such new methods within the Participant’s company.

4. The methodology will be documented and described in a Wellbore Stability Prognosis Manual. It is anticipated that the manual will be in the range of 100 to 200 pages. Each Participant will receive five copies of the manual. Additional copies will be available at cost.

5. The methodology will also be provided in electronic manual form, using a rule-based expert system structure that runs under Windows. Each Participant will receive a corporate license to the electronic manual that allows unlimited copies within Participant’s corporation.

6. A Wellbore Stability School specifically designed for drilling engineers will be held in each of the Project’s geographic areas (five proposed). The course will be 3 days in length and cover the practical aspects of wellbore stability modeling and the associated best practices.

7. The data and analysis results will be maintained in digital form in a relational database such that it will be available for future research and study to include testing new models and methods.
8. A Wellbore Stability website will be created and maintained that contains project results, available data and updated information. This website will require password access and each Participant will be provided with a password that will be updated periodically. It will also include an FTP site that will permit downloading of data in digital form as the owners of the data provide permission for disclosure.
Attachment C

PROJECT BUDGET

The budget for the project is $1,483,500 based on fifteen (15) participants. The budget will be scaled appropriately if after six months from the start of the Project or May 1, 2007, whichever is later, the total number of Participants is more than six (6) and less than fifteen (15).

The budget is allocated for the following activities:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budget Amount</th>
<th>Percentage of Project Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>$1,071,900</td>
<td>72.3%</td>
</tr>
<tr>
<td>Software</td>
<td>$ 200,500</td>
<td>14.9%</td>
</tr>
<tr>
<td>Hardware</td>
<td>$ 29,400</td>
<td>2.0%</td>
</tr>
<tr>
<td>Travel</td>
<td>$ 147,000</td>
<td>9.9%</td>
</tr>
<tr>
<td>Production Costs and Incidentals</td>
<td>$ 14,700</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,483,500</strong></td>
<td><strong>100.1%</strong></td>
</tr>
</tbody>
</table>

The Project Participation cost is $98,900 for each Participant. Project Participation will be formalized by the execution of a copy of this Joint Industry Project Participation Agreement and payment of the project participation fees.

A minimum of six (6) Participants is required for this project to proceed and it will commence in accordance with the Schedule in Attachment A. In the event six Participants have not joined the project by December 31, 2006, the project will be cancelled and any funds paid to Contractor by Project Participants will be refunded by January 15, 2007.