

PHASE-2 SALES-FINANCING PROPOSAL
for
CFEX SELF-EXPANDING DOWNHOLE TUBULARS

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Introduction

This document invites financial participation in the field-trials and early manufacturing of CFEX© Self-Expanding Tubular Technology. It is directed both to oil and gas industry participants and to commercial investment interests.

CFEX© is a new technology which makes expanding oil well casings a much stronger and inherently reliable process. Its unique technical capabilities, which include delivering solutions to difficult drilling problems on a real-time basis, will result in major-scale cost savings for exploration, drilling and production industries. The field trials will be the first commercial deployments of a technology ultimately capable of 15% or greater reductions in major oil well cost models and extending similar benefits to E&P risk-economics. The market size for drilling and production operations which CFEX© addresses is currently some US \$100 billion annually.

Background

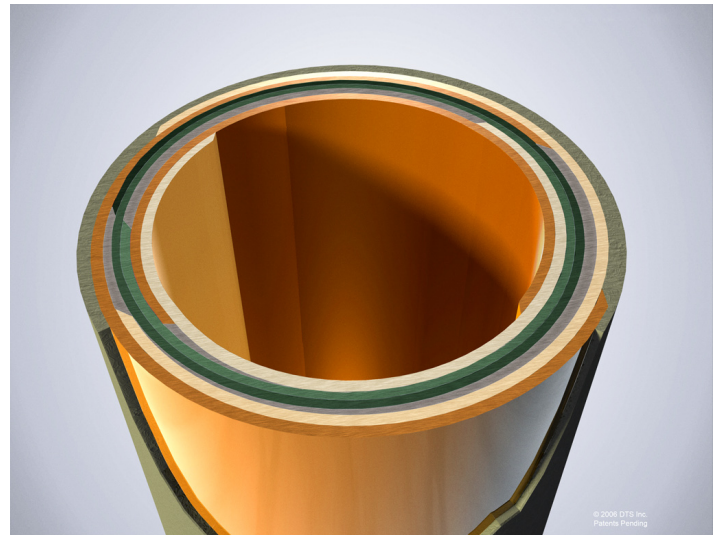
The developing company is Confluent Systems (CFS), based in Houston. CFS was established in 1998 to innovate technology for energy, environment, and civil infrastructure. In 2004, a detailed Commercialization Plan (CP) was made by the company towards development of its novel expandable systems. [A copy of the CP is here attached as an Appendix] Response to the CP was immediate and positive and remains substantial.

Overview of Proposal

This document first outlines significant technical and financial progress made since the 2004 issuance of the CP, as follows:

- Current industry and governmental support
- Technical results from the proof-of-concept stage, or Phase-1
- Finalization of Phase-1

The document then concludes with these summaries:



- Outline of the steps for Phase-2 field trials and initial production of tubulars
- Outline of Phase 3 objectives
- Financing and participation proposal

Current Industry Support

In only a few months time, the CP attracted early-stage cooperation with a super-major energy producer and obtained two US Department of Energy development agreements. The scope of these agreements covers technical proof-of-concept (POC); initial field demonstrations; manufacturing systems development; and, intellectual property development. The total value of these agreements exceeds \$2 million.

Technical Progress

Shortly after commencing technical development in 2005, fundamental proof-of-concept capabilities well in excess of the CP estimates became apparent. Among the more notable of these discoveries were the following:

- Effectively limitless wall-thickness and pressure capabilities for expandables
- 200% or greater expansion ratios
- Inherent expansion reliability and coupling versatility
- Compatibility with any quality-level of construction materials
- Manufacturing expectations improved beyond original estimates

- Identified approximately 40 differentiated applications for downhole E&P
- Augmented the technology's IP position with additional patents pending

Finalizing Phase-1 (Proof of Concept)

Completion of the initial technology development stage is scheduled for late 2006. Current cash and in-kind resources allow full completion of Phase-1, namely:

- Further refinement and testing of designs
- Completion of manufacturing study, including processes, systems and economics
- Preliminary field demonstrations utilizing US-DOE resources

Phase 2, Beta Field Trials & Initial Production

The focus of Phase 2 will be beta-stage product development. For this technology, the beta-stage consists of field trials deployments in commercial wells. Conventional delivery downhole of the proposed beta-installations is comparable to the sequential field operations used in the current expanded-casing industry. Conventional expansion operations contain many unproductive steps, require extensive drilling rig time, and incur numerous service company costs in order to perform each installation. Even though this type of delivery does not provide industry step-change, completion of Phase 2 will serve as advanced-level proof of conventional-type commerciality for the technology and will illuminate its vastly differentiating qualities.

The new technology features numerous technical and economic advantages, even in comparison with conventional expanded casings. In order to enhance value for participants throughout this intermediate

stage, Phase 2 production may initially concentrate on supplying differentiated applications including, unconventional diameters; higher-yield materials; or, expandable products offering more substantial mechanical and reliability expectations.

This middle-phase of development discussed in the CP calls for the fabrication of 10,000 feet of expandable tubulars to be installed in oil company sponsored wells. Since the quantity of field trials casing is not insignificant and the developing company's interest is in manufacturing its own technology, the majority of beta funds will go towards the custom fabrication systems and machinery. The components of the field trials and preliminary manufacturing phase are:

- Construction of 10,000 feet of tubulars for 10 wells averaging 1000 feet each
- Current cost estimation for Phase-2 totals \$8 million, with \$5 million to equipment
- Refinement of cost estimates and field test plans pursuant to further Phase-1 POC findings
- Establishment of clearer expectations for operational and financial efficiencies in the CP

The field trials beta should complete each basic technical commercialization step, including:

- Proof-of-concept and proof-of-manufacturability
- Building manufacturing machinery capable of \$18 million initial annual revenues
- Establishing operating histories in commercial wells
- Obtaining broad-concept intellectual property protection internationally
- Sustaining operations through purchases by the participating oil companies

Table 1 – Phase 2 and Phase 3 Manufacturing Estimates

	Diameter Range	Average Diameter	Selling Price Range (\$/ ft.)	Average Price (ft.)	Average Cost (ft.)	Production Capacity (ft.)	Total Revenue
Phase 2	3.5" – 16"	9.625"	55 – 500	200	87.50	89,000	17,800,000
Phase 3	2.75" – 28"	9.625"	55 – 500	200	35.00	890,000	178,000,000

Most important, however, is that the intermediate, conventional delivery phase provides foundation towards the technology's ultimate goal of being installed seamlessly during the actual drilling operation.

Outline and Objectives of Phase 3

Phase 3 will further develop the differentiating aspects of the new technology. These differentiating qualities culminate with the goal to deliver very robust expandable casings integral to the actual drilling operations. This is to say, that solutions to major drilling problems will be provided on real-time bases, thereby eliminating many previous sequence steps. Integral delivery is the source of solution for most any major drilling problem, in addition to saving significant field time and peripheral costs.

Phase 3 is development of this advanced, real-time technical capability. Through Phase 3, the self-expanded casing solution is delivered in a time-saving manner directly from the actual drilling assembly. Instead of normally having to suspend drilling operations for days at a time when repairing a problem downhole, the repair is instantly delivered by the technology. For major offshore operations, this is estimated to amount to savings of 3-5 days per casing event. Since these daily drilling rig costs are some \$500,000 per day and there are normally 11 casing events required to drill deep wells, significant value is indicated for the achievement of Phase 3 objectives. Generally, over one-half of all costs of drilling wells are attributable to casing or otherwise stabilizing the wells. The financial outlines in this proposal modestly suggest sales prices of hundreds of dollars per foot, while the proposed value is also demonstrable at scales of thousands of dollars per foot.

This real-time delivery process is the ultimate test of value for any expandable technology. The quality of fundamentally viable drilling assembly deployment is also unique to CFEX© technology. Development of the Phase 3 objectives, including also significant manufacturing capabilities, is expected to be largely self-financed through Phase 2 production.

Financing and Participation Proposal

This proposal solicits oil company participation and/or commercial financing involvement in a manner satisfying the investment criteria of each type of participant, along the following lines:

- A more detailed proposal to an industry participant would be based on a sales-investment and return scenario which could include in-kind support and/or financial support with rights of first refusal, deferred in-kind (product) compensation, equity participation or other participation.
- A more detailed proposal to a financial investor would be based on the expected return characteristics of the technology. Investment terms would be aligned with the term and seniority of the investment.

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