SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report: February 8, 2005
Date of Earliest Event Reported: February 2, 2005

NATURAL GAS SYSTEMS, INC.
(Exact Name of Registrant as Specified in its Charter)

Nevada
(State or Other Jurisdiction of Incorporation)

0-27862	80-0028196
(Commission File Number)	(I.R.S. Employer Identification No.)
820 Gessner, Suite 1340, Houston, Texas	77024
(Address of Principal Executive Offices)	(Zip Code)

(713) 935-0122
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

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Item 1.01. Entry into a Material Definitive Agreement

Loan Agreement with Prospect Energy Corporation

On February 2, 2005, Natural Gas Systems, Inc. ("NGS" or the "Company") entered into a senior secured loan agreement (the "Loan Agreement") with Prospect Energy Corporation ("Prospect") providing for borrowings by the Company of up to $4.8 million (the "Secured Loan"). The Loan Agreement was finalized and first fundings made on February 3, 2005. The proceeds of the Secured Loan may be used solely for the acquisition and development of oil and gas properties, general working capital and the repayment of specified indebtedness, provided that the Company is prohibited from using any of the proceeds for exploratory drilling or the acquisition of oil and gas properties without the consent of Prospect. As previously reported, Laird Q. Cagan, the Company's Chairman of the Board, previously loaned the Company approximately $920,000 plus accrued interest to fund the purchase of working interests from Atkins Production in the Tullos Urania, Colgrade and Crossroads Fields and to provide additional working capital. Once the hedging program described below is implemented, the Company will be permitted to repay Mr. Cagan in full from the proceeds of the Secured Loan, which the Company intends to do.

On February 3, 2005, the Company borrowed $3.0 million under the Loan Agreement to fund the purchase of the Chadco properties in the Tullos Urania and Colgrade Fields in LaSalle and Winn Parishes of Louisiana (as described below), and to fund working capital (including the repayment of past due accounts payable). The Company has until May 4, 2005 to borrow the remaining $1.8 million available under the Loan Agreement. The Secured Loan bears interest at an annual rate equal to the greater of (a) 14% and (b) the Treasury Rate plus 9%, with interest payable in arrears on the last day of each month. The Secured Loan is due in full on February 2, 2010.

Pursuant to the terms of the Loan Agreement, the Company was required to (i) pay Prospect a $96,000 cash fee, (ii) reimburse Prospect for its legal fees incurred in connection with the transaction, and (iii) issue Prospect five-year warrants to purchase up to 450,000 shares of NGS stock at an exercise price of $0.75 per share, and "revocable warrants" to purchase up to an additional 300,000 shares of common stock at an exercise price of $0.75 per share. The revocable warrants are subject to cancellation by the Company prior to their exercise if the Company meets and maintains certain operating cash flow targets. In the event the Company borrows the remaining $1.8 million available under the Loan Agreement, the Company will be required to issue additional warrants and "revocable warrants" to Prospect (to purchase up to 270,000 shares and 180,000 shares, respectively). In connection with the Secured Loan, the Company is also obligated to pay a third-party consultant a $30,000 cash fee and to issue such party warrants to acquire up to 50,000 shares of NGS common stock at an exercise price of $2.00 per share.

The shares of common stock issuable upon exercise of the warrants held by Prospect are subject to a registration rights agreement, pursuant to which the Company has agreed to register sales by Prospect and its transferees of such shares under the Securities Act of 1933, as amended. Subject to limitations specified in this agreement, these registration rights include an unlimited number of piggyback registration rights that require NGS to register sales of a holder's shares when NGS undertakes a public offering and certain other types of offerings, subject to the discretion of the managing underwriter of the offering, if any, to decrease the amount that holders may register.

The Secured Loan is secured by a Mortgage, Collateral Assignment, Security Agreement and Financing Statement executed by NGS Sub, Inc., a wholly owned subsidiary of NGS ("NGS Sub"), granting Prospect a first-priority security interest in substantially all of NGS Sub's assets, as well as by pledges of the stock of NGS's direct and indirect subsidiaries. The Secured Loan is also guaranteed by NGS's direct and indirect subsidiaries.

Among other conditions, the Loan Agreement requires that the Company (i) maintain a debt service reserve account in an initial amount equal to 7.5% (or, after October 1, 2005, 5%) of the outstanding borrowings at any time (provided that the required percentage shall be increased to 14% in the event certain earnings tests are not met), (ii) enter into a hedging agreement for the production and sale of the Company's hydrocarbons no later than February 28, 2005, and (iii) subject to certain conditions, obtain a $1.5 million key-man life insurance policy on Robert S. Herlin, the Company's President and Chief Executive Officer.

Among other restrictions and subject to certain exceptions, the Loan Agreement prohibits the Company and each of its restricted subsidiaries from creating liens, entering into certain types of mergers or consolidations, incurring additional indebtedness, changing the character of its business, or engaging in certain types of transactions. The Loan Agreement also requires NGS to maintain specified financial ratios. In order to satisfy certain of these ratios, the Company will need to significantly increase its earnings.

The Loan Agreement provides that the Company will be in default under the Secured Loan if Mr. Herlin shall cease for any reason to be actively employed full time as President of NGS, unless NGS replaces Mr. Herlin within 90 days following such event, and his replacement is reasonably satisfactory to Prospect.

The foregoing descriptions are qualified by reference to Exhibits 10.1 through 10.13 to this Current Report on Form 8-K, which Exhibits are incorporated herein by reference.

Asset Purchase Agreement with Chadco, Inc.

On February 3, 2005, NGS Sub entered into a Definitive Asset Purchase Agreement (the "Purchase Agreement") to acquire a 100% working interest in certain leases and wells in the Tullos Urania Field in LaSalle Parish and the Colgrade Field in Winn Parish, from Chadco, Inc. and its owners, for total consideration of $812,733. The purchase price will be reduced by the net income from the purchased properties for the months of December 2004 and January 2005. This acquisition was completed concurrently with the funding of the Prospect loan. The purchase includes 65 producing oil wells, 56 shut-in oil wells and nine salt water injection wells with gross production of up to 70 barrels per day.

As is common with the purchase of producing oil and gas properties, the Company assumed an asset retirement obligation in connection with this acquisition. In accordance with FAS 143, management is making an assessment as to the amount of liability to be recorded in the Company's financial statements as a result of the Company's assumption of this obligation. Due to the current high price for steel tubular goods and wellhead equipment installed on the wells, the Company believes the retirement obligation, net of salvage, will not be significant and will not materially impact the Company's balance sheet or income statement, prospectively or in the future.

The foregoing description is qualified by reference to Exhibit 10.12 to this Current Report on Form 8-K, which Exhibit is incorporated herein by reference

Item 2.01 Completion of Acquisition or Disposition of Assets

See Item 1.01 above.

Item 3.02. Unregistered Sales of Equity Securities.

See Item 1.01 above.

Private Placement

Since October 1, 2004, NGS has sold a total of 111,275 Units, each Unit being comprised of one share of common stock of NGS ("Common Stock") and warrants to acquire up to one-third of one share of Common Stock at an exercise price of $0.01 per share ("Warrants"). The Units were sold in private transactions to a total of eleven accredited investors. The consideration paid for the Units was $2.00 per Unit, resulting in aggregate gross proceeds to NGS of $278,800. All of the Warrants were immediately exercised, resulting in the issuance by NGS of an additional 54,800 shares of Common Stock for total additional consideration to NGS of $548.

Pursuant to a registration rights agreement entered into in connection with these transactions, NGS granted to the investors certain registration rights, including an unlimited number of piggyback registration rights that require NGS to register sales of an investor's shares when NGS undertakes a public offering and certain other types of offerings, subject to customary limitations.

A commission of $17,000 was paid to Chadbourn Securities, Inc., an NASD broker dealer, and Laird Q. Cagan, Chairman of Board of NGS and a registered representative of Chadbourn Securities, Inc. (collectively, the "Placement Agent") in connection with this private placement. As additional consideration, the Placement Agent was issued seven-year warrants to purchase up to 12,536 shares of common stock of NGS at an exercise price of $1.50 per share.

NGS issued and sold the foregoing securities pursuant to certain exemptions from registration provided by Rule 506 of Regulation D and Section 4(2) and Section 4(6) of the Securities Act of 1933, as amended.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits.

The following exhibits are filed as exhibits to this Current Report on Form 8-K:

Exhibit No.	Description
10.1	Loan Agreement, dated as of February 2, 2005, between Natural Gas Systems, Inc., a Nevada corporation ("NGS") and Prospect Energy Corporation ("Prospect")
10.2	Mortgage, Collateral Assignment, Security Agreement and Financing Statement by NGS Sub. Corp., dated as of February 2, 2005
10.3	NGS Promissory Note in favor of Prospect
10.4	Security Agreement, dated as of February 2, 2005, between NGS Sub. Corp. and Prospect
10.5	Security Agreement, dated as of February 2, 2005, between Natural Gas Systems, Inc., a Delaware corporation, and Prospect
10.6	Guaranty Agreement, dated as of February 2, 2005, by Natural Gas Systems, Inc., a Delaware corporation, NGS Sub. Corp., Arkla Petroleum, L.L.C. and Four Star Development Corporation, in favor of Prospect
10.7	Warrant Agreement, dated as of February 2, 2005, between NGS and Prospect.
10.8	NGS Common Stock Purchase Warrant in favor of Prospect, dated as of February 2, 2005
10.9	Revocable Warrant Agreement, dated as of February 2, 2005, between NGS and Prospect

10.10	NGS Revocable Common Stock Purchase Warrant in favor of Prospect, dated as of February 2, 2005
10.11	Registration Rights Agreement, dated as of February 2, 2005, between NGS and Prospect
10.12	Definitive Asset Purchase Agreement, dated as of February 2, 2005, by and between Chadco, Inc., Alan Chadwick McCartney, Sonya Lynn McCarty McCartney and NGS Sub. Corp.
10.13	Press Release, dated February, 2, 2005
10.14	Press Release, dated February 8, 2005

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NATURAL GAS SYSTEMS, INC.

Date: February 8, 2005

By: /s/ Robert Herlin
Robert Herlin, Chief Executive Officer

LOAN AGREEMENT

THIS LOAN AGREEMENT ("Agreement"), dated as of February _, 2005, is made between NATURAL GAS SYSTEMS, INC., a Nevada corporation ("Borrower"), and PROSPECT ENERGY CORPORATION, a Maryland corporation ("Lender"), who agree as follows:

ARTICLE 1

GENERAL TERMS

Section 1.1 Terms Defined Above. As used in this Agreement, the terms "Agreement", "Borrower", and "Lender", shall have the meanings indicated above.

Section 1.2 Certain Definitions. As used in this Agreement, the following terms shall have the meanings indicated (and as provided in Section 9.14), unless the context otherwise requires:

"Advances" shall mean the borrowings on the Closing Date under the Loan and all or any portion of such borrowings and other or subsequent borrowings under the Loan so long as same remain outstanding and unpaid.

"Affiliate" shall mean, as to any Person, any Person controlling, controlled by or under, control with such Person, and "Control" as used herein means the possession, direct or indirect, of the power to direct or cause the direction of the management or policies of the controlled Person.

"Amount" shall mean the total amount drawn down by Borrower up to four million eight hundred thousand ($4,800,000.00) dollars.

"Arkla" shall mean Arkla Petroleum, L.L.C., a Louisiana limited liability company, a wholly owned Subsidiary of NGS Sub and an indirect wholly owned Subsidiary of the Borrower.

"Asset Sale" shall mean the sale (in any single transaction or related series of transactions) by Borrower or any of its Restricted Subsidiaries of fifty (50%) percent or more of the assets of Borrower and its Restricted Subsidiaries, taken as a whole. Notwithstanding the foregoing, Asset Sale does not include sales of assets between the Borrower and any Restricted Subsidiary or between any Restricted Subsidiaries.

"Base Rate" shall mean, for any day, an interest rate per annum equal to the greater of (a) fourteen (14%) percent, or (b) the Treasury Rate in effect on the last day of the preceding calendar month plus nine (9%) percent (except that the Base Rate in effect on the Closing Date shall be 14%).

"Borrowing Base" shall mean, at any time, the dollar amount calculated as the discounted present value of the future Net Cash Flows of Proved Developed Reserves that constitute Collateral based upon the future production, capital expenditures and operating expenses utilized in the Borrower's most recent independent engineering report prepared for filing with the SEC each year, as determined by the Lender. This calculation shall be made by the Lender using a discount rate of ten (10%) percent, and based upon pricing for 2005 of $35.00 / bbl for oil and $5.00 / Mcf for gas, and during subsequent years calculated as a ten percent discount to the average price of New York Mercentile Exchange Henry Hub Crude Oil and Natural Gas Futures for the forward twelve months as of the date of any future reserve report, all as adjusted by the inclusion of any hedging arrangements in place. Any good faith determination by the Lender of the Borrowing Base shall be final and conclusive. The Borrowing Base will be revised by Lender after receipt of each annual independent engineering report delivered to the Lender by the Borrower pursuant to this Agreement. The Lender shall notify the Borrower of the result of each annual Borrowing Base redetermination by the Lender which shall become effective upon such notice. Each annual determination of the Borrowing Base shall be effective until redetermined by the Lender in accordance with this Agreement. Without limiting the foregoing, the Lender may exclude, in its sole and absolute discretion, any property or portion of production therefrom from the Borrowing Base, at any time, because title information on, or the status of title to, such property is not reasonably satisfactory to Lender, such property is not Collateral, the Lender's Lien therein is not first and prior to all others (other than the holder of any Future Senior Debt), such property is subject to contractual agreements or commitments not reasonably satisfactory to Lender, or such property is not assignable. The Borrower acknowledges that the Lender's determination of the Borrowing Base contains an equity cushion (market value in excess of loan value), which is acknowledged by the Borrower to be essential for the adequate protection of the Lender.

"Business Day" shall mean a day other than a Saturday, Sunday or legal holiday for commercial banks in New York, New York.

"Change of Control" shall mean the occurrence of either of the following: (a) the consummation of any transaction which results in any "person" or "group" (as such terms are used for purposes of Section 13(d) of the Securities Exchange Act of 1934) other than the Permitted Holders becoming the beneficial owner of more than 50% of the total voting power of all classes of the Borrower's voting securities then outstanding; or (b) the first day on which a majority of the members of the Board of Directors of the Borrower shall cease to be Continuing Directors.

"Closing Date" shall mean the date on which the Note is executed and delivered by the Borrower to the Lender.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Collateral" shall mean the properties and property rights described in the Collateral Documents described in Section 3.1 as security for the Indebtedness.

"Collateral Documents" shall mean collectively the documents from time to time required by the Lender to obtain the security interest in the Collateral in accordance with the terms of the Agreement, or otherwise guarantee or secure the Indebtedness, or otherwise pertaining to this Agreement, such documents which exist on the Closing Date being described in Article 3 hereof, as all such documents are amended, restated or renewed from time to time.

"Commitment Limit" shall mean, at any particular date, the lesser of (x) the Amount or (b) the Borrowing Base as then in effect.

"Companies" shall mean collectively, on the Closing Date, the Borrower, NGS Delaware, NGS Sub, Arkla and Four Star, and "Company" shall mean any one of the Companies.

"Continuing Directors" of a Person shall mean any member of such Person's Board of Directors who: (x) was a member of such Person's Board of Directors on the Closing Date; or (y) was nominated for election or elected with the approval of a majority of the Continuing Directors who were then members of such Person's Board of Directors (but excluding any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Continuing Directors).

"Contracts" shall mean those agreements, contracts and other instruments to which the interests in the oil, gas and mineral leases comprising the Collateral are subject.

"Debt" shall mean any and all amounts and/or liabilities owing from time to time by a Company to any Person, including the Lender, direct or indirect, liquidated or contingent, now existing or hereafter arising, including without limitation (i) indebtedness for borrowed money or the deferred purchase price of property; (ii) the amounts of all standby and commercial letters of credit and bankers acceptances, matured or unmatured, issued on behalf of such Company, and (without duplication) all drafts drawn thereon; (iii) guaranties of the obligations of any other Person, whether direct or indirect, whether by agreement to purchase the indebtedness of any other Person or by agreement for the furnishing of funds to any other Person through the purchase or lease of goods, supplies or services (or by way of stock purchase, capital contribution, advance or loan) for the purpose of paying or discharging the indebtedness of any other Person, or otherwise; (iv) loans or obligations of the types described above secured by any Lien on any property owned by such Company, to the extent attributable to such Company's interest in such property, even though such Company has not assumed or become liable for the payment thereof personally; (v) the present value of all obligations for the payment of rent or hire of property of any kind (real or personal) under leases or lease agreements required to be capitalized under generally accepted accounting principles ("GAAP"); (vi) obligations of such Company owing in respect of redeemable preferred stock; or (vii) obligations of such Company owing in connection with any volumetric production payments. Notwithstanding the foregoing, Debt shall not include trade payables incurred in the ordinary course of business.

"Default" shall mean the occurrence of any of the events specified in Article 8 hereof, whether or not any requirement for notice or lapse of time or other condition precedent has been satisfied.

"Default Rate" shall mean, on any particular date, the Base Rate plus five (5%) percent per annum.

"Delhi" means the working interests owned by NGS Sub in the Delhi field located primarily in Richland Parish, Louisiana, acquired by NGS Sub in September, 2003.

"DSR Account" shall mean the senior debt service reserve account established pursuant to Section 5.16 to meet potential shortfalls in interest or principal payments on the Loan.

"EBITDA" shall mean, for the period in question, the sum of the Borrower's and its Restricted Subsidiaries' (i) net income for that period on a consolidated basis in accordance with GAAP, plus (ii) any extraordinary loss and other expenses not considered to be operating in nature reflected in such net income, minus (iii) any extraordinary gain, interest income and other income not considered operating in nature reflected in such net income, plus (iv) depreciation, depletion, amortization and all other non-cash expenses for that period, plus (v) all interest, fees, charges and related expenses paid or payable (without duplication) for that period that are considered "interest expense" under generally accepted accounting principles, together with the portion of rent paid or payable (without duplication) for that period under capital lease obligations that should be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13, plus (vi) the aggregate amount of federal, state and local taxes on or measured by income for that period (whether or not payable during that period) (but, for the avoidance of doubt, net of severance and other taxes on or measured by production volumes for that period). Notwithstanding the foregoing, for purposes of calculating EBITDA, singular, annual event type expenses, as determined by the Borrower but subject to the Lender's approval, not to be unreasonably withheld, as to any such expenses which would not be considered recurring under generally accepted accounting principles (including but not limited to third party costs of the annual audit, engineering report, annual audit, 10K and proxy, annual bonuses and costs of preparing a filing registration statements with the SEC) shall be allocated to net income monthly over the prospective one year period.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" shall mean the occurrence of any of the events specified in Article 8 hereof, provided that any requirement for notice or lapse of time or any other condition precedent has been satisfied.

"Excluded Sale" shall have the meaning set forth in Section 2.5(b).

"Four Star" shall mean Four Star Development Corporation, a Louisiana corporation, a wholly owned Subsidiary of NGS Sub and an indirect wholly owned Subsidiary of the Borrower.

"Future Senior Debt" shall have the meaning set forth in Section 2.12.

"Hedge Agreement" shall mean any agreement or arrangement providing for payments which are related to, or the value of which is dependent upon, fluctuations of interest rates, currency exchange rates or forward rates, or fluctuations of commodity prices, including without limitation any swap agreement, cap, collar, floor, exchange transaction, forward agreement or exchange or protection agreement or similar futures contract or swap or other derivative agreement related to interest rates, currency exchange rates or hydrocarbons or other commodities, or any option with respect to such transaction.

"Hedging Obligations" of a Person shall mean any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising or evidenced (including all renewals, extensions and modifications thereof and substitutions therefore), under any and all Hedge Agreements and any and all cancellations, buybacks, reversals, terminations or assignments of any Hedge Agreement, net of any offsets or corresponding physical prices.

"Hedging Program" shall have the meaning set forth in Section 5.18.

"Herlin" shall mean Robert S. Herlin.

"Indebtedness" shall mean any and all amounts, liabilities or obligations owing from time to time by the Borrower to the Lender (or any transferee of the Note), including without limitation any such amounts, liabilities or obligations pursuant to this Agreement, the Note and the Collateral Documents (including reasonable attorneys' fees incurred in connection with the execution, enforcement or collection of the Borrower's obligations hereunder or thereunder or any part thereof) or any Hedging Obligations owing to the Lender, and whether such amounts, liabilities or obligations be liquidated or unliquidated, now existing or hereafter arising.

"Interest Expense" shall mean, for each period, the sum of all interest, fees, charges and related expenses payable (without duplication) for that period to a lender in connection with borrowed money or the deferred purchase price of assets that are considered "interest expense" under generally accepted accounting principles, plus the portion of rent paid or payable (without duplication) for that period under capital lease obligations that should be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13.

"Lien" shall mean any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on jurisprudence, statute or contract, and including but not limited to the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, production payment, conditional sale, bond for deed or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include reservations, exceptions, encroachments, easements, servitudes, usufructs, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting property. For the purposes of this Agreement, the Borrower shall be deemed to be the owner of any property which it has accrued or holds subject to a conditional sale agreement, financing lease or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes.

"Loan" shall mean the line of credit as described in Article 2 hereof.

"Loan Excess" shall mean, at any point in time, the amount, if any, by which the outstanding principal balance of the Advances exceeds the Commitment Limit then in effect.

"Mandatory Prepayment Event" shall have the meaning set forth in Section 2.5.

"Material Adverse Effect" means a material adverse change in, or a material adverse effect upon, the operations, business, assets, properties, liabilities, contractual obligations or condition (financial or otherwise), of the Borrower and its Restricted Subsidiaries, when taken as a whole.

"Maturity Date" shall mean the fifth anniversary of the Closing Date, or such earlier date on which the Loan is accelerated pursuant to Section 8.2 hereof.

"Net Cash Flows" shall mean the revenue less royalty interests, production taxes, direct operating expenses, and net investment, of Borrower and its Restricted Subsidiaries, calculated in accordance with GAAP.

"Net Production" shall mean the amount of crude oil, condensate, natural gas liquids and natural gas being produced by the assets in which NGS or its Subsidiaries maintains a working interest, multiplied by that percentage net revenue interest.

"NGS Delaware" shall mean Natural Gas Systems, Inc., a Delaware corporation and wholly owned subsidiary of the Borrower.

"NGS Sub" shall mean NGS Sub. Corp., a Delaware corporation, a wholly owned subsidiary of NGS Delaware and an indirect wholly owned Subsidiary of the Borrower.

"Note" shall mean the note described in Article 2 hereof, together with any replacements, renewals, modifications, amendments or extensions thereof.

"Patriot Act" shall have the meaning set forth in Section 4.22.

"Permitted Hedge Agreement" shall mean any Hedge Agreement related to either (i) a Company's production and sale of its hydrocarbons or (ii) interest rates pertaining to the Loan, in each case which a Company enters into (x) in the ordinary course of business as part of its normal business operations with the purpose and effect of fixing prices or hedging variable interest rates as a risk-management strategy, and not for purposes of speculation and not intended primarily as a borrowing of funds, and (y) with any Person as counterparty reasonably acceptable to the Lender.

"Permitted Holders" means Laird Q. Cagan, Eric M. McAfee and Robert S. Herlin, and their respective estates, spouses, heirs, ancestors, lineal descendants (including adopted children and their lineal descendants), legatees, and legal representatives, the trustee of any bona fide trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof and any Person in which any of the foregoing. individually or collectively, beneficially own all of the outstanding equity interest or which was established for the exclusive benefit of, or the estate of, any of the foregoing or their spouses.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other form of entity.

"Plan" shall mean any plan subject to Title IV of ERISA and maintained by the Borrower, or any such plan to which the Borrower is required to contribute on behalf of its employees.

"Prepayment Premium" shall have the meaning set forth in Section 2.4.

"Proved Developed Reserves" shall mean, at any particular time, the estimated quantities of crude oil, condensate, natural gas liquids and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs attributable to the Borrower's or a Subsidiary's Collateral included in the Borrowing Base under then existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made and prices set forth herein), by established operating practices and under current government regulations, where such reserves are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a relatively low expenditure (when compared to the cost of drilling a well) to put the reserves on production. Such Reserves may include both producing and non-producing wells. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) will be included in Proved Reserves when successful testing by a pilot project or the operation of an installed program in the reservoir provides support for the engineering analysis on which the pilot project or installed program was based. In general, the economic productivity of the estimated proved reserves is supported by actual production in the given well or a nearby well in the same reservoir.

"Restricted Subsidiary" means any Subsidiary of the Borrower which at the time of determination is not an Unrestricted Subsidiary.

"Revocable Warrants" shall mean the detachable revocable warrants delivered to the Lender as described in Section 3.3.

"Subsidiary" shall mean each corporation or limited liability company of which the Borrower owns, directly or indirectly, a controlling interest (more than fifty percent) of the outstanding capital stock or membership interests. Working interests partnerships shall not be deemed to be Subsidiaries.

"Total Debt" shall mean, at any time, the sum of (a) the outstanding principal balance on the Loan plus (b) the principal balance of all Debt of the Borrower and its Restricted Subsidiaries for borrowed money and capitalized leases (whether short or long term) that is pari passu with the Loan or has priority over the Loan in right of payment. However, any Debt described in Subsections 6.1(k) or 6.1(l) shall not be included in Total Debt.

"Treasury Rate" shall mean the rate offered on five-year (5) U.S. Treasury securities trading nearest to par as reported in The Wall Street Journal.

"Tullos I" shall mean the portion of the Tullos Urania Field in LaSalle Parish, Louisiana, acquired by NGS Sub by that certain Act of Sale and Assignment executed September 2, 2004, by Atkins Production Inc., and Monty and Margaret Atkins.

"Tullos II" shall mean the interests in the Tullos Urania and Colgrade Fields, LaSalle and Winn Parishes, Louisiana, currently intended to be acquired by the Borrower or a Restricted Subsidiary from Chadco Inc.

"Unrestricted Subsidiary" means any Subsidiary of the Borrower which at the time of determination is an Unrestricted Subsidiary (as designated by the Borrower's Board of Directors) and any Subsidiary of an Unrestricted Subsidiary. The Borrower's Board of Directors may designate any Subsidiary of the Borrower (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary, unless such Subsidiary owns any capital stock of, or owns or holds a Lien on any property of, any other Subsidiary of the Borrower which is not a Subsidiary of the Subsidiary to be so designated; and provided further that, notwithstanding the foregoing, the Borrower may not designate as an Unrestricted Subsidiary NGS Delaware, NGS Sub, Arkla or Four Start.

"Warrants" shall mean the detachable warrants delivered to the Lender as described in Section 3.2.

Section 1.3 Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time on a basis consistent (except for changes in accounting principles or practice approved by independent public accountants for the Borrower) with the most recent financial statements of the Borrower.

ARTICLE 2

THE CREDIT

Section 2.1 Loan.

(a) Loan. Subject to and upon the terms and conditions contained in this Agreement, and relying on the representations and warranties contained in this Agreement, on the Closing Date the Lender agrees to loan to Borrower, in the form of one or more Advances, a maximum aggregate principal amount equal to the Commitment Limit. The Loan shall be represented by one or more promissory notes not to exceed a combined amount of four million eight hundred thousand ($4,800,000.00) dollars, payable to the order of the Lender. Principal, all accrued and unpaid interest, fees and Prepayment Premiums, if any, on the Loan shall be payable in full on the Maturity Date. During the continuance of an Event of Default, overdue payments with respect to the Loan may be debited from the Borrower's DSR Account as provided in this Agreement or other written agreement between Borrower and Lender.

(b) Interest. Subject to Section 2.11 the interest rate applicable to each Loan Advance beginning on the date such Advance is made shall be the Base Rate then in effect, adjusted monthly. Interest on the Loan shall be payable at the Base Rate monthly in arrears on the last day of each month, commencing January 31, 2005, and the last day of each calendar month thereafter. Interest on Advances and all fees and other Indebtedness shall be calculated on the basis of a 365 (or in a leap year 366) day year and the actual number of days elapsed.

(c) Draw Requests. In accordance with the provisions in this Section, the Lender will make Advances to the Borrower from time to time on any Business Day within and expiring ninety (90) after the Closing Date in such amounts as the Borrower may request in increments of at least $100,000.00 or a multiple of $100,000.00 up to a total not to exceed the Commitment Limit. Borrower shall draw a minimum aggregate amount of $3,000,000.00 on the Closing Date and may draw additional amounts up to the Commitment Limit within the subsequent ninety (90) days. Requests for Advances must be made by written notice from the Borrower and sent to the Lender by mail, courier or facsimile in accordance with Section 9.1 or in accordance with Section 2.10 specifying the amount of the Advance. A request shall be authorized by the Borrower if made by any one of the Persons designated by the Borrower in the Note or otherwise as an authorized person in accordance with resolutions of the Board of Directors of the Borrower certified to the Lender. The Lender may rely fully and completely upon the authority of the signatory of such request or confirmation unless such authority is terminated by written notice to the Lender, and any such termination shall be effective only prospectively. The request for any Advance by the Borrower shall constitute a certification by the Borrower that all of the representations and warranties contained in Article 4 (other than those representations and warranties, if any, that are by their specific terms limited in application to a specific date) are true and correct in all material respects when taken as a whole as of the date of such request and also as of the date of the Advance.

(d) Timing After the Lender's receipt of an authorized request for Advance, the Lender will make such Advance for the benefit of the Borrower in same day funds as provided below upon fulfillment of the applicable conditions set forth in this Agreement. Requests for Advances shall be made on written notice from the Borrower to the Lender, received by the Lender no later than 11:00 a.m. (Eastern Time) on the first Business Day before such Advance specifying the amount thereof. Each such written notice by the Borrower shall be irrevocable by the Borrower. Not later than 3:00 p.m. (Eastern Time) on the date properly and timely requested for the Advance and upon fulfillment of the applicable conditions set forth in Article 7 of this Agreement, the Lender will make such Advance available to the Borrower in same day funds. The Borrower irrevocably agrees in favor of the Lender that the deposit of the proceeds of any Advance in any account of Borrower designated by Borrower shall be deemed prima facie evidence of the Borrower's Indebtedness to the Lender under the Loan.

Section 2.2 Business Days. If the date for any payment, prepayment, or fee payment hereunder falls on a day which is not a Business Day, then for all purposes of this Agreement (unless otherwise provided herein) the same shall be deemed to have fallen on the next following Business Day, and such extension of time shall in such case be included in the computation of payments of interest.

Section 2.3 Payments. The Borrower shall make each payment hereunder and under the Note and any Collateral Documents in lawful money of the United States of America in same day funds to the Lender at its main office in New York, New York, not later than 11:00 a.m. (Eastern Time) on the day when due, or such other place in the United States as designated in writing by the Lender. The Borrower hereby authorizes the Lender to charge from time to time against the Borrower's DSR Account any amount which is past due, after taking into account any applicable grace periods.

Section 2.4 Voluntary Prepayment. The Borrower may prepay the Loan in full or in part but only on and subject to the terms set forth below. It is agreed that (i) the Borrower shall give the Lender notice of each such prepayment of all or any portion of an Advance no less than five (5) Business Days prior to prepayment, (ii) the Borrower shall pay all accrued and unpaid interest on the amounts prepaid, and (iii) no such prepayment shall serve to postpone the repayment when due of any other Indebtedness. Each voluntary prepayment shall be in an aggregate principal amount of (x) $100,000.00 or a multiple of $100,000.00 in excess thereof or (y) if the outstanding principal balance of the Loan is less than the minimum amount set forth in the preceding clause (x) of this sentence, then such lesser outstanding principal balance, as the case may be. Any optional prepayment in full shall be accompanied by all fees, expenses, accrued interest, and the Prepayment Premium set forth in the following sentences. When making any optional prepayment on the Loan, whether partial or in full, the Borrower must pay to the Lender as additional consideration (the "Prepayment Premium") on the date of such prepayment an amount equal to a percentage, varying depending upon the Loan quarter in which the prepayment occurs, of the principal amount being prepaid. If the prepayment is received during the first quarter of the Loan (the period commencing on the Closing Date and ending three months later), the Prepayment Premium shall be ten (10.0%) percent of the portion of the principal amount of the Loan being prepaid. Thereafter, for each successive three month period the Prepayment Premium shall reduce one-half (0.5%) percent, to reach zero at five (5) years from the Closing Date. (If the Closing Date occurs on a day of an initial calendar month for which there is no numerical corresponding day in the third calendar month succeeding such initial calendar month, such quarter shall end on the last day of such third succeeding calendar month).

Section 2.5 Mandatory Prepayment.

(a) Upon the occurrence of a Mandatory Prepayment Event defined below, the Borrower shall immediately prepay the Loan as described herein, accompanied by payment of all fees, expenses, and accrued interest thereon. Any of the following events shall be considered a "Mandatory Prepayment Event" as that term is used herein: (i) a Change of Control of the Borrower; (ii) an Asset Sale; or (iii) an Event of Default.

(b) No later than the first Business Day following the day of receipt by the Borrower or any of its Restricted Subsidiaries of Net Asset Sale Proceeds (as defined below) in respect of any sale of any assets (whether tangible or intangible) consisting of lesser amounts of assets than an Asset Sale, except for an Excluded Sale, the Borrower shall either, at its option, (i) prepay the Loan in an aggregate amount equal to 100% of the amount of such Net Asset Sale Proceeds, and the Commitment Limit shall be permanently reduced by that amount or (ii) redeem, prepay or retire any outstanding Debt that is senior in right of payment to the Indebtedness or that is secured by the assets sold. For the avoidance of doubt, the sale of assets covered by this Section 2.5 includes the sale (in any single transaction or related series of transactions) by the Borrower or any of its Restricted Subsidiaries of any tangible or intangible assets, except an Excluded Sale. The proceeds of any Excluded Sale may be used by the Borrower or its Restricted Subsidiary for any purpose not prohibited by this Agreement. "Excluded Sale" shall mean (x) sales of production in the ordinary course of business, (y) sales of items of equipment in the ordinary course of business which are obsolete or otherwise no longer useful for such Person's operations, and (z) sales of assets in an amount, when added to the total amount of all sales of assets made by the Borrower and its Restricted Subsidiaries during the immediately preceding six month period pursuant to this clause (z) shall not exceed twenty (20%) percent of the assets of the Borrower and its Restricted Subsidiaries as of the first day of such six month period. "Net Asset Sale Proceeds" shall mean the cash payments (including any cash received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received) received from such asset sale, net of any bona fide direct costs reasonably incurred in connection with such asset sale such as any reasonable brokerage fees, commissions and other similar expenses relating to such asset sale.

(c) The Lender shall notify the Borrower of the result of each annual Borrowing Base redetermination by the Lender. If at any time the Lender determines that a Loan Excess exists, then within sixty (60) days of receipt by the Borrower of written notice of such Loan Excess the Borrower shall (x) prepay the Advances (together with accrued interest on the amount to be repaid to the date of payment but without Prepayment Penalty) in an amount sufficient to reduce the Advances to the then Commitment Limit, or (y) execute, deliver and record or cause to be executed and delivered such additional Collateral Documents pursuant to Section 3.1, sufficient to induce the Lender to make a permanent increase in the Borrowing Base to an amount not less than the outstanding principal balance of the Advances. Notwithstanding anything to the contrary, such redeterminations of the Borrowing Base shall occur only once per twelve month period. The Borrower specifically acknowledges that no additional grace period (beyond the period stated in this section) is applicable under this Agreement to any failure to make such mandatory prepayment before such failure is an Event of Default hereunder.

Section 2.6 Fees.

(a) The Borrower shall pay the Lender an up front commitment fee in the amount equal to $96,000.00 (being 2.00% of $4,800,000) on the Closing Date.

Section 2.7 Use of Proceeds.

(a) The Borrower shall use the proceeds of the Loan in connection with the acquisition and development of oil and gas properties as well as general working capital purposes and the repayment of Debt permitted by the terms of this Agreement, all as set out on Schedule 2.7. The Borrower shall not use the proceeds of any Advances under the Loan for exploratory drilling or acquisitions of additional oil and gas properties outside of Delhi, Tullos I or Tullos II without the Lender's prior written consent, which shall not be unreasonably withheld. The Borrower shall not use any portion of the Advances under the Loan to pay any outstanding debt owing to Laird Cagan except as permitted by Section 6.16.

(b) No part of the proceeds of the Loan will be used, directly or indirectly, (i) to fund, make or advance a personal loan to or for the benefit of a director or executive officer of a Borrower or any Subsidiary (except for advances of approved business expenses), or (ii) to fund acquisitions of fixed long-term assets of the Borrower or any Subsidiary, except for assets acquired by the Borrower or a Restricted Subsidiary in the ordinary course of business as an exploration and production company engaged in acquiring and exploring oil and gas properties and on which a Lien is granted to Lender.

Section 2.8 Default Rate. Anything in the Note or in any other agreement, document or instrument to the contrary notwithstanding, effective upon an Event of Default or after the Maturity Date the Lender shall have the right to prospectively increase the interest rate under the Note to the Default Rate until no Event of Default is continuing or the Note is paid in full. Upon the acceleration of the principal amount of the Indebtedness represented by the Note, the accelerated principal balance of the Indebtedness shall bear interest from the date of acceleration up to the actual payment (as well after as before judgment) at the Default Rate. All such interest at the Default Rate shall be payable upon demand.

Section 2.9 [Omitted]

Section 2.10 Electronic Notice to Lender. The Borrower may transmit notices of borrowing or the like by electronic communication, if arrangements for doing so have been approved by the Lender.

Section 2.11 Change in Interest Rate. The Lender agrees that upon any new financing entered into between the Borrower and the Lender after the Closing Date, the interest rate on this Loan, for the remaining future life of this Loan at such time, will be revised downward to the interest rate of such new financing.

Section 2.12 Future Senior Debt. The Lender agrees that the Borrower may incur Debt senior to this Loan and subject its assets to Liens securing such senior Debt senior to the Liens in favor of the Lender ("Future Senior Debt") provided that (i) Borrower is in compliance with Section 5.15 at closing of such additional financing and (ii) Borrower is projected to comply with Section 5.15 for the remaining term of the Loan as determined by financial projections approved by the Lender in writing at the time of such incremental borrowing, where such approval may not be unreasonably withheld. The terms of any Future Senior Debt (i) shall be reasonable and typical for a senior secured debt facility and (ii) shall not include the issuance of warrants or the payment of PIK interest (except that the issuance of up to 10% warrant coverage and the issuance of PIK interest in the form of shares of common stock shall be permitted). The Lender agrees to enter into (i) subordination terms with the holder of such Future Senior Debt and (ii) amendments to this Agreement to provide for such Future Senior Debt and senior Liens, in each case as reasonably requested by the holder of such Debt.

ARTICLE 3

SECURITY FOR THE OBLIGATIONS

Section 3.1 Security. The Loan shall be secured by the following:

(i) Mortgage, Collateral Assignment, Security Agreement and Financing Statement executed by NGS Sub granting a first priority mortgage, security interest and assignment of production in NGS Sub's interests in Delhi, Tullos I and Tullos II in the State of Louisiana and contracts, intangibles and other collateral relating thereto, together with a UCC financing statement pertaining thereto.

(ii) If and when issued in accordance with Section 5.17, life insurance in the amount of $1,500,000.00 insuring the life of Herlin, pledged to the Lender by the Borrower to the extent of the outstanding Loan.

(iii) Guaranty Agreement executed by NGS Delaware, NGS Sub, Arkla and Four Star. The Borrower acknowledges that the Lender shall have the right to require that any newly acquired or created Restricted Subsidiary become an additional guarantor promptly upon Lender's request.

(iv) Security Agreement (stock) executed by the Borrower, granting a first priority security interest in 100% of the outstanding shares of NGS Delaware, together with a UCC financing statement pertaining thereto.

(v) Security Agreement (stock) executed by NGS Delaware, granting a first priority security interest in 100% of the outstanding shares of NGS Sub, together with a UCC Financing Statement pertaining thereto.

(vi) Security Agreement (stock) executed by NGS Sub, granting a first priority security interest in 100% of the outstanding shares of Four Star and 100% of the membership interestship of Arkla, together with a UCC Financing Statement pertaining thereto.

(vii) A deposit account control agreement executed by the depositary bank, the Borrower and the Lender pertaining to the DSR Account.

(viii) Mortgage or deed of trust executed by existing or to be created Restricted Subsidiaries granting a first priority mortgage, security interest and assignment of production in any acquired or developed assets held by existing or to be created Restricted Subsidiaries in any oil and gas properties, including related contracts, intangibles and other collateral, together with a UCC financing statement pertaining thereto, where such acquired or developed assets have a book value in excess of $100,000.00 and where such assets are acquired or developed using Advances under the Loan.

Section 3.2 Warrants. At Closing the Borrower shall deliver to the Lender the detachable warrants (the "Warrants") exercisable, in the aggregate, for 450,000 shares of the Borrower's common stock. The Borrower shall deliver additional warrants of like tenor in the amount of one share for every six and two thirds ($6.666667) dollars of additional drawdowns on the Loan in excess of the initial $3,000,000.00 Advance (so if the full additional $1,800,000.00 is drawn, then warrants for 270,000 shares). These Warrants shall be exercisable any time for five (5) years after the Closing Date at an exercise price of $0.75 per share. The Warrants shall be exercisable any time, have a cashless exercise feature and piggyback registration rights, pursuant to the terms and conditions of the "Warrant Agreement" and the "Registration Rights Agreement" executed by the Borrower contemporaneously with this Agreement.

Section 3.3 Revocable Warrants. At Closing, the Borrower shall deliver to the Lender the detachable revocable warrants (the "Revocable Warrants") exercisable, in the aggregate, for 300,000 shares of the Borrower's common stock. All Revocable Warrants granted under this Section 3.3, including the additional Revocable Warrants below, shall be revocable without any further consideration by Borrower if Borrower and its Subsidiaries, on a consolidated basis, reach an EBITDA of at least $200,000.00 per month for any three consecutive calendar months prior to February 1, 2006, as described in the terms and conditions of the Revocable Warrant Agreement executed by the Borrower contemporaneously with this Agreement. The Borrower shall deliver additional Revocable Warrants of like tenor in the amount of 1 share for every ten ($10.00) dollars of additional drawdowns on the Loan in excess of the initial $3,000,000.00 Advance. These Revocable Warrants shall be exercisable, if not previously revoked, after March 15, 2006 until five (5) years after the Closing Date at an exercise price of $0.75 share.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to enter into this Agreement, the Borrower represents and warrants to the Lender that:

Section 4.1 Existence.

(a) The Borrower is a corporation duly organized, legally existing and in good standing under the laws of its state of incorporation (Nevada) and is duly qualified as a foreign corporation in Texas and all other jurisdictions wherein the property it owns or the business it transacts make such qualification necessary and the failure to so qualify would have a Material Adverse Effect.

(b) NGS Delaware is a corporation duly organized, legally existing and in good standing under the laws of its state of incorporation (Delaware) and is duly qualified as foreign corporation in all other jurisdictions wherein the property it owns or the business it transacts make such qualification necessary and the failure to so qualify would have a Material Adverse Effect.

(c) NGS Sub is a corporation duly organized, legally existing and in good standing under the laws of its state of incorporation (Delaware) and is duly qualified as a foreign corporation in Louisiana and all other jurisdictions wherein the property it owns or the business it transacts make such qualification necessary and the failure to so qualify would have a Material Adverse Effect.

(d) Four Star is a corporation duly organized, legally existing and in good standing under the laws of its state of incorporation (Louisiana) and is duly qualified as a foreign corporation in all other jurisdictions wherein the property it owns or the business it transacts make such qualification necessary and the failure to so qualify would have a Material Adverse Effect.

(e) Arkla is a limited liability company duly organized, legally existing and in good standing under the laws of its state of organization (Louisiana) and is duly qualified as a foreign limited liability company in all other jurisdictions wherein the property it owns or the business it transacts make such qualification necessary and the failure to so qualify would have a Material Adverse Effect .

Section 4.2 Names, Numbers and Offices.

(a) The Borrower is not currently doing business under any name (including trade names) other than the name of the Borrower set forth above, except for its pre-merger name Reality Interactive, Inc., until May 26, 2004. The Borrower's Subsidiaries do business only under their names, or the name of the Borrower, as provided in this Agreement.

(b) The secretary of state registration number and locations of its state of incorporation and chief executive office of each Company signing the Collateral Documents are accurately set forth in the Collateral Documents.

(c) The Borrower's chief executive office has been located in the State of Texas since June 2004.

Section 4.3 Power and Authorization. Each Company is duly authorized and empowered to execute, deliver and perform this Agreement, the Note and the Collateral Documents and the Warrants executed by it. All corporate action on the part of each Company (including all shareholder action) requisite for the due creation and execution of the Loan and this Agreement, the Note and Collateral Documents and the Warrants have been duly and effectively taken.

Section 4.4 Review of Documents; Binding Obligations. Each Company has reviewed this Agreement, the Note and the Collateral Documents and the Warrants with counsel for such Company and has had the opportunity to discuss the provisions thereof with the Lender prior to execution. This Agreement, the Note and the Collateral Documents and the Warrants constitute valid and binding obligations of each Company, which is a party thereto enforceable in accordance with their terms (except that enforcement may be subject to any applicable bankruptcy, insolvency or similar laws generally affecting the enforcement of creditors' rights). Each Company further represents and warrants that it is in compliance with all of the affirmative and negative covenants contained in this Agreement and the Collateral Documents.

Section 4.5 No Legal Bar or Resultant Lien. This Agreement, the Note and the Collateral Documents and the Warrants do not and will not violate any provisions of any Company's articles of incorporation or bylaws, will not violate any contract, agreement, law, regulation, order, injunction, judgment, decree or writ to which any Company is subject (except as would not have a Material Adverse Effect), and will not result in the creation or imposition of any Lien upon any property of any Company other than as contemplated by this Agreement.

Section 4.6 No Consent. The Companies' execution, delivery and performance of this Agreement, the Note and the Collateral Documents and the Warrants do not require the consent or approval of any other Person, including without limitation any regulatory authority or governmental body of the United States or any state thereof or any political subdivision of the United States or any state thereof.

Section 4.7 Financial Condition. All financial statements of the Borrower and any Affiliates delivered to Lender have been submitted in good faith and fairly and accurately present the financial condition of the parties for whom such statements are submitted and the financial statements of the Borrower and any Affiliates have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, and there are no contingent liabilities not disclosed thereby which would adversely affect the financial condition of Borrower or any Affiliates. Since the close of the period covered by the latest financial statement delivered to Lender with respect to Borrower and any Affiliates, there has been no material adverse change in the assets, liabilities, or financial condition of Borrower or any Affiliates not disclosed thereby. The Borrower has filed in a timely manner all reports required to be filed with the Securities and Exchange Commission since June 2004, and all such filings made by the Borrower with the Securities and Exchange Commission since June 1, 2004, complied at the time of filing in all material respects with the applicable requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, as applicable, in each case as in effect on the dates such filings were made.

Section 4.8 Taxes and Governmental Charges. The Companies have filed all tax returns and reports required to be filed and have paid all taxes, assessments, fees and other governmental charges levied upon them or upon their property or income which are due and payable, including interest and penalties, or have filed an extension for payment thereof, or is contesting the same in good faith by appropriate proceedings and has provided adequate reserves for the payment thereof (including penalties and interest), except that certain tax returns for years ending prior to the merger of Reality Interactive into the Borrower have not been filed. All such tax returns and reports accurately reflect in all material respects the taxes for the Companies for the periods covered thereby. There are no material taxes owing for years ending prior to the merger of Reality Interactive, Inc. into the Borrower. No audit of any governmental authority is pending or, to the knowledge of the Borrower, threatened, and the results of any completed audits are properly reflected in the financial statements of the Companies.

Section 4.9 Defaults. The Companies are not in default under any indenture, mortgage, deed of trust, agreement or other instrument to which such Company is a party or by which it or any of its property is bound.

Section 4.10 Liabilities and Litigation. Except for liabilities incurred in the normal course of business, the Borrower and its Restricted Subsidiaries have no material (individually or in the aggregate) liabilities, direct or contingent, except as disclosed in the most recent financial statements furnished to the Lender, which, if not paid, would have a Material Adverse Effect. Except as disclosed in the most recent financial statements furnished to the Lender, there is no litigation, legal or administrative proceeding, investigation or other action of any nature pending or, to the knowledge of Borrower, threatened against or affecting the Borrower or its Restricted Subsidiaries, or any of the assets owned or used by any Company, which involves the possibility of any judgment or liability not fully covered by insurance which if adversely determined would have a Material Adverse Effect. Without limiting the foregoing, on the Closing Date there is no litigation, legal or administrative proceeding, investigation or other action pending or, to the knowledge of Borrower, threatened against or affecting the Borrower or any Restricted Subsidiary involving non-compliance by the Borrower or any Restricted Subsidiary or its respective properties with any Applicable Environmental Laws (as defined in Section 4.17).

Section 4.11 Margin Stock. None of the Loan proceeds will be used for the purpose of, and the Borrower is not engaged in the business of extending credit for the purpose of, purchasing or carrying any "margin stock" as defined in Regulation U of the Board of Governors of the Federal Reserve System (12 C.F.R. Part 221), or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of said Regulation U. The Borrower is not engaged principally, or as one of the Borrower's important activities, in the business of extending credit for the purpose of purchasing or carrying margin stocks. Neither the Borrower nor any Person acting on behalf of the Borrower has taken or will take any action which might cause this Agreement to violate Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934 or any rule or regulation thereunder, in each case as now in effect or as the same may hereinafter be in effect.

Section 4.12 Utility or Investment Company. No Company is engaged in the generation, transmission, or distribution and sale of electric power; operation of a local distribution system for the sale of natural or other gas for domestic, commercial, industrial, or other use; ownership or operation of a pipeline for the regulated transmission or sale of natural or other gas, crude oil or petroleum products (except for ownership of interests in gathering line systems); provision of telephone or telegraph service to others; production, transmission, or distribution and sale of steam or water; operation of a railroad; or provision of sewer service to others; or any other activity which cause such Company to be subject to regulation as a utility. The Borrower is not an "investment company" within the meaning of the Investment Company Act of l940, as amended.

Section 4.13 Compliance with the Law. Each Company (i) is not in violation of any law, judgment, decree, order, ordinance, or governmental rule or regulation to which such Company or any of its property is subject; and (ii) has not failed to obtain any license, permit, franchise or other governmental authorization necessary to the ownership of any of its property or the conduct of its business; in each case, which violation or failure is reasonably anticipated would have a Material Adverse Effect.

Section 4.14 ERISA. The Borrower is in compliance in all material respects with the applicable provisions of ERISA, and no "reportable event", as such term is defined in Section 4043 of ERISA, has occurred with respect to any Plan of the Borrower.

Section 4.15 Other Information. All factual information prepared by the Company and given to the Lender by the Borrower pursuant to this Agreement and in connection with the Borrower's application for the Loan and the Lender's commitment letter are accurate and correct in all material respects. All financial projections given to the Lender were prepared in good faith based on facts and circumstances existing at the time of preparation and were believed by the Borrower to be accurate in all material respects. No factual information furnished by the Borrower to the Lender in connection with the negotiation of this Agreement contains any material misstatement of fact or fails to state a material fact or any fact necessary to make the statement contained therein not materially misleading.

Section 4.16 Title to Collateral.

(a) Each Company has good and marketable title to its Collateral, and the Collateral Documents create legal, valid and perfected Liens on the Collateral, free of all Liens except those permitted by this Agreement in Section 6.2.

(b) NGS Sub has, in all material respects with respect to its Collateral, the working interests and net revenue interests therein as set forth on Exhibit A to the Mortgage granted to Lender, as reduced by the interest assigned to James Jones in Subsection 4.16 (d) below. Without limiting the foregoing sentence, all of the proved reserves (whether producing or not, and whether proved developed or proved undeveloped) included in the reserve reports covering NGS Sub's properties in Richland and LaSalle Parishes, Louisiana (by W.D. Von Gonten & Co. dated September 15, 2004 and October 7, 2004, each effective as of July 1, 2004) are encumbered Collateral in favor of the Lender properly described in the Collateral Documents. Except as otherwise specifically disclosed to the Lender in writing with respect to any particular part of NGS Sub's properties, (i) NGS Sub is not obligated, whether by virtue of any payment under any contract providing for the sale by such Company of hydrocarbons which contains a "take or pay" clause or under any similar arrangement or by virtue of any production payment or otherwise, to deliver hydrocarbons produced or to be produced from NGS Sub's properties at any time after the Closing Date without then or thereafter receiving full payment therefor, except for Permitted Hedge Agreements; (ii) none of NGS Sub's properties is subject to any contractual or other arrangement whereby payment for production is to be deferred for a substantial period after the month in which such production is delivered; (iii) none of NGS Sub's properties is subject to an arrangement or agreement under which any purchaser or other Person is currently entitled to "make-up" or otherwise receive material deliveries of hydrocarbons at any time after the Closing Date without paying at such time the full contract price therefor; and (iv) no Person is currently entitled to receive any material portion of the interest of NGS Sub in any hydrocarbons or to receive cash or other payments from NGS Sub to "balance" any disproportionate allocation of hydrocarbons under any operating agreement, cash balancing and storage agreement, gas processing or dehydration agreement, or other similar agreements. For purposes of this paragraph, "material" shall mean ten thousand ($10,000.00) dollars (or more) or an amount of property with an equivalent value.

(c) As of the Closing Date, none of the Collateral is subject to any calls on production of hydrocarbons or any gathering or transportation dedications or commitments of any kind.

(d) As of the Closing Date, none of the Collateral is subject to any contractual commitment, right or option for any Person to acquire any working interest, revenue right, royalty or other interest therein, except that the Borrower's contract superintendent, James Jones, is entitled (as a fee for originating the transaction, conducting the environmental assessment without cash charge and overseeing the daily field operations) to be assigned a 5% working interest, proportionately reduced to NGS Sub's purchased interest, in both the Tullos I and the Tullos II properties, after payout of NGS Sub's purchase costs and capital expenditures.

(e) As of the Closing Date, the Borrower itself owns no material assets other than the stock of NGS Delaware, and cash and short-term investments. As of the Closing Date, NGS Delaware owns no assets other than the stock of NGS Sub, miscellaneous office furniture and equipment.

(f) As of the Closing Date, Verdisys, Inc. does not own or have any entitlement to acquire from any Company any net profits or other future or contingent interest in any of the Collateral.

Section 4.17 Environmental Matters. No friable asbestos, or any substance containing asbestos deemed hazardous by federal or state regulations on the date of this Agreement, has been installed in any Collateral constituting immovable property. where the installation could be expected to have a Material Adverse Effect. Such immovable property and the Companies are not in violation of or subject to any existing, pending, or, to the Borrower's knowledge threatened investigation or inquiry by any governmental authority or to any remedial obligations under any applicable laws pertaining to health or the environment (hereinafter sometimes collectively called "Applicable Environmental Laws"), including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (as amended, hereinafter called "CERCLA"), the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984 (as amended, hereinafter called "RCRA"), except where the failure to do so would not have a Material Adverse Effect, and this representation and warranty would continue to be true and correct following disclosure to the applicable governmental authorities of all relevant facts, conditions and circumstances, if any, pertaining to such property and known to the Borrower, except where the failure to do so would not have a Material Adverse Effect. No hazardous substances or solid wastes have been disposed of or otherwise released on or to such property, except where the existence would not have a Material Adverse Effect. The terms "hazardous substance" and "release" as used in this Agreement shall have the meanings specified in CERCLA, and the terms "solid waste" and "disposal" (or "disposed") shall have the meanings specified in RCRA; provided, in the event that the laws of any applicable state establish a meaning for "hazardous substance," "release," "solid waste," or "disposal" which is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply.

Section 4.18 Governmental Requirements. Any Collateral constituting immovable property is in compliance with all current governmental requirements affecting such property, including, without limitation, all current coastal zone protection, zoning and land use regulations, building codes and all restrictions and requirements imposed by applicable governmental authorities with respect to the construction of any improvements on such property and the contemplated use of such property, except where the failure to do so would not have a Material Adverse Effect.

Section 4.19 Contracts. The Contracts when considered as a whole do not materially affect the rights, benefits or security of the Lender under the Collateral Documents and the Contracts do not contain any provision which would prevent in all material respects the Lender's practical realization of the benefits of the Collateral Documents as to the Collateral. After giving effect to the Contracts, the net revenue interests of each Company in the Collateral are not less than those set forth in the Collateral Documents.

Section 4.20 Affiliates.

(a) On the Closing Date, the Borrower has no Subsidiaries, directly or indirectly, other than NGS Delaware, NGS Sub, Arkla, and Four Star. On the Closing Date, none of the Companies has an ownership (direct or beneficial) interest in any Person (whether stock, partnership interest, membership interest or otherwise) other than as stated in the preceding sentence. The Borrower directly or indirectly owns and controls 100% of the ownership and voting rights in NGS Delaware, NGS Sub, Arkla and Four Star. The Borrower has furnished to the Lender true, accurate and complete copies of the organizational documents (articles of incorporation, bylaws, or operating agreement, as applicable) of the Companies.

(b) None of the Collateral is owned by, or has record title to it in the name of, another Person other than Borrower or NGS Sub, and as to the life insurance, Herlin.

Section 4.21 Debt and Preferred Stock.

(a) On the Closing Date, the Borrower has no material Debt for borrowed money from any Person (other than this new Loan), except for Debt listed on Schedule 4.21. There are no filed or perfected (i) mortgages, (ii) security interests or (iii) other Liens securing any of the Debt listed on Schedule 4.21.

(b) On the Closing Date, the Borrower has no preferred stock issued or outstanding.

Section 4.22 Patriot Act. To the extent applicable, each Company is in compliance, in all material respects, with the (i) federal Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (ii) Federal Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the "Patriot Act"). No part of the proceeds of any Loan will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for office or any one use acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

ARTICLE 5

AFFIRMATIVE COVENANTS

Unless the Lender's prior written consent to the contrary is obtained, the Borrower will at all times comply with the covenants contained in this Article 5 (including, where applicable without the necessity of expressly so stating in each instance, causing its Restricted Subsidiaries to comply with such covenant), from the date hereof and for so long as any part of the Indebtedness is outstanding.

Section 5.1 Performance of Obligations. The Borrower will repay the Indebtedness according to the terms of the Note and this Agreement. Each Company will do and perform every act required of it by this Agreement, the Note or in the Collateral Documents and the Warrants at the time or times and in the manner specified.

Section 5.2 Financial Statements and Reports. The Borrower will furnish or cause to be furnished to the Lender from time to time:

(a) Borrower's Annual Reports - (i) upon filing with the SEC, copies of the Borrower's Annual Report on Form 10KSB or, (ii) if Borrower is no longer required to file such reports, within 90 days after the close of each fiscal year of the Borrower, the audited consolidated balance sheet of the Borrower as of the end of such year, the audited consolidated statement of income of the Borrower for such year, the audited consolidated statement of shareholder equity of the Borrower for such year, and the audited consolidated statement of cash flow of Borrower for such year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year, accompanied by a report of the Borrower's independent certified public accountants which accountants shall be reasonably acceptable to Lender (it being agreed that Borrower's existing accountants and any subsequent firm registered with the public company accounting oversight board are acceptable to Lender).

(b) Borrower's Quarterly Reports - (i) upon filing with the SEC, copies of the Borrower's Quarterly Report on Form 10QSB or, (ii) if Borrower is no longer required to file such reports, within 45 days after the end of each quarter (other than the fourth fiscal quarter), the unaudited consolidated balance sheet of the Borrower as of the end of such quarter, the unaudited consolidated statement of income of the Borrower for the period from the beginning of the fiscal year to the close of such fiscal quarter, the unaudited consolidated statement of shareholder equity of the Borrower for the period from the beginning of the fiscal year to the close of such fiscal quarter, and the unaudited consolidated statement of cash flow of Borrower for such fiscal quarter and for the period from the beginning of the fiscal year to the close of such fiscal quarter, setting forth in each case in comparative form the corresponding figures for the corresponding period of the preceding fiscal year (and showing without limitation any over or under produced imbalances of production). Such internally prepared quarterly reports at the end of each fiscal quarter shall be accompanied by the certificates of compliance required by Section 5.3.

(c) Annual Engineering Report -as soon as available and in any event within 60 days following the end of each fiscal year commencing 2005, an annual independent third party engineering report covering the Borrowing Base / Collateral properties, with an effective date no earlier than 60 days preceding, in form and substance reasonably acceptable to the Lender prepared by the independent petroleum engineering firm utilized by the Borrower for its SEC filings and reasonably acceptable to the Lender (it being agreed that the firm used by the Borrower for the last such report is acceptable to Lender). Without limiting the foregoing sentence, such report shall include a discussion of assumptions as to engineering, pricing (which shall be consistent with the pricing described in the definition of Borrowing Base) and expenses, and an economic evaluation together with the reserve value of each well of each property in the Borrowing Base, and further categorized as Proved Developed Producing Reserves, Proved Developed Non-Producing Reserves, or Proved Undeveloped Reserves.

(d) Quarterly Reports - within 45 days after the end of each fiscal quarter, a quarterly production tracking report pertaining to the Borrowing Base properties on a field basis or on a well-by-well basis for new wells drilled, in form reasonably acceptable to the Lender, including production volumes and revenue and expense statements.

(e) Periodic Title Information - periodically as available and in any event no later than the date for the delivery of the annual independent engineering report, copies of drill site title opinions or division order title opinions covering newly drilled wells included in the Collateral that are not covered by title opinions previously delivered to the Lender (i.e., wells drilled within the preceding year); and in addition promptly upon the Lender's request, detailed information concerning any and all requirements or exceptions set forth in any title opinions concerning any of the Collateral.

(f) Environmental - (I) promptly upon receipt thereof, documentation in its possession pertaining to any fines levied during the prior year against the Borrower, or to the extent known and available to the Borrower against an operator of any Collateral, for non-compliance with all applicable federal, state and local environmental laws and regulations; and (II) promptly upon learning thereof, notice of Borrower's acquisition of actual knowledge of the presence of any hazardous materials or solid waste (as defined elsewhere in this Agreement) on or under any Collateral; except in each case, however, where the results of which would not have a Material Adverse Effect.

(g) Notices - when required by the terms thereof, the notices required under Section 5.11.

(h) Audit Reports - promptly upon receipt thereof, one copy of each report submitted to the Borrower by independent accountants in connection with any annual, interim or special audit made by them of the books of the Borrower.

(i) Insurance Report - within 30 days after the end of each fiscal year of the Borrower, an annual insurance coverage report detailing Borrower's insurance program.

(j) S.E.C. Reports - promptly notify Lender, upon such information becoming publicly available, (i) that periodic or special reports, schedules and other material have been filed with or delivered to the Securities and Exchange Commission (or any other governmental authority succeeding to the functions thereof) by the Borrower and (ii) material public news releases and annual reports relating to the Borrower (provided that in no event shall the failure of the Borrower to provide the Lender with notice of the public filing of a report in and of itself constitute an Event of Default).

(k) Hedging Agreements - promptly after entering into such contract if requested by the Lender but in any event on a quarterly basis, a list of all Hedging Agreements of the Borrower and its Subsidiaries describing the material terms thereof made pursuant to the Hedging Program or otherwise.

(l) Budgets and Other Information - for informational purposes only, promptly after adoption thereof, all regular budgets, and upon the request of the Lender, such other financial, technical or other information regarding the business and affairs and financial condition of the Borrower as the Lender may reasonably request.

All balance sheets and other financial reports referred to above shall be in such detail as the Lender may reasonably request and shall conform to the standards described in Section 1.3.

Section 5.3 Certificate of Compliance.

(a) So long as not contrary to the then current rules, regulations or recommendations of the American Institute of Certified Public Accountants or similar body or to any internal policy of the Borrower's independent certified public accountants, concurrently with the furnishing of the annual financial statements described above, the Borrower will cause to be furnished to the Lender a certificate from the independent certified public accountants for the Borrower stating that in the ordinary course of their audit of the Borrower, insofar as it relates to accounting matters, their audit has not disclosed the existence of any condition which constitutes a Default, or if their audit has disclosed the existence of any such condition, specifying the nature, period of existence and status thereof; provided, however, that the independent certified public accountants shall not be liable to the Lender for their failure to discover a Default.

(b) Concurrently with the furnishing of the annual and quarterly financial statements described above, the Borrower will furnish to the Lender a certificate signed by the principal financial officer of the Borrower, stating either that no Default occurred during such quarter (or if it did but no longer exists, the nature and duration thereof) and that no Default then exists, or if a Default exists, the nature, period of existence and status thereof, and specifically setting forth the calculations showing the Borrower's compliance with the financial covenants in Section 5.15.

Section 5.4 Taxes and Other Liens. Each Company will file all tax returns and reports required to be filed and pay (or cause to be paid) and discharge promptly when due, or alternatively have filed an extension for payment thereof, all taxes, assessments and governmental charges or levies imposed upon it or upon income or upon any of its property (including production, severance, windfall profit, excise and other taxes assessed against or measured by the production of, or the value or proceeds of production of, the Collateral) as well as all claims of any kind (including claims for labor, materials, supplies and rent) which, if unpaid, might become a material Lien upon any or all of its property; provided, however, such Company shall not be required to pay or cause to be paid any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings diligently conducted and if the contesting party shall have set up reserves therefor adequate under generally accepted accounting principles (provided that such reserves may be set up under generally accepted accounting principles) and so long as the payment of same is not a condition to be met in order to maintain an oil, gas or mineral lease in force. Notwithstanding the foregoing the Lender agrees and acknowledges that the tax returns for the Borrower for certain prior years have not yet been filed, as set forth in Section 4.8.

Section 5.5 Maintenance and Compliance. The Borrower will, and will cause each Restricted Subsidiary to, (i) maintain its corporate or partnership existence and rights and its current business operations; (ii) observe and comply (to the extent necessary so that any failure will not materially and adversely affect the business of such Person) with all valid existing and future laws, statutes, codes, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, certificates, franchises, permits, licenses, authorizations, directions and requirements (including without limitation applicable statutes, regulations, orders and restrictions relating to environmental standards or controls or to energy regulations) of all federal, state, county, municipal and other governments, departments, commissions, boards, courts, authorities, officials and officers, domestic or foreign; and (iii) maintain its properties (and any property leased by or consigned to it or held under title retention or conditional sales contracts) in generally good and workable condition at all times and make all repairs, replacements, additions, betterments and improvements to its properties to the extent necessary; in each case however, except where the failure of which would not cause a Material Adverse Effect.

Section 5.6 Further Assurances. Each Company at its expense will promptly (and in no event later than 30 days after written notice from the Lender is received) cure any defects, errors or omissions in the creation, execution, delivery or contents of this Agreement, the Note or the Collateral Documents, and execute and deliver (or cause to be executed and delivered) to the Lender upon Lender's reasonable request all such other and further documents, agreements and instruments in compliance with or accomplishment of the covenants and agreements of the Companies in this Agreement, the Note or in the Collateral Documents and the Warrants or to further evidence and more fully describe the Collateral (including without limitation any renewals, additions, substitutions, replacements or accessions to the Collateral), or to correct any omissions in the Collateral Documents and the Warrants, or more fully state the security obligations set out herein or in any of the Collateral Documents, or to perfect, protect or preserve any Liens and the priority thereof created pursuant to any of the Collateral Documents, or to make any recordings, to file any notices, or obtain any consents as may be necessary or appropriate in connection with the transactions contemplated by this Agreement.

Section 5.7 Reimbursement of Expenses. The Borrower will pay all reasonable legal fees and expenses incurred by the Lender in connection with the preparation or administration of this Agreement, the Note and the Collateral Documents, the Warrants and the Revocable Warrants. Legal fees through January 28, 2005, in connection with preparation of the documents will not exceed $45,000.00. Borrower acknowledges that additional post closing legal work regarding legal opinions and title opinions for the initial Loan Advance remains to be done, which legal fees for such work will not exceed $6,000.00, provided such matters are completed by January 31. Future legal work in connection with other post closing items (such as the life insurance pledge) or the administration of the Loan, future Defaults, added Collateral or otherwise are not covered by the preceding two sentences. Solely upon and during the continuance of an Event of Default, the Borrower will, upon request promptly reimburse the Lender for all amounts expended, advanced or incurred by the Lender to satisfy any obligation of any Company under this Agreement, or to protect the property or business of any Company or to collect the Indebtedness, or to enforce the rights of the Lender under this Agreement or the Note or the Collateral Documents or the Warrants, which amounts will include all court costs, reasonable attorneys' fees and expenses, fees and expenses of engineers, auditors and accountants, travel expenses and investigation expenses reasonably incurred by the Lender in connection with any such matters, together with interest at the Default Rate on each such amount from the date that the same paid by the Lender (and after written notification to Borrower for request of payment) until the date of reimbursement to the Lender. The Borrower also agrees to pay, and to hold the Lender harmless from any failure or delay in paying, all recording taxes, documentary stamp taxes or other similar taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of this Agreement, the Note, the Collateral Documents, or any modification or supplement thereof or thereto.

Section 5.8 Insurance. Each Company will maintain with financially sound and reputable insurers, insurance with respect to its properties and businesses against such liabilities, casualties, risks and contingencies and in such types and amounts as are customary in accordance with standard industry practice or as more specifically provided in the Collateral Documents. Upon request of the Lender, the Borrower will furnish the Lender original certificates of insurance and/or copies of the applicable policies.

Section 5.9 Accounts and Records. The Borrower will keep books of record and accounts in which true and correct entries will be made as to all material matters of all dealings or transactions in relation to the Companies' business and activities.

Section 5.10 Right of Inspection. The Borrower will permit any officer, employee or agent of the Lender at Lender's sole risk and expense to visit and inspect any of the properties of the Companies, examine the books of record and accounts of the Companies, take copies and extracts therefrom, and discuss the affairs, finances and accounts of the Companies with the Borrower's officers, accountants and auditors, and the Borrower will furnish information in its possession concerning the Collateral, including schedules of all internal and third party information identifying the Collateral (such as, for example, lease and well names and numbers assigned by the Borrower or the operator of any mineral properties, division orders and payment names and numbers assigned by purchasers of the hydrocarbons, and internal identification names and numbers used by the Borrower in accounting for revenues, costs and joint interest transactions attributable to the mineral properties), all on reasonable notice, at such reasonable times without hindrance or delay and as often as the Lender may reasonably desire, provided that such visit is not unreasonably burdensome on the Borrower. Notwithstanding the foregoing, such visits to Borrower's office shall be limited to one per calendar month, so long as an Event of Default has not occurred and is not continuing. The Borrower will furnish to the Lender promptly upon request and in the form and content specified by the Lender lists of purchasers of hydrocarbons and other account debtors, schedules of equipment and other data concerning the Collateral as the Lender may from time to time specify.

Section 5.11 Notice of Certain Events.

(a) The Borrower shall promptly notify the Lender if the Borrower learns of the occurrence of any event which constitutes a Default, together with a detailed statement by a responsible officer of the Borrower of the steps being taken to cure the effect of such Default.

(b) The Borrower shall promptly notify the Lender of any change in location of any Company's principal place of business or the office where it keeps its records concerning accounts and contract rights or a change in its name, state of organization, federal taxpayer identification number or organizational status.

(c) The Borrower shall promptly notify the Lender of the arising of any litigation or dispute threatened against or affecting the Borrower or any Restricted Subsidiary which, if adversely determined, would have a Material Adverse Effect. So long as an Event of Default has occurred and is continuing, the Lender may (but shall not be obligated to), (i) without prior notice to Borrower, commence, appear in, or defend any action or proceeding purporting to affect the Loan, or the respective rights and obligations of Lender and Borrower pursuant to this Agreement, and (ii) pay all necessary expenses, including reasonable attorneys' fees and expenses incurred in connection with such proceedings or actions, which Borrower agrees to repay to Lender upon demand.

(d) The Borrower shall promptly notify the Lender of the occurrence of any material adverse change of which it becomes aware in the value of any oil or gas property which is included in the Borrowing Base, or from which any Company otherwise derives material revenue. Without limiting the foregoing, the Borrower shall promptly notify the Lender of any notice of default or cancellation from any lessor of any material mineral lease in the Collateral.

(e) The Borrower shall promptly notify the Lender of the creation, incurrence, assumption, existence or filing of any material Lien on any Borrowing Base property now owned or hereafter acquired, except for Liens permitted under Section 6.2.

(f) The Borrower shall promptly notify the Lender of each creation, acquisition, disposition, dissolution, merger or addition or removal of any Subsidiary (whether Restricted Subsidiary or Unrestricted Subsidiary).

(g) The Borrower shall promptly notify the Lender of the execution of each employment contract with any officer of the Borrower, and shall provide the Lender with a complete copy thereof.

The foregoing requirements of notice shall not be construed to imply permission or consent by the Lender as to such events or to waive any representations, covenants and defaults set forth in this Agreement.

Section 5.12 ERISA Information and Compliance. The Borrower will promptly furnish to the Lender (i) promptly after the filing thereof with the United States Secretary of Labor or the Pension Benefit Guaranty Corporation, copies of each annual and other report with respect to each Plan or any trust created by the Borrower, and (ii) promptly upon becoming aware of the occurrence of any "reportable event," as such term is defined in Section 4043 of ERISA, or of any "prohibited transaction," as such term is defined in Section 4975 of the Code, in connection with any Plan or any trust created by the Borrower, a written notice signed by the president or the principal financial officer of the Borrower specifying the nature thereof, what action the Borrower is taking or proposes to take with respect thereto, and, when known, any action taken by the Internal Revenue Service with respect thereto. The Borrower will comply with all of the applicable funding and other requirements of ERISA as such requirements relate to the Plans of the Borrower.

Section 5.13 Indemnification.

(a) The Borrower will indemnify the Lender and hold the Lender harmless from claims of brokers with whom the Borrower has contracted in the execution hereof or the consummation of the transactions contemplated hereby. The Lender will indemnify the Borrower and hold the Borrower harmless from claims of brokers with whom the Lender has contracted in connection with the transactions contemplated hereby.

(b) The Borrower will indemnify the Lender and hold the Lender harmless from any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs and expenses of whatever kind or nature which may be imposed on, incurred by or asserted at any time against the Lender in any way relating to, or arising in connection with, the use or occupancy of any of the Collateral as a result of any breach of any representation, warranty or covenant by Borrower or any Restricted Subsidiary under the terms of this Agreement or the Collateral Documents.

Section 5.14 Environmental Indemnity. The Borrower shall defend, indemnify and hold Lender and its directors, officers, agents and employees harmless from and against all claims, demands, causes of action, liabilities, losses, costs and expenses (including, without limitation, costs of suit, reasonable attorneys' fees and fees of expert witnesses) arising from or in connection with (i) the presence on or under all Collateral constituting real (immovable) property of any hazardous substances or solid wastes (as defined elsewhere in this Agreement), or any releases or discharges of any hazardous substances or solid wastes on, under or from such property, or (ii) any activity carried on or undertaken on or off such property, whether prior to or during the term of this Agreement, and whether by Borrower or its Subsidiary or any predecessor in title or any officers, employees, agents, contractors or subcontractors of Borrower or any Subsidiary or any predecessor in title, or any third persons at any time occupying or present on such property, in connection with the handling, use, generation, manufacture, treatment, removal, storage, decontamination, clean-up, transport or disposal of any hazardous substances or solid wastes at any time located or present on or under such property. The foregoing indemnity shall further apply to any residual contamination on or under such property, or affecting any natural resources, and to any contamination of any property or natural resources arising in connection with the generation, use, handling, storage, transport or disposal of any such hazardous substances or solid wastes, and irrespective of whether any of such activities were or will be undertaken in accordance with applicable laws, regulations, codes and ordinances. Without prejudice to the survival of any other agreements of the Borrower hereunder, the provisions of this Section shall survive the final payment of all Indebtedness and the termination of this Agreement and shall continue thereafter in full force and effect.

Section 5.15 Financial Covenants. The Borrower shall comply with the following financial covenants (determined in accordance with Section 1.3 and on a consolidated basis with its Restricted Subsidiaries), except as specifically stated otherwise:

(a) Minimum Collateral Ratio. The Borrower and its Restricted Subsidiaries, on a consolidated basis, shall maintain a ratio of the Borrowing Base to Total Debt of not less than 1.50 to 1.00 as of the date of each quarterly report of the Borrower.

(b) Minimum EBITDA to Interest Expense. The Borrower and its Restricted Subsidiaries, on a consolidated basis, shall maintain a ratio of EBITDA for the most recently completed fiscal quarter to Interest Expense on Total Debt during such quarter of not less than 2.00 to 1.00 (the "Interest Coverage Ratio") as of the date of each quarterly report of the Borrower, commencing with the report for the quarter ended September 30, 2005.

Notwithstanding the foregoing, in the event that the Interest Coverage Ratio is not met for any fiscal quarter, the Borrower shall not be deemed to be in breach of Section 5.15(b) if the Interest Coverage Ratio is met for the three month period ended as of the end of the first month immediately following the end of such fiscal quarter.

Section 5.16 DSR Account.

(a) The Borrower shall establish on the Closing Date and thereafter maintain a debt service reserve account (the "DSR Account") at AmSouth Bank or at such bank or other financial institution reasonably satisfactory to the Lender, which shall be under the control of the Lender and subject to access and withdrawal by the Lender only in accordance with the terms of this Agreement. The Borrower shall fund the DSR Account on the Closing Date with an amount no less than 7.5% of the Initial Advance (i.e., if the initial Advance is $3,000,000.00, then $225,000.00). From the Closing Date through September 30, 2005, the Borrower shall maintain (and replenish as needed) at all times funds in the DSR Account equal to or exceeding 7.5% of the outstanding principal balance of the Loan at any time and from time to time; commencing on October 1, 2005, the Borrower shall maintain (and replenish as needed) at all times funds in the DSR Account equal to or exceeding five (5%) percent of the outstanding principal balance of the Loan at any time and from time to time. In the event that the DSR Account becomes under-funded, the Borrower shall within ten (10) days replenish the DSR Account to the required amount from any and all (i) free cash flow, defined as any operating cash flow net of required payments on the Loan, (ii) the proceeds from any offering of securities or other financing event by any of the Companies, and (iii) any sources of cash. Upon the occurrence of an Event of Default, the Lender, at its option, may withdraw funds from the DSR Account to pay any interest or principal of the Indebtedness then due.

(b) The Borrower hereby grants to the Lender a continuing security interest in the DSR Account as security for the Indebtedness, and all funds, investment property and proceeds pertaining thereto.

(c) Notwithstanding the terms of Section 5.16(a) above, if Borrower and its Subsidiaries, on a consolidated basis, have not achieved an EBITDA of at least $70,000.00 per month for two consecutive calendar months (the "DSR Test"), commencing with the two months ended April 30, 2005, then Borrower shall fund the DSR Account with a total amount not less than fourteen (14%) percent (the "DSR Penalty Rate") of the outstanding principal balance of the Loan no later than the forty fifth (45^{th}) day following the end of the two month period where the DSR Test was applied. The DSR Penalty Rate shall thereafter remain in effect until Borrower achieves the DSR Test, at which point the terms (7.5% or 5%) described in Section 5.16(a) above shall apply; provided, however, that if Borrower meets the DSR Test for April 2005, but not March 2005, the Borrower shall be allowed the month of May 2005 to meet the DSR Test before the DSR Penalty Rate shall apply. Once the DSR Test has been met by the Borrower, the DSR Test shall not apply to any future periods and this Section 5.16(c) shall no longer apply. For clarification, if on June 14, 2005, the Borrower determines that it has not passed the DSR Test for the months of March and April 2005, then Borrower shall increase the amount in the DSR Account from 7.5% to the DSR Penalty Rate (14%) until the Borrower meets the DSR Test. If the Borrower has $70,000.00 of EBITDA for the month of April 2005, then the DSR Penalty shall not apply unless Borrower fails to have $70,000.00 of EBITDA for May 2005.

Section 5.17 Life Insurance. The Borrower shall cause the life insurance required by Section 3.1(ii) to be issued and a first priority Lien thereon to be perfected in favor of Lender on or before April 30, 2005. Notwithstanding the foregoing or any other provision in this Agreement to the contrary, the Borrower shall not be deemed to be in breach of this Section 5.17 covenant and its obligation to obtain such life insurance shall be permanently waived if both (i) such life insurance is denied by at least three providers as a result of the un-insurability of Herlin and (ii) on or before April 30, 2005, the Borrower has entered into an employment agreement with an individual reasonably acceptable to the Lender to serve as the Borrower's full time Vice President of Operations.

Section 5.18 Hedging Program. The Borrower shall implement a Hedging Program as described below no later than February 28, 2005, and maintain such Hedging Program until the later of (i) the Maturity Date and (ii) the date at which Lender has been repaid in full including all Interest Expense, fees and Prepayment Premiums, if any, associated with the Loan. The Hedging Program will encompass the purchase of swaps, costless collars or comparable hedging instruments that have the effect of eliminating pricing risk on fifty (50%) percent of Net Production for at least a two year period from the implementation of that Hedging Program. Borrower will review and update the Hedging Program on at least a monthly such that the Hedging Program continues to address two years of forward production. The Hedging Program shall at all times be subject to the Lender's approval, which approval will not be unreasonably withheld.

Section 5.19 Future Collateral.

(a) The Lender shall have the right to receive a first priority mortgage, security interest or assignment in the case where Borrower or any Subsidiary acquires new assets with Advances under the Loan, as provided in Section 3.1, subject to the provisions of Section 2.12.

(b) The Lender shall have the right to receive a guaranty from each newly acquired or created Restricted Subsidiary, as provided in Section 3.1.

Section 5.20 Post Closing Obligations.

(a) The Borrower will furnish the Lender with updated Limited Title Opinions on or before ten (10) Business Days after the Closing Date on the Collateral, updating title through and confirming the recordation of the Lender's Mortgage and confirming the absence of other mortgages, liens or judgments affecting title to the Collateral.

(b) The Borrower agrees to use commercially reasonable efforts to obtain an amendment to the Act of Sale and Assignment dated September 2, 2004, to NGS Sub of the Tullos I property as required by the Limited Title Opinion pertaining thereto.

(c) The Borrower will cause an amendment to the Articles of Organization of Arkla to be executed and filed with the Louisiana Secretary of State providing that the membership interest in Arkla is uncertificated, on or before ten (10) Business Days after the Closing Date.

(d) Concurrently with the filing of the Collateral Documents, the Borrower shall obtain and record in Winn Parish a certified copy of the assignment of interest in the oil, gas and mineral leases and conveyance of movable property dated June 21, 1990, by LTF Limited Partnership to Chadco, Inc., as required by the Preliminary Limited Title Opinion pertaining to Tullos II.

(e) The Borrower agrees to use commercially appropriate efforts to obtain the consents to assignment from any lessor of oil and gas leases requiring same in the Collateral, in those instances where the Borrower and the Lender mutually agree such consent should be sought, including without limitation the consent of Annadarko Land Corp. under the Oil and Gas Lease dated February 1, 2003, pertaining to Tullos II.

(f) The Borrower will execute and record a supplemental mortgage encumbering the mineral leases underlying the additional eleven (11) wells purchased by the Borrower as part of the Tullos II acquisition, on or before February 28, 2005.

ARTICLE 6

NEGATIVE COVENANTS

Unless the Lender's prior written consent to the contrary is obtained, the Borrower will at all times comply with the covenants contained in this Article 6 (including, where applicable without the necessity of expressly so stating in each instance, causing its Restricted Subsidiaries to comply with such covenants), from the date hereof and for so long as any part of the Indebtedness is outstanding.

Section 6.1 Debts, Guaranties and Other Obligations. Borrower will not, and will not allow or suffer any Restricted Subsidiary to, incur, create, assume, guaranty or in any manner become or be liable in respect of any Debt direct or contingent, except for:

(a) The Indebtedness to the Lender.

(b) Future Senior Debt incurred pursuant to Section 2.12.

(b) Endorsements of negotiable instruments for deposit or collection, from time to time incurred in the ordinary course of business.

(c) Debt under operating agreements, unitization and pooling agreements and orders, farmout agreements and gas balancing agreements, in each case that are customary in the oil, gas and mineral production business and that are entered into in the ordinary course of business.

(d) Taxes, assessments or other government charges, if such reserve as shall be required by generally accepted accounting principles shall have been made therefor.

(e) Hedging Obligations incurred in the ordinary course of business under Permitted Hedge Agreements and under the approved Hedging Program.

(f) Debt in existence as of the Closing Date described in Section 4.21.

(g) Debt by any Restricted Subsidiary to any other Restricted Subsidiary or to the Borrower or from Borrower to any Restricted Subsidiary; provided, all such Debt shall be evidenced by promissory notes copies of which are made available to Lender.

(h) Debt constituting (x) purchase money obligations in an aggregate amount not to exceed ten million ($10,000,000.00) dollars outstanding at any time (but exclusive of Future Senior Debt, which is otherwise permitted by paragraph (b) above) and (ii) capital lease obligations in an aggregate amount not to exceed one million ($1,000,000.00) dollars outstanding at any time; provided, that such Debt shall be secured only by the asset acquired in connection with the incurrence of such Debt, shall in each incurrence constitute not more than ninety (90%) percent of the aggregate consideration paid with respect to such asset and shall be incurred prior to or within ten (10) days after the acquisition of such asset.

(i) Debt, including without limitation redeemable preferred stock) which is subordinated in right of payment to the Loan and evidenced as such by a written instrument containing commercially reasonable subordination provisions.

(j) Guaranties by Restricted Subsidiaries of Debt of the Borrower or any Restricted Subsidiary if the Debt so guaranteed is permitted to be incurred under this Agreement.

(k) Debt constituting reimbursement obligations to issuers of letters of credit secured by a pledge of cash or cash equivalents.

(l) Obligations under volumetric production payments if the associated reserves are not Collateral.

(m) Debt incurred to refinance the then outstanding aggregate principal amount of any Debt permitted under this Section 6.1 (including any additional Debt incurred to pay premiums and fees in connection therewith); provided that such refinancing Debt shall be in an aggregate principal amount not to exceed the then outstanding aggregate principal amount of such Debt to be refinanced plus any amount incurred to pay premiums and fees in connection therewith, shall have an average life no shorter than the Debt being so refinanced, and to the extent the Debt refinances Debt subordinated to the Indebtedness, such refinanced Debt is subordinated at least to the same extent.

Section 6.2 Liens. The Borrower will not, and will not allow or suffer any Restricted Subsidiary to, create, incur, assume or permit to exist any Lien on any of its property now owned, except for:

(a) Liens for taxes, assessments, or other governmental charges not yet due or which are being contested in good faith by appropriate action promptly initiated and diligently conducted, if such reserve as shall be required by generally accepted accounting principles shall have been made therefor.

(b) Liens of landlords, vendors, carriers, warehousemen, mechanics, laborers and materialmen arising by law in the ordinary course of business for sums either not more than 90 days past due or being contested in good faith by appropriate action promptly initiated and diligently conducted, if such reserve as shall be required by generally accepted accounting principles shall have been made therefor, and enforcement of such Lien is staged pending such contest.

(c) Inchoate liens arising under ERISA to secure the contingent liability of the Borrower permitted by this Agreement.

(d) The pledge of the Collateral and any other Liens in favor of the Lender to secure the Indebtedness of the Borrower to the Lender.

(e) Minor imperfections of title or non-monetary Liens that do not materially impair the development, operation or value of property in its intended use or the title thereto and which are of a nature commonly existing with respect to properties of a similar character as the Collateral.

(f) Royalties, overriding royalties, net profits interests, production payments, reversionary interests, calls on production, preferential purchase rights and other burdens on or deductions from the proceeds of production, that do not secure Debt for borrowed money and that are taken into account in computing the net revenue interests and working interests of the Company warranted in the Collateral Documents.

(g) Operating agreements, unitization and pooling agreements and orders, farmout agreements, gas balancing agreements and other agreements, in each case that are customary in the oil, gas and mineral production business in the general area of such portion of such property, and that are entered into in the ordinary course of business in good faith.

(h) Judgment Liens arising in the ordinary course of business (provided the claim is actively being contested in good faith and by appropriate proceedings) and which do not constitute an Event of Default under Section 8.1(j).

(i) Liens with Lender's prior written approval securing Permitted Hedge Agreements, not to be unreasonably withheld.

(j) Liens securing permitted Future Senior Debt.

(k) Reserved.

(l) Liens on assets or entities acquired after the Closing Date, provided each such Lien (i) was in existence prior to such acquisition, (ii) was not created in contemplation of such acquisition, (iii) does not extend to any assets other than those acquired, and (iv) secures only the Debt that it secures on the date of such acquisition.

(m) Liens on equipment and Liens securing capital lease obligations securing Debt permitted by Section 6.1(h), provided, that each such Lien is limited to such equipment so acquired and secures only the Debt incurred in connection with the acquisition of such equipment.

(n) Liens on cash or cash equivalents securing reimbursement obligations in connection with letters of credit.

(o) Liens pursuant to paragraph 8 of the Secured Promissory Note dated August 10, 2004, by the Borrower to Laird Q. Cagan, provided each such Lien (i) secures only the Debt in existence as of the Closing Date described in Section 4.21, and (ii) is not perfected or otherwise made effective as to third parties by any filings or recordings of mortgages, uniform commercial code financing statements or other collateral documents of any type. (For the avoidance of doubt, this paragraph (o) does not modify or negate the representation in Section 4.21(a) above).

The inclusion of this Section 6.2 shall not constitute in any way an acknowledgment by the Lender of the validity, legality, enforceability or binding effect on the Lender of such Liens, the sole purpose of this provision being to provide that the existence of any such permitted Liens shall not in and of itself constitute an Event of Default under this Agreement.

Section 6.3 Investments, Loans and Advances. The Borrower will not (directly or indirectly through any Restricted Subsidiary), and will not allow or suffer any Restricted Subsidiary to, make or permit to remain outstanding any loans or advances or extensions of credit to, or purchases or other acquisitions of capital stock or ownership (direct or beneficial) interests or obligations of, or other investments in, any Person (including without limitation any Subsidiary), except for:

(a) Investments in cash, cash equivalents, and readily marketable direct obligations of the United States of America or any agency thereof.

(b) Investments in certificates of deposit of maturities less than one year issued by banks satisfactory to Lender.

(c) Investments in commercial paper of maturities less than one year with the best rating by Standard & Poors, Moody’s Investors Service, Inc., or any other rating agency reasonably satisfactory to the Lender.

(d) Advances and loans to employees and officers made in the ordinary course of business not exceeding in the aggregate $10,000 for all such advances and loans.

(e) Advances pursuant to operating agreements, unitization and pooling agreements and orders, farmout agreements and gas balancing agreements, in each case that are customary in the oil, gas and mineral production business and that are entered into in the ordinary course of business.

(f) Ownership of equity interests in Restricted Subsidiaries.

(g) Loans and advances made by the Borrower to its Restricted Subsidiaries in the ordinary course of business to be used in the normal business operations of such Restricted Subsidiary. (However, nothing in this Section modifies or overrides the limitation on use of proceeds of the Loan in Section 2.7.).

(h) Accounts receivables created or acquired in the ordinary course of business.

(i) Investments in connection with Permitted Hedging Agreements incurred under the Hedging Program approved by the Lender.

(j) Repurchases of non vested options and securities from Herlin pursuant to Herlin's existing founder common stock purchase agreement attached hereto as Exhibit 6.3(j) as in effect on the Closing Date (without consideration of any amendments thereto made without the Lender's written consent), solely pursuant to the Repurchase Option (as defined therein) under Section 3(a) thereof, but excluding other purchases thereunder including without limitation purchases under the Right of First Refusal under Section 3(b) thereof.

(k) Investments in (x) Unrestricted Subsidiaries or (y) Persons who derive substantial revenue from operations similar or ancillary to the Borrower's business as conducted at the time of such Investment, provided that the total Investments under this clause (k) shall not exceed the greater of (A) $100,000.00 or (B) the total of the aggregate net proceeds from equity offerings made after the Closing Date plus proceeds from issuances of subordinate Debt made after the Closing Date and outstanding at any one time.

Section 6.4 Nature of Business. The Borrower will not permit any material change to be made in the character of its business or the business of any Restricted Subsidiary as carried on at the Closing Date.

Section 6.5 Mergers and Consolidations. The Borrower will not, and will not allow or suffer any Restricted Subsidiary to, merge with or consolidate with any Person (whether or not such merger or consolidation requires any capital expenditures on the part of the Borrower or such Restricted Subsidiary) without the prior written consent of the Lender, or except as permitted by this Section. Mergers and consolidations shall be allowed without Lender's consent so long as (i) the surviving entity continues to be engaged in the acquisition and development of oil and gas properties with proved reserves, (ii) the merger or consolidation does not trigger a Default and is not projected to trigger a Default for the remaining term of the Loan, and (iii) the merger does not materially reduce the Collateral associated with the Loan.

Section 6.6 ERISA Compliance. The Borrower will not at any time permit any Plan maintained by it to engage in any "prohibited transaction" as such term is defined in Section 4975 of the Code; incur any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA; or terminate any such Plan in a manner which could result in the imposition of a Lien on the property of the Borrower pursuant to Section 4068 of ERISA.

Section 6.7 Changes. Each Company will not without 30 days prior notice to the Lender change the location of any of its Collateral, or change the location of its state of organization or chief executive office or change its name or taxpayer identification number.

Section 6.8 Sales. The Borrower will not, and will not allow or suffer any Restricted Subsidiary to, sell, assign, transfer by bond for deed, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its property (whether now owned or hereafter acquired) to any Person. The Borrower will not, and will not allow or suffer any Restricted Subsidiary to, sell, assign, transfer by bond for deed, lease or otherwise dispose of any of its Collateral or any material portion of its other property, business, or assets, including without limitation any producing mineral properties, except for (i) sales of production, (ii) collection of its accounts, (iii) sales of items of equipment which are obsolete or otherwise no longer useful for such Person's operations, in each case in the ordinary course of business, (iv) sales of assets consisting of lesser amounts of assets than an Asset Sale and the proceeds of which are paid to Lender as required by Section 2.5(b), and (v) sales under clause (z) of the definition of Excluded Sales.

Section 6.9 Agreements. Each Company will not enter into or be a party to any contract or agreement for the purchase of materials, supplies or other property or services if such contract or agreement shall require that the Company make payment for such materials, supplies or other property irrespective of whether delivery thereof is made or whether such services are rendered. Except in the ordinary course of business, each Company will not enter into any arrangement with any gas pipeline company or any other purchaser of hydrocarbons regarding the Collateral whereby the Company agrees that said gas pipeline company or purchaser may set off any claim against the Company by withholding payment for any hydrocarbons actually delivered.

Section 6.10 No Dividends or Redemption of Shares. The Borrower will not (i) pay or declare any dividend on any class of its stock (other than stock dividends), (ii) make any other distribution or other shareholder expenditure on account of any class of its stock, nor set aside any funds for such purpose, (iii) otherwise make or agree to pay for or make, directly or indirectly, any other distribution with respect to any shares of any class of its stock, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares or any option, warrants or other right to acquire any such shares, nor (iv) make any payments of principal or interest, or any purchase, redemption, retirement, acquisition or defeasance, with respect to any Debt which is subordinated in right of payment to the payment of the Indebtedness, except (A) under the Warrants, (B) in the case of (i) through (iv), if at the time thereof and immediately after giving effect thereto no Default or Event of Default shall have occurred and be continuing and all of the Distribution Conditions defined below are met, and (C) for the costs incurred by the Borrower on behalf of any shareholder in connection with registering the shares of stock held by such shareholder. The Borrower may make and pay such cash dividends so declared within 30 days of such declaration without testing the Distribution Conditions again under this Section as of the payment date. The "Distribution Conditions" shall mean that all of the following shall be true:

(1) DSR Account. The DSR Account shall be fully funded as required by Section 5.16.

(2) Total Debt to EBITDA. Total Debt as of the last day of the Borrower's most recently ended fiscal quarter, divided by EBITDA for such quarter shall not exceed 14.00.

(3) Interest Coverage. EBITDA for the Borrower's most recently ended fiscal quarter, divided by total Interest Expense on Total Debt for such quarter shall be at least 2.00.

(4) PV10 Test. The Borrowing Base as determined by the most recent independent engineering report delivered to the Lender in accordance with this Agreement shall not be less than 1.50 times the amount of Total Debt then outstanding.

(5) No Distributions to Common. There shall be no distributions with respect to shares of Borrower's common equity so long as the Loan is outstanding; provided, however, that this Section 6.10(5) is not intended to limit dividends, coupon payments or other distributions to holders of preferred equity or debt subordinate to that of the Lender so long as the provisions of Sections 6.10(1)-(4) are met or to limit the ability of Borrower to acquire shares of its equity held by Herlin permitted by Section 6.3(j).

Section 6.11 Compensation. The Borrower will not pay compensation to its employees, officers or directors in excess of reasonable salaries, bonuses and other benefits that are incurred in the ordinary course of business and, without limiting the foregoing, are not paid with the purpose or effect of avoiding the limitation established in Section 6.10 above.

Section 6.12 Management. The Borrower shall use commercially reasonably efforts not to permit or suffer a change in the key management of the Borrower and its Restricted Subsidiaries to occur. For purposes of this Section, key management shall mean the continued active full time employment of Robert S. Herlin (as President) as his primary and essentially exclusive business activity, excluding his current position on the board of directors of Boots and Coots Group.

Section 6.13 Transactions with Affiliates. The Borrower will not, and will not allow or suffer any Restricted Subsidiary to, sell, transfer, lease or otherwise dispose of (including pursuant to any merger) any property or assets to, or purchase, lease or otherwise acquire (including pursuant to a merger) any property or assets from, or otherwise engage in any other transactions with, any Affiliates, except in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Restricted Subsidiary as could be obtained on an arms-length basis from unrelated third persons in a comparable transaction.

Section 6.14 Subsidiaries. The Borrower will not allow or suffer any changes to be made in the ownership structure of each Restricted Subsidiary, and shall not own and control directly or indirectly less than one hundred (100%) percent of the ownership and voting rights in each Restricted Subsidiary. The Borrower will not, and will not allow or suffer any Restrictive Subsidiary to, create, incur, assume or permit to exist any Lien on its equity interest in any Restricted Subsidiary, other than in favor of the Lender.

Section 6.15 Restrictive Agreements. The Borrower will not directly or indirectly enter into, incur or permit to exist, or permit any Restricted Subsidiary so to do, any agreement or other arrangement that prohibits, restricts or imposes any condition upon the ability of a Restricted Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets or prohibits, restricts or imposes any condition upon the ability of any Restricted Subsidiary to pay dividends or other distributions with respect to any shares of its equity securities or other ownership interest or to repay to the Borrower any loans or advances, provided that the foregoing shall not apply to restrictions and conditions imposed by corporate law or by this Agreement.

Section 6.16 Repayment of Director Loans. The Borrower shall not repay any loans to any officers in excess of $50,000.00 in the aggregate or to any directors other than outside director fees unless the following conditions are met:

(a)The Hedging Program provisions of Section 5.18 have been implemented, with Permitted Hedge Agreements executed and in effect, and

(b)The new employment contract with Herlin has been approved by the compensation committee of the Borrower.

Section 6.17 Subordination. The Borrower will not pay any management or other fee to Cagan McAfee Capital Partners or its Affiliates, unless at the time of such payment and immediately after giving effect thereto no Default or Event of Default shall have occurred and be continuing.

ARTICLE 7

CONDITIONS OF LENDING

Section 7.1 Conditions of Lending. The obligation of the Lender to make the Loan is subject to the absence of a Default or an Event of Default, and to the receipt of the following on or before the Closing Date:

(a) Agreement. A duly executed counterpart of this Agreement signed by all the parties hereto.

(b) Note. The duly executed Note signed by the Borrower.

(c) Good Standing. Certificates of good standing of the Companies issued by the Secretaries of State of Delaware, Texas, Nevada and Louisiana.

(d) Corporate Certificate. A certificate of the secretary of each Company (i) setting forth resolutions of its board of directors in form and substance reasonably satisfactory to the Lender with respect to the unanimous authorization of this Agreement, the Note and the Collateral Documents to which it is a party, (ii) attaching the articles of incorporation and bylaws of the Company, (iii) stating its Federal tax identification number and corporate registration identification number, and (iv) setting forth the officers authorized to sign such instruments.

(e) Fee. The commitment fee required by Section 2.6 to be paid from the proceeds of the initial draw.

(f) Collateral Documents. Duly executed and recorded mortgages, executed deposit account control agreement, and executed security agreements, and filed financing statements covering the Collateral, and executed guaranty agreement.

(g) Stock Certificates. The original stock certificates for its shares in NGS Delaware, NGS Sub and Four Star, all duly endorsed in blank and delivered to the Lender.

(h) Lien Searches. UCC lien searches reasonably satisfactory to the Lender pertaining to the Companies.

(i) Title. Title Opinions (limited in time coverage) and certificates of land title records run sheets and title documentation with respect to the Collateral in form, scope and substance reasonably satisfactory to the Lender and Lender's counsel, which indicate that NGS Sub has good and marketable title to the interests in the Collateral in amounts not less than those specified in the Collateral Documents or otherwise represented to Lender, subject to no Liens other than the Collateral Documents and those accepted by the Lender in writing, unless waived by Lender in writing on or in advance of the Closing Date.

(j) Legal Opinions. Legal opinions from Borrower's counsel (The Boles Law Firm, and Troy & Gould) in form, scope and substance reasonably satisfactory to the Lender.

(k) Insurance. Satisfactory evidence of all insurance coverages relating to the Collateral and the Companies.

(l) Environmental. Complete documentation in Borrower's possession pertaining to any previous material fines levied against the Borrower or any current operator of the Collateral for non-compliance with applicable federal, state and local environmental laws and regulations.

(m) Warrants. Executed Warrant Agreement, Registration Rights Agreement and Revocable Warrant Agreement.

(n) Release. Executed and recorded release of Mortgage by Delta Exploration and Development Company, Inc., of that certain Mortgage dated September 25, 2003, covering Delhi.

In the event that the Lender in its sole and absolute discretion waives the receipt of any items set forth above, the Borrower agrees that it nonetheless will promptly deliver such item to the Lender upon request within the time period reasonably specified by the Lender in connection with such waiver.

Section 7.2 Certification. The obligation of the Lender to make the Loan available is further subject to the certification by the Borrower, which the Borrower hereby makes, that no Default or Event of Default exists, and that no Material Adverse Effect has occurred, since the time of the issuance of Lender's commitment letter.

Section 7.3 Incurrence Covenants. The obligation of the Lender to make an Advance under the Loan is subject to all of the following conditions being met at the time of such Advance, which may occur within ninety (90) days after the Closing Date:

(a) Each of the representations and warranties of the Companies contained in this Agreement and the Collateral Documents shall be true and correct in all material respects on and as of the date of each subsequent Advance, both before and after giving effect to the proposed Advance and to the application of the proceeds therefrom, as though made on and as of such date, other than any such representations or warranties that by their terms refer to a specific date other than the date of the proposed Advance or issuance, in which case as of such specific date, and except as such representations and warranties relate to matters that are changed as permitted by this Agreement.

(b) At the time of such Advance, no Default shall have occurred and be continuing.

(c) The Borrower shall not have had a Material Adverse Effect from its condition represented in the most recent financial statements furnished to the Lender prior to the Closing Date, except to the extent that such changes are permitted by this Agreement.

(d) If reasonably required by Lender, Borrower shall deliver to Lender a bringdown title search in the appropriate states, confirming the absence of Lien filings against the Collateral or the Companies since the effective date of the preceding bringdown search.

(e) Delivery of additional Warrants in accordance with Section 3.2 and additional Revocable Warrants in accordance with Section 3.3.

Section 7.4 Title Matters. It is expressly acknowledged by the Borrower that the waiver by the Borrower (on the basis of the Borrower's business judgment) of any title requirements contained in any title opinions delivered to the Lender from time to time in connection with this Agreement, or other acceptance of potential title deficiencies, and funding by the Lender of Advances, shall not constitute a waiver by the Lender of any of the representations and warranties of the Companies contained herein or in the Collateral Documents.

ARTICLE 8

DEFAULT

Section 8.1 Events of Default. Any of the following events shall be considered an "Event of Default" as that term is used herein:

(a) Principal and Interest Payments. The Borrower fails to make payment (x) when due of any principal or interest installment on the Note, any fee, or any other Indebtedness incurred pursuant to this Agreement to the Lender, and such default continues unremedied for a period of ten (10) days after the notice thereof being given by the Lender to the Borrower, or (y) when due of any mandatory prepayment under Subsection 2.5(b) or Subsection 2.5(c) , and such default continues unremedied for a period of seven (7) days after the notice thereof being given by the Lender to the Borrower.

(b) Representations and Warranties. Any representation or warranty made by or on behalf of any Company contained in this Agreement, the Note or any of the Collateral Documents proves to have been incorrect in any material respect as of the date thereof, provided however, that such event will only be an Event of Default if the failure of such representation or warranty to be correct would have a Material Adverse Effect.

(c) Specific Covenants. The Borrower fails to observe or perform at any time any covenant or agreement contained in Section 5.15, Section 5.17, Section 5.18, Section 6.1, Section 6.2, Section 6.3, Section 6.4, Section 6.5, Section 6.8, Section 6.10, Section 6.14, Section 6.15, Section 6.16 and Section 6.17 of this Agreement.

(d) Covenants. The Borrower or other party thereto (other than the Lender) defaults in any material respect in the observance or performance of any of the covenants or agreements contained in this Agreement, the Note or any of the Collateral Documents to be kept or performed by the Borrower or such Person (other than a default under Subsections (a) through (c) hereof), and such default continues unremedied for a period of thirty (30) days (or, if applicable, any longer cure period expressly set forth in any of the Collateral Documents) after notice thereof being given by the Lender to the Borrower and such other party.

(e) Other Debt to Lender. The Borrower defaults on the payment of any amounts due to the Lender or in the observance or performance of any of the covenants or agreements contained in any loan agreement or any promissory note relating to any Debt for borrowed money of the Borrower to the Lender other than the Loan, and any grace period applicable to such default has elapsed.

(f) Other Debt to Other Lenders. The Borrower defaults in the payment of any amounts due to any Person (other than the Lender) or in the observance or performance of any of the covenants or agreements contained in any credit agreements, notes, leases, collateral or other documents relating to any Debt (senior, pari passu or subordinate) of the Borrower to any Person (other than the Lender) in excess of $250,000.00, and, in either case, any grace period applicable to such default has elapsed, including without limitation if any event or condition occurs that results in any such Debt becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder of any such Debt to cause any portion of such Debt to become due prior to its scheduled maturity or payment date or to require the prepayment thereof (in each case after giving effect to any applicable cure period).

(g) Involuntary Bankruptcy or Receivership Proceedings. A receiver, conservator, liquidator or trustee of any Company, or of any of its property, is appointed by order or decree of any court or agency or supervisory authority having jurisdiction; or an order for relief is entered against any Company under the Federal Bankruptcy Code; or any Company is adjudicated bankrupt or insolvent; or any material portion of the property of any Company is sequestered by court order and such order remains in effect for more than 30 days after such party obtains knowledge thereof; or a petition is filed against any Company under any reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or receivership law of any jurisdiction, whether now or hereafter in effect, and such petition is not dismissed within 60 days.

(h) Voluntary Petitions. Any Company files a case under the Federal Bankruptcy Code or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any case or petition against it under any such law.

(i) Assignments for Benefit of Creditors. Any Company makes an assignment for the benefit of its creditors, or admits in writing its inability to pay its debts generally as they become due, or consents to the appointment of a receiver, trustee or liquidator of any Company or of all or any part of its property.

(j) Undischarged Judgments. Judgment for the payment of money in excess of $100,000.00 (which is not covered by insurance) is rendered by any court or other governmental body against any Company, and such Company does not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof within 30 days from the date of entry thereof, and within said 30-day period or such longer period during which execution of such judgment shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal while providing such reserves therefor as may be required under generally accepted accounting principles.

(k) Attachment. A writ or warrant of attachment or any similar process shall be issued by any court against all or any material portion of the Collateral, and such writ or warrant of attachment or any similar process is not released or bonded within 30 days after its entry.

(l) Condemnation. The Collateral, or any substantial portion thereof, is condemned or expropriated under power of eminent domain by any legally constituted governmental authority.

(m) Invalidity. Any Company shall assert in writing that any material provision of this Agreement, the Note or any of the Collateral Documents shall for any reason be or cease to be valid and binding on such Company after the Closing Date.

(n) Change of Control. A Change of Control shall occur.

(o) Herlin. Robert S. Herlin shall cease for any reason to be actively employed full time as President of the Borrower, as his primary and essentially exclusive business activity, as contemplated by Section 6.12; provided, however, that the cessation of employment of Mr. Herlin shall not be a Default hereunder so long as the Borrower hires or promotes a replacement officer with experience and qualifications reasonably acceptable to the Lender within 90 days of Mr. Herlin's cessation of full active employment.

Section 8.2 Remedies.

(a) Upon the happening of any Event of Default specified in the preceding Section (other than Subsections (g) or (h) thereof), (i) all obligations, if any, of the Lender to make Advances to the Borrower shall immediately cease and terminate, and (ii) the Lender may by written notice to the Borrower declare the entire principal amount of all Indebtedness then outstanding including interest accrued thereon to be immediately due and payable without presentment, demand, protest, notice of protest or dishonor or other notice of default of any kind, all of which are hereby expressly waived by the Borrower.

(b) Upon the happening of any Event of Default specified in Subsections (g) or (h) of the preceding Section, (i) all obligations, if any, of the Lender to make Advances to the Borrower shall immediately cease and terminate, and (ii) the entire principal amount of all obligations then outstanding including interest accrued thereon shall, without notice or action by the Lender, be immediately due and payable without presentment, demand, protest, notice of protest or dishonor or other notice of default of any kind, all of which are hereby expressly waived by the Borrower.

(c) In addition to the foregoing, the Lender may exercise any of the rights and remedies established in the Collateral Documents or avail itself of any other rights and remedies provided by applicable law.

Section 8.3 Set-Off. Upon the occurrence of any Event of Default, the Lender shall have the right to set-off any funds of the Borrower or any Company in the possession or control of the Lender (including without limitation funds in the accounts provided for in Article 5) against any amounts then due by the Borrower to the Lender pursuant to the Agreement.

Section 8.4 Marshaling. The Companies shall not at any time hereafter assert any right under any law pertaining to marshaling (whether of assets or liens) and the Borrower expressly agrees that the Lender may execute or foreclose upon the Collateral Documents in such order and manner as the Lender, in its sole discretion, deems appropriate.

ARTICLE 9

MISCELLANEOUS

Section 9.1 Notices. Any notice or demand which, by provision of this Agreement or any Collateral Document referencing this provision, is required or permitted to be given by one Person to another Person, shall be given by (i) deposit, postage prepaid, in the mail, registered or certified mail, or (ii) delivery to a recognized express courier service, or (iii) delivery by hand, or (iv) by facsimile, in each case addressed (until another address or addresses is given in writing by such party to the other party) as follows:

NGS/Prospect Loan Agreement

	If to Borrower	Natural Gas Systems, Inc.
	or any Subsidiary:	Two Memorial City Plaza
		820 Gessner, Suite 1340
		Houston, Texas 77024
		Attention: Robert S. Herlin, President
		Facsimile Number: (713) 935-0199
		Telephone Number: (713) 935-0122
		AND
		Laird Cagan, Chairman
		10600 N. De Anza Blvd., Suite 250
		Cupertino, California 95014
		Facsimile Number: (408) 904-6085
		Telephone Number: (408) 873-0400
	With copies to	Troy & Gould
	(which copies shall	1801 Century Park East, 16th Floor
	not constitute	Los Angeles, California 90067-2367
	notice)	
		Attention: Lawrence P. Schnapp
		Facsimile Number: (310) 201-4746
		Telephone Number: (310) 553-4441
		AND
		Steven D. Lee
		10600 N. De Anza Blvd., Suite 250
		Cupertino, California 95014
		Facsimile Number: (415) 358-4579
		Telephone Number: (650) 303-2313
	If to Lender:	Prospect Energy
		10 East 40th Street, Suite 4400
		New York, New York 10016
		Attention: John Barry, Chief Executive Officer
		Facsimile Number: (212) 448-9652
		Telephone Number: (212) 448-0702 x14

All notices sent by facsimile transmission shall be deemed received by the addressee upon the transmitter's receipt of acknowledgment of receipt from the offices of such addressee (if before 5:00 p.m. on a Business Day; if later, then on the next Business Day).

Section 9.2 Entire Agreement. This Agreement, the Note and the Collateral Documents and the Warrants set forth the entire agreement of the Lender and the Borrower with respect to the Indebtedness, and supersede all prior written or oral understandings with respect thereto; provided, however, that all written representations, warranties and certifications made by the Borrower to the Lender with respect to the Indebtedness and the security therefor shall survive the execution of this Agreement. The Borrower is not relying on any representation by the Lender, and no representation has been made, that the Lender will, at the time of a Default or at any other time, waive, negotiate, discuss, or take or refrain from taking any action with respect to such Default.

Section 9.3 Renewal, Extension or Rearrangement. All provisions of this Agreement relating to the Note shall apply with equal force and effect to each and all promissory notes or security instruments hereinafter executed which in whole or in part represent a renewal, extension for any period, increase or rearrangement of any part of the Note.

Section 9.4 Amendment. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally or in any manner other than by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

Section 9.5 Invalidity. In the event that any one or more of the provisions contained in this Agreement, the Note, or the Collateral Documents shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, the Note or the Collateral Documents.

Section 9.6 Survival of Agreements. All representations and warranties of the Borrower herein, and all covenants and agreements herein not fully performed before the effective date of this Agreement, shall survive such date.

Section 9.7 Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any of its rights, powers or privileges under this Agreement, the Note or the Collateral Document and the Warrants, shall operate as a waiver thereof.

Section 9.8 Cumulative Rights. The rights and remedies of the Lender under this Agreement, the Note and the Collateral Documents and the Warrants shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 9.9 Time of the Essence. Time shall be deemed of the essence with respect to the performance of all of the terms, provisions and conditions on the part of the Borrower and the Lender to be performed hereunder.

Section 9.10 Successors and Assigns.

(a) All covenants and agreements made by or on behalf of the Borrower in this Agreement, the Note and the Collateral Documents shall bind its successors and assigns and shall inure to the benefit of the Lender and its successors and assigns. The Borrower may not assign its rights or obligations under this Agreement.

(b) This Agreement is for the benefit of the Lender and for such other Person or Persons as may from time to time become or be the holders of any of the Indebtedness, and this Agreement shall be transferrable and negotiable, with the same force and effect and to the same extent as the Indebtedness may be transferrable, it being understood that, upon the transfer or assignment by the Lender of any of the Indebtedness, the legal holder of such Indebtedness shall have all of the rights granted to the Lender under this Agreement.

Section 9.11 Relationship Between the Parties. The relationship between the Lender and the Borrower shall be solely that of lender and borrower, and such relationship shall not, under any circumstances whatsoever, be construed to be a joint venture, joint adventure, or partnership. The Lender has no fiduciary obligation to the Borrower with respect to this Agreement or the transactions contemplated hereby.

Section 9.12 Limitation of Liability. This Agreement, the Note and the Collateral Documents are executed by an officer of the Lender, and by acceptance of the Loan, the Borrower agrees that for the payment of any claim or the performance of any obligations hereunder resulting from any default by the Lender, resort shall be had solely to the assets and property of the Lender, and no shareholder, officer, employee or agent of the Lender shall be personally liable therefor.

Section 9.13 Titles of Articles, Sections and Subsections. All titles or headings to articles, sections, subsections or other divisions of this Agreement or the exhibits hereto are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

Section 9.14 Singular and Plural. Words used herein in the singular, where the context so permits, shall be deemed to include the plural and vice versa. The definitions of words in the singular herein shall apply to such words when used in the plural where the context so permits and vice versa.

Section 9.15 GOVERNING LAW. THIS AGREEMENT IS, AND THE NOTE WILL BE, CONTRACTS MADE UNDER AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF LOUISIANA.

Section 9.16 Counterparts. This Agreement may be executed in two or more counterparts, and it shall not be necessary that the signatures of all parties hereto be contained on any one counterpart hereof; each counterpart shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 9.17 WAIVER OF JURY TRIAL; SUBMISSION TO JURISDICTION.

(a) THE BORROWER AND THE LENDER HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE BORROWER AND THE LENDER MAY BE PARTIES, ARISING OUT OF OR IN ANY WAY PERTAINING TO (i) THE NOTE, (ii) THIS AGREEMENT, (iii) THE COLLATERAL DOCUMENTS AND THE WARRANTS OR (iv) THE COLLATERAL. IT IS AGREED AND UNDERSTOOD THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS AGREEMENT. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY THE BORROWER AND THE LENDER, AND THE BORROWER AND THE LENDER HEREBY REPRESENT THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. THE BORROWER AND THE LENDER FURTHER REPRESENT THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF ITS OWN FREE WILL, AND THAT IT HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

(b) THE BORROWER HEREBY IRREVOCABLY CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF ANY STATE COURT OF LOUISIANA OR FEDERAL COURT SITTING IN LOUISIANA, AND AGREES THAT ANY ACTION OR PROCEEDING ARISING OUT OF OR BROUGHT TO ENFORCE THE PROVISIONS OF THE NOTE, THIS AGREEMENT AND/OR THE COLLATERAL DOCUMENTS MAY BE BROUGHT IN ANY COURT HAVING SUBJECT MATTER JURISDICTION. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTIONS THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT ANY SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME. THE BORROWER AGREES THAT NOTHING HEREIN SHALL LIMIT THE LENDER'S RIGHT TO SUE IN ANY OTHER JURISDICTION.

(c) THE BORROWER HEREBY AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL) POSTAGE PREPAID, TO THE BORROWER AT ITS ADDRESS SET FORTH IN SECTION 9.1 OR AT SUCH OTHER ADDRESS AS TO WHICH THE LENDER SHALL HAVE BEEN NOTIFIED PURSUANT THERETO. THE BORROWER AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

Section 9.18 AGREEMENT SUPERCEDES ALL PRIOR AGREEMENTS. THIS AGREEMENT, TOGETHER WITH THE NOTE, THE COLLATERAL DOCUMENTS, THE WARRANTS, AND ANY OTHER WRITTEN INSTRUMENTS EXECUTED PURSUANT TO THIS AGREEMENT REPRESENT, COLLECTIVELY, THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO WITH RESPECT TO THE SUBJECT HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES AND SHALL SUPERSEDE ANY PRIOR AGREEMENT BETWEEN THE PARTIES HEREOF, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT HEREOF. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 9.19 Patriot Act. The Lender hereby notifies the Borrower that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies the Borrower and the other Companies, which information includes the name and address of the Borrower and other information that will allow the Lender to identify the Borrower in accordance with the Patriot Act.

Section 9.20 Confidentiality. The Lender shall hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with the Lender's customary procedures for handling confidential information of this nature and in accordance with safe and sound commercial lending practices. It is understood and agreed by the Borrower that the Lender may make disclosures (a) to its Affiliates and to its Affiliates' directors, officers, employees and agents, including accountants, legal counsel, petroleum engineers and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (b) to the extent requested by any government authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) for the purposes specified in this Agreement or in the Collateral Documents, (f) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of the rights hereunder or under the Collateral Documents, (g) subject to an agreement containing provisions substantially the same as those in this Section 9.20, to (1) any assignee or any prospective eligible assignee of any of its rights or obligations under this Agreement, or (2) any actual or proposed contractual counterparty (or its professional advisors) to any Hedge Agreement relating to a party's obligations hereunder, (h) with the consent of the Borrower, (i) to the extent such information (1) becomes publicly available other than as a result of a breach of this Section 9.20, or (2) becomes available to the Lender on a nonconfidential basis from a source other than the Borrower, or (j) any nationally recognized rating agency that requires access to information about the Lender's or its Affiliates' investment portfolio in connection with ratings issued with respect to the Lender or its Affiliates. However, no information that is designated as privileged or as attorney work product by the Borrower may be disclosed to any Person unless such Person is the Lender or a participant hereunder or its legal counsel. In no event shall the Lender be obligated or required to return any materials furnished by the Borrower.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed as of the date first above written.

BORROWER: NATURAL GAS SYSTEMS, INC.

By: /s/

Name: Robert S. Herlin
Title: President & CEO

LENDER: PROSPECT ENERGY CORPORATION

By: /s/

Name: Bart J. de Bie
Title: Authorized Representative

MORTGAGE, COLLATERAL ASSIGNMENT, SECURITY AGREEMENT AND FINANCING STATEMENT

BY

NGS SUB. CORP.

* UNITED STATES OF AMERICA

* STATE OF

* COUNTY/PARISH OF_____

* * * * * * * * * * * *

BE IT KNOWN, that on this 2nd day of February, 2005, before me, the undersigned Notary Public duly commissioned and qualified, personally came and appeared:

NGS SUB. CORP., a Delaware corporation (the "Mortgagor"), having a mailing address of 820 Gessner, Suite 1340, Houston, Texas 77024, and a federal taxpayer identification number with the last four digits of _____, appearing herein by and through its undersigned officer, duly authorized by resolutions of its Board of Directors, a certified copy of which is attached hereto,

who declared that Mortgagor does by these presents declare and acknowledge an indebtedness unto:

PROSPECT ENERGY CORPORATION, a Maryland corporation (the "Lender") having a place of business at 10 East 40th Street, Suite 4400, New York, New York 10016, and a federal taxpayer identification number with the last four digits of _____.

RECITALS

A. Natural Gas Systems, Inc., a Nevada corporation (the "Borrower") is indebted unto the Lender for loans made and to be made pursuant to the terms of a certain loan agreement (as amended, supplemented or restated from time to time, and all other agreements given in substitution therefor, or in renewal, extension or restatement thereof, in whole or in part, being herein called the "Loan Agreement") dated as of February 2, 2005, by and between the Borrower and the Lender.

B. From time to time Borrower will make a portion of the proceeds of the loans available to Mortgagor for the acquisition of properties and working capital purposes, and therefore the making of such loans by Lender to Borrower will be of substantial benefit to Mortgagor, and consequently in order to secure the full and punctual payment and performance of the Indebtedness (as hereafter defined), the Mortgagor has agreed to execute and deliver this

Mortgage and to grant a mortgage lien and continuing security interest in and to the Collateral (as hereafter defined).

ARTICLE 1

GENERAL TERMS

Section 1.1 Definitions. As used in this Mortgage, the terms “Borrower”, “Lender”, “Loan Agreement” and “Mortgagor” shall have the meanings indicated above. As used in this Mortgage, the following additional terms shall have the meanings indicated:

“Accounts” means all “accounts” (as defined in the UCC) now owned or hereafter acquired by the Mortgagor, including without limitation accounts resulting from the sale of Hydrocarbons at the welihead and accounts now or hereafter arising in connection with the sale or other disposition of any Hydrocarbons, and all revenues and rights to payment relating to the Mortgagor’s compensation for services as operator of any Mineral Properties or to joint interest billings or to amounts recoverable by the Mortgagor from nonoperating parties by virtue of nonconsent elections or otherwise, and further means all rights accrued, accruing or to accrue to receive payments of any and every kind under all Contracts, including without limitation bonuses, rents and royalties which are payable out of or measured by production of any Hydrocarbons or are otherwise attributable to the Mineral Properties and all other revenues owing to the Mortgagor in connection with the Mineral Properties, including revenues from the treatment, transportation or storage of Hydrocarbons for third parties.

“Advances” has the meaning set forth in Section 4.8 (“Advances by Lender”) of this Mortgage.

“Collateral” has the meaning set forth in Section 2.2 (“The Security Interests”) of this Mortgage.

“Collateral Account” has the meaning set forth in Section 5.3 (“Collateral Account”) of this Mortgage.

“Collateral Documents” means collectively all mortgages, deeds of trust, pledges, security agreements and other documents by which the Mortgagor or the Borrower grants Liens and security interests in immovable or movable property to the Lender.

"Contracts" means (a) all contracts and agreements described in Exhibit A and Exhibit B and all other contracts, operating agreements, farm-out or farm-in agreements, sharing agreements, limited or general partnership agreements, area of mutual interest agreements, mineral purchase agreements, contracts for the sale, exchange, transportation or processing of Hydrocarbons, rights-of-way, easements, surface leases, salt water disposal agreements, service contracts, permits, franchises, licenses, pooling or unitization agreements, unit designations and pooling orders now in effect or hereafter entered into by the Mortgagor affecting any of the Mineral Properties, Equipment or Hydrocarbons now or hereafter covered hereby, or which are useful or appropriate in drilling for, producing, treating, handling, storing, transporting or marketing oil, gas or other minerals produced from any lands affected by the Mineral Properties and (b) all rights and choses in action (i.e., rights to enforce contracts or to bring claims thereunder) relating to the foregoing, regardless of whether the same arose or arise, or the events giving rise thereto occurred or occur on, before or after the date hereof.

"Default" means the occurrence of any of the events specified as an Event of Default, whether or not any requirement for notice or lapse of time or other condition precedent has been satisfied.

"Equipment" means all equipment now owned or hereafter acquired by the Mortgagor, now or hereafter located on or used in connection with the Mineral Properties or in connection with the operation thereof or the treating, handling, storing, transporting, processing, purchasing, exchanging or marketing of Hydrocarbons, including without limitation all wells, rigs, platforms, constructions, extraction plants, facilities, gas systems (for gathering, treating, injection and compression), water systems (for treating, disposal and injection), compressors, casing, tubing, rods, flow lines, pipelines, derricks, tanks, separators, pumps, machinery, tools and all other movable property and fixtures now or hereafter located upon and dedicated to be used in connection with any of the Mineral Properties, together with all additions, accessories, parts, attachments, special tools and accessions now and hereafter affixed thereto or used in connection therewith, and all replacements thereof and substitutions therefor.

"Event of Default" has the meaning set forth in Section 5.1 ("Events Of Default") of this Mortgage.

"General Intangibles" means all "general intangibles" (as defined in the UCC) now owned or hereafter acquired by the Mortgagor related to the Mineral Properties, the Equipment or the Hydrocarbons, the operation of the Mineral Properties or the Equipment (whether the Mortgagor is operator or non-operator), or the treating, handling, storing, transporting, processing, purchasing, exchanging or marketing of Hydrocarbons, or under which the proceeds of Hydrocarbons arise or are evidenced or governed, and further including, without limitation, (i) all contractual rights and obligations or indebtedness owing to the Mortgagor (other than Accounts) from whatever source arising in connection with the sale or other disposition of any Hydrocarbons, including all rights to payment owed or received by the Mortgagor pursuant to a "take-or-pay" provision or gas balancing arrangement, (ii) all Contracts and other general intangibles now or hereafter arising in connection with or resulting from Contracts, (iii) all insurance proceeds and unearned insurance premiums affecting all or any part of the Collateral, and (iv) all amounts received in judgment, settlement, assignment or otherwise of claims or litigation and all things in action, rights represented by judgments, claims arising out of tort and other claims relating to the Collateral, including the right to assert and otherwise to be the plaintiff and proper party of interest to commence, control, prosecute and settle such action (whether as claims, counterclaims or otherwise, and whether involving matters arising from casualty, condemnation, indemnification, negligence, strict liability, other tort, contract or in any other manner).

"Hydrocarbons" mean all oil, gas, casing head gas, condensate, distillate, other liquid and gaseous hydrocarbons, sulfur, and all other minerals, whether similar to the foregoing or not, produced, obtained or secured from or allocable to the Mineral Properties, and any products refined, processed, recovered or obtained therefrom, including oil in tanks.

"Indebtedness" means all present and future amounts, liabilities or obligations of the Borrower or the Mortgagor to the Lender (or to any successor or transferee of the Note), including without limitation any such amounts, liabilities or obligations under or pursuant to the Loan Agreement, the Note, this Mortgage or the other Collateral Documents, whether said amounts, liabilities or obligations are liquidated or unliquidated, now existing or hereafter arising, and including without limitation the Note and all other promissory notes heretofore or hereafter executed by the

Borrower pursuant to the Loan Agreement, in principal, interest, deferral and delinquency charges, prepayment premiums, costs and attorneys' fees, as therein stipulated, and under and pursuant to all amendments, supplements and restatements to any of said documents. The Indebtedness includes without limitation all Advances and other amounts for which the Mortgagor is obligated under the terms of this Mortgage. The Indebtedness also includes, without limitation, all post-petition interest, expenses, and other duties and liabilities with respect to indebtedness or other obligations described above, which would be owed but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization, or similar proceeding. The Indebtedness secured by this Mortgage further continues with respect to any renewals, modifications, amendments, revisions or extensions of the Indebtedness. It is contemplated and acknowledged that the Indebtedness may include future advances or revolving credit loans and advances from time to time, and that this Mortgage shall have effect, as of the date hereof, to secure all Indebtedness, regardless of whether any amounts are advanced on the date hereof or on a later date or, whether having been advanced, are later repaid in part or in whole and further advances made at a later date. The Indebtedness secured by this Mortgage further continues with respect to any new obligation arising from any novation (subjective or objective) of the Indebtedness as permitted by Louisiana Civil Code Article 1884, as well as to any other renewals, modifications, amendments, revisions or extensions ofthe Indebtedness.

"Instruments" means all instruments (as defined in the UCC) now owned or hereafter acquired by the Mortgagor arising in connection with any Accounts, or under or in connection with any Contracts or other General Intangibles, or otherwise in connection with the sale or other disposition of any Hydrocarbons, Equipment, Inventory or Mineral Properties.

"Inventory" means all "inventory" (as defined in the UCC) now owned or hereafter acquired by the Mortgagor which are now or hereafter produced from or allocable to the Mineral Properties or located on or used or held for use in connection with the Mineral Properties or in connection with the operation thereof or the treating, handling, storing, transporting, processing or marketing of Hydrocarbons.

"Investment Property" means all "investment property" (as defined in the UCC) now owned or hereafter acquired by the Mortgagor, arising from or pertaining to any Mineral Properties or the operation thereof or the transporting or marketing of Hydrocarbons.

"Lien" means any interest in property securing an obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on jurisprudence, statute or contract, and including but not limited to the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" shall include reservations, exceptions, encroachments, easements, servitudes, usufructs, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting property. For the purposes of this Mortgage, the Mortgagor shall be deemed to be the owner of any property which it has accrued or holds subject to a conditional sale agreement, financing lease or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes.

"Mineral Properties" means collectively:

(a) the oil, gas and mineral leases, mineral servitudes, subleases, farmouts, royalties, operating rights, area of mutual interest rights, and/or other mineral properties and/or mineral rights and assignments of such mineral rights which are described in Exhibit A, attached hereto and made a part hereof;

(b) without limitation ofthe foregoing, all other right, title and interest of Mortgagor, of whatever kind or character (whether now owned or hereafter acquired by operation of law or otherwise) in and to (i) the oil, gas and/or mineral leases or other agreements described in Exhibit A hereto, (ii) the lands described or referred to in Exhibit A (or described in any of the instruments described or referred to in Exhibit A), without regard to any limitations as to specific undivided interests, lands or depths that may be set forth in Exhibit A hereto or in any of the leases or other agreements described in Exhibit A hereto;

(c) all of Mortgagor's right, title and interest (whether now owned or hereafter acquired by operation of law or otherwise) in and to all presently existing and hereafter created oil, gas and/or

mineral unitization, pooling and/or communitization agreements, declarations and/or orders, and in and to the properties, rights and interests covered and the units created thereby (including, without limitation, units formed under orders, rules, regulations or other official acts of any federal, state or other authority having jurisdiction), which cover, affect or otherwise relate to the properties, rights and interests described in clause (a) above and described on Exhibit A;

(d) all of Mortgagor's right, title and interest (whether now owned or hereafter acquired by operation of law or otherwise) in and to all easements, servitudes, rights-of-way, surface leases, licenses, permits and other surface or subsurface rights, which are now or hereafter used, or held for use, in connection with the properties, rights and interests described in clause (a), (b) or (c) above, or in connection with the operation of such properties, rights and interests, or in connection with the treating, handling, storing, processing, transporting or marketing of oil, gas, other hydrocarbons, or other minerals produced from (or allocated to) such properties, rights and interests described on Exhibit A;

(e) all rights, estates, powers and privileges appurtenant to the foregoing rights, interests and properties; and

(f) all extensions, renewals and corrections of any of the foregoing.

"Mortgage" means this Mortgage, Collateral Assignment, Security Agreement and Financing Statement, as amended or supplemented from time to time.

"Mortgaged Property" has the meaning set forth in Section 2.1 ("Hypothecation") of this Mortgage.

"Note" shall mean the promissory note in the principal amount of $4,800,000.00 made and subscribed by the Borrower to the order of the Lender, together with any renewal or refinancing note or notes delivered in substitution therefor or other amendments, supplements, renewals or restatements thereto.

"Other Proceeds" has the meaning set forth in Section 2.3 ("Assignment") of this Mortgage.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, limited liability

company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other form of entity.

"Proceeds" means all "proceeds" (as defined in the UCC), including without limitation cash and non-cash proceeds of, and all other profits, rentals or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition of, or realization upon, Collateral, including without limitation all claims ofthe Mortgagor against third parties for loss of, damage to or destruction of, or for proceeds payable under, or unearned premiums with respect to, policies of insurance in respect of, any Collateral, and any condemnation or requisition payments with respect to any Collateral, and including proceeds of all such proceeds, in each case whether now existing or hereafter arising.

"Proceeds of Runs" has the meaning set forth in Section 2.3 ("Assignment") of this Mortgage.

"Production Proceeds" has the meaning set forth in Section 2.3 ("Assignment") of this Mortgage.

"Security Interests" means the security interests in the Collateral granted hereunder securing the Indebtedness.

"UCC" means the Uniform Commercial Code, Commercial Laws. Secured Transactions (Louisiana Revised Statutes 10:9-101 through 9-710) in the State of Louisiana, as amended from time to time; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the Security Interests in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than Louisiana, "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection.

ARTICLE 2

LIENS AND SECURITY INTERESTS

Section 2.1 Hypothecation. (a) In order to secure the full and punctual payment and performance of all present and future Indebtedness, the Mortgagor does by these presents specially mortgage, affect, hypothecate, pledge and assign unto and in favor of the Lender, to inure to the use and benefit ofthe Lender, all of Mortgagor's right, title and interest in and to the following described property, to-wit:

(1) The Mineral Properties, together with all rents, issues, profits, products and proceeds, whether now or hereafter existing or arising, from the Mineral Properties.

(2) The Mortgagor's rights in the improvements and other constructions now or hereafter located on the Mineral Properties, including without limitation the Equipment, to the extent (i) any such property should constitute or be deemed to constitute immovable property for the purposes of Louisiana law, including without limitation any buildings, platforms, structures, towers, rigs or other immovable property or component parts thereof, or (ii) any such property is otherwise susceptible of mortgage pursuant to Louisiana Civil Code Article 3286 or Louisiana Mineral Code Article 203.

The descriptions of the Mineral Properties contained in Exhibit A are amplified by the explanations contained in Exhibit 1 attached hereto and made a part hereof.

All of the foregoing property and rights covered by and subject to this Mortgage are herein collectively referred to as the "Mortgaged Property."

SUBJECT, however, the condition that the Lender shall not be liable in any respect for the performance of any covenant or obligation of the Mortgagor in respect of the Mortgaged Property.

The Mortgaged Property is to remain so specially mortgaged, affected and hypothecated unto and in favor of Lender until the full and final payment or discharge of the Indebtedness, and Mortgagor is herein and hereby bound and obligated not to sell or alienate the Mortgaged Property to the prejudice of this act.

(b) In the event that the Mortgagor acquires (by operation of law or otherwise) additional undivided interests in some or all of the Mineral Properties, this Mortgage shall automatically encumber such additions or increases to the Mortgagor's interest in the Mineral Properties without need of further act or document. Further, in the event the Mortgagor becomes the owner of an interest in any part of the land described either in Exhibit A or in the documents described in Exhibit A or otherwise subject to or covered by the Mineral Properties, this Mortgage shall automatically encumber such ownership interest of the Mortgagor without need of further act or document.

Section 2.2 The Security Interests. In order to secure the full and punctual payment and performance of all present and future Indebtedness, the Mortgagor hereby grants to the Lender a continuing security interest in and to all right, title and interest of the Mortgagor in, to and under the following property, whether now owned or existing or hereafter acquired or arising and regardless of where located:

(1) the Mineral Properties;

(2) the Accounts;

(3) the Hydrocarbons, together with all liens and security interests securing payment of the proceeds of the Hydrocarbons, including, but not limited to, those liens and security interests provided for under (i) statutes, rules, orders or regulations enacted in the jurisdictions in which the Mortgaged Properties are located, or (ii) statutes, rules, orders or regulations made applicable to the Mortgaged Properties under federal law (or some combination of federal and state law);

(4) the Equipment;

(5) the General Intangibles (including the Contracts);

(6) the Collateral Account, all cash deposited therein from time to time, and other monies and property of any kind of the Mortgagor in the possession or under the control ofthe Lender;

(7) the Instruments;

(8) the Inventory;

(9) the Investment Property;

(10) all engineering, seismic, reserve, production, accounting, title and legal data, reports and information and all books and records in any form (including, without limitation, customer lists, credit files, computer programs, tapes, disks, punch cards, data processing software, transaction files, master files, printouts and other computer materials and records) of the Mortgagor pertaining to any of the Mineral Properties or Collateral; and

(11) all Proceeds and products of all or any of the Collateral described in clauses 1 through 10 hereof.

The term “Collateral” means each and all of the items and property rights described in clauses 1-11 above, together with the Mortgaged Property and the Proceeds Of Runs.

Section 2.3 Assignment. (a) To further secure the full and punctual payment and performance of all present and future Indebtedness, up to the maximum amount outstanding at any time and from time to time set forth in Section 2.5 (“Maximum Amount”) below, the

Mortgagor does hereby absolutely, irrevocably and unconditionally pledge, pawn, assign, transfer and assign to the Lender:

(i) all Hydrocarbons and all monies which accrue to the Mortgagor's interest in the Mineral Properties (regardless of whether such monies accrued, and/or the events which give rise to such accrual occurred, on or before or after the date hereof) and all present and future rents therefrom (which rents include without limitation all royalties, delay rentals, shut-in payments and other payments which are rentals under Title 31 of the Louisiana Revised Statutes) and all proceeds of the Hydrocarbons (which proceeds include without limitation all payments for Hydrocarbons not yet delivered, such as those received pursuant to "take or pay" arrangements) and of the products obtained, produced or processed from or attributable to the Mineral Properties now or hereafter (herein collectively referred to as the "Production Proceeds") and

(ii) all other monies which accrue to Mortgagor's interest in the Mineral Properties, and all present and future rents therefrom, which rents include, without limitation, all royalties, delay rentals, shut-in payments and similar payments (herein collectively called the "Other Proceeds").

The Mortgagor hereby authorizes and directs all purchasers of any Hydrocarbons and all other obligors of Production Proceeds and Other Proceeds (herein collectively called "Proceeds of Runs") to pay and deliver to Lender, upon request therefor by Lender, all of the Proceeds of Runs accruing to the Mortgagor's interest without further inquiry as to the rights ofthe Lender to receive the same. The Mortgagor agrees that such obligors shall have no responsibility to see to the application of any funds so paid to Lender.

(b) Mortgagor constitutes and appoints Lender as Mortgagor's special attorney-in-fact (with full power of substitution, either generally or for such periods or purposes as Lender may from time to time prescribe) in the name, place and stead of Mortgagor to do any and every act and exercise any and every power that Mortgagor might or could do or exercise personally with respect to all Hydrocarbons and Proceeds of Runs (the same having been assigned by Mortgagor to Lender pursuant to Section 2.3(a) hereof), expressly inclusive, but not limited to, the right, power and authority to:

(1) execute and deliver in the name of Mortgagor any and all transfer orders, division orders, letters in lieu of transfer orders, indemnifications, certificates and other instruments of every nature that may be requested or required by any purchaser of Hydrocarbons from any of the Mortgaged Properties for the purposes of effectuating payment of the Production Proceeds to Lender or which Lender may otherwise deem necessary or appropriate to effect the intent and purposes ofthe assignment contained in Section 2.3(a); and

(2) if under any product sales agreements other than division orders or transfer orders, any Production Proceeds are required to be paid by the purchaser to Mortgagor so that under such existing agreements payment cannot be made of such Production Proceeds to

Lender, to make, execute and enter into such sales agreements or other agreements as are necessary to direct Production Proceeds to be payable to Lender;

giving and granting unto said attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever necessary and requisite to be done as fully and to all intents and purposes, as Mortgagor might or could do if personally present. Mortgagor shall be bound thereby as fully and effectively as if Mortgagor had personally executed, acknowledged and delivered any of the foregoing certificates or documents. The powers and authorities herein conferred upon Lender may be exercised by Lender through any person who, at the time of the execution of the particular instrument, is an officer of Lender. The power of attorney herein conferred is granted for valuable consideration and hence is coupled with an interest and is irrevocable so long as the Indebtedness, or any part thereof, shall remain unpaid. All persons dealing with Lender or any substitute shall be fully protected in treating the powers and authorities conferred by this paragraph as continuing in full force and effect until advised by Lender that all the Indebtedness is fully and finally paid. Lender may, but shall not be obligated to, take such action as it deems appropriate in an effort to collect the Production Proceeds and any reasonable expenses (including reasonable attorney's fees) so incurred by Lender shall be a demand obligation of Mortgagor (which obligation the Mortgagor expressly promises to pay) owing by the Mortgagor to Lender and shall bear interest, from the date expended until paid, at the rate described in Section 4.8 ("Advances by Lender") hereof.

(c) Anything contained in this Section 2.3 above notwithstanding, so long as Mortgagor is not in Default, Lender shall have no right to collect and receive any Proceeds of Revenue from any obligator or purchaser.

Section 2.4 Condemnation. The Mortgagor hereby assigns to the Lender any and all awards that may be given or made in any proceedings by any legally constituted authority to condemn or expropriate the Collateral, or any part thereof, under power of eminent domain, and if there is such a condemnation or expropriation and Mortgagor is in Default, the Lender may, at its election, either pay the net proceeds thereof toward the payment ofthe Indebtedness or pay the net proceeds thereof to the Mortgagor, provided, that so long as Mortgagor is not in Default, Lender shall have no right to the proceeds of any condemnation or expropriation.

Section 2.5 Maximum Amount. (a) The maximum amount of the Indebtedness that may be outstanding at any time and from time to time that this Mortgage secures, including without limitation as a mortgage and as a collateral assignment, and including any Advances made and included within the Indebtedness, is twenty million ($20,000,000.00) dollars.

(b) The Mortgagor acknowledges that this Mortgage secures all Indebtedness under or pursuant to the Loan Agreement, the Note, this Mortgage or the other Collateral Documents, whether such loans or advances made or incurred by the Lender are optional or obligatory by the Lender. This Mortgage is and shall remain effective, even though the amount of the Indebtedness may now be zero or may later be reduced to zero, until all of the amounts,

liabilities and obligations, present and future, comprising the Indebtedness have been incurred and are extinguished. When no Indebtedness secured by this Mortgage exists and the Lender is not bound to permit any Indebtedness to be incurred, this Mortgage may be terminated by the Mortgagor upon thirty (30) days prior written notice sent by the Mortgagor to the Lender in accordance with the provisions of this Mortgage, and Lender shall provide Mortgagor with written, recordable, evidence of termination within said thirty (30) day period.

Section 2.6 Delivery of Transfer Orders. Independent of the other provisions and authorities herein granted, the Mortgagor agrees to execute and deliver any and all transfer orders, letters in lieu thereof division orders and other instruments that may be requested by Lender or that may be required by any purchaser of any Hydrocarbons for the purpose of effectuating payment of the Proceeds of Runs to Lender to the extent that said Proceeds are payable to Lender under the terms of this Mortgage. If under any existing sales agreements, other than division orders or transfer orders, any Proceeds of Runs are required to be paid by the purchaser to the Mortgagor so that under such existing agreements payment cannot be made of such Proceeds of Runs to Lender, the Mortgagor's interest in all Proceeds of Runs under such sales agreements and in all other Proceeds of Runs which for any reason may be paid to the Mortgagor shall, when received by the Mortgagor, constitute trust funds in the Mortgagor's hands and shall be immediately paid over to Lender.

Section 2.7 Change of Purchaser. If Lender is entitled to Proceeds of Runs under terms of this Mortgage, should any Person now or hereafter purchasing or taking Hydrocarbons fail to make payment to Lender of the Proceeds of Runs within 30 days of when due, Lender shall have the right to make, or to require the Mortgagor to make, a change of connection and the right to designate or approve the purchaser with whose facilities a new connection shall be made, and Lender shall have no liability or responsibility in connection therewith so long as ordinary care is used in making such designation.

Section 2.8 Payment of Proceeds. Until such time as Lender is entitled to receive Proceeds of Runs under the terms of this Mortgage, the purchasers or other Persons obligated to make such payment shall continue to make payment to the Mortgagor. Should Lender become entitled to receive payment of the Proceeds of Runs, Lender shall make written demand upon said Purchaser that payment be made direct to the Lender. Said written demand shall recite that Mortgagor is in Default. Any failure to notify such purchasers or other Persons shall not in any way waive, remit or release the right of the Lender to receive any payments not theretofore paid over to the Mortgagor before the giving of written notice. In this regard, in the event payments are made direct to the Lender, and then, at the request of the Lender payments are, for a period or periods of time, paid to the Mortgagor, the Lender shall nevertheless have the right, effective upon written notice, to require future payments be again made to it.

Section 2.9 Limitation of Liability. The Lender and its successors and assigns are hereby absolved from all liability for failure to enforce collection of the Proceeds of Runs and from all other responsibility in connection therewith, except the responsibility of each to account (by application upon the Indebtedness or otherwise) to the Mortgagor for funds actually

received. The Mortgagor agrees to indemnify and hold harmless Lender against any and all liabilities, actions, claims, judgments, costs, charges and attorneys' fees by reason of the assertion that such parties received, either before or after payment and performance in full of the Indebtedness, funds from the production of Hydrocarbons or the Proceeds of Runs claimed by third persons (and/or funds attributable to sales of production which (i) were made at prices in excess of the maximum price permitted by or (ii) were otherwise made in violation of laws, rules, regulations and/or orders governing such sales), and the Lender shall have the right to defend against any such claims or actions, employing attorneys of Lender's own selection and if not furnished with indemnity satisfactory to them, the Lender shall have the right to compromise and adjust any such claims, actions and judgments, and in addition to the rights to be indemnified as herein provided, all amounts paid by the Lender in compromise, satisfaction or discharge of any such claims, actions or judgments, and all court costs, attorneys' fees and other expenses of every character expended by the Lender pursuant to the provisions of this Section shall be a demand obligation (which obligation the Mortgagor hereby expressly promises to pay) owing by the Mortgagor to such parties and shall bear interest, from the date expended until paid, at the rate described in Section 4.8 ("Advances by Lender") hereof. WITHOUT LIMITATION, IT IS THE INTENTION OF MORTGAGOR AND MORTGAGOR AGREES THAT THE FOREGOING RELEASES AND INDEMNITIES SHALL APPLY TO EACH INDEMNIFIED PARTY WITH RESPECT TO ALL CLAIMS, DEMANDS, LIABILITIES, LOSSES, DAMAGES (INCLUDING WITHOUT LIMITATION CONSEQUENTIAL DAMAGES, CAUSES OF ACTION, JUDGMENTS, PENALTIES, COSTS AND EXPENSES AND FURTHER INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEYS' FEES AND EXPENSES, WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF STRICT LIABILITY OR OUT OF THE NEGLIGENCE OF SUCH (AND/OR ANY OTHER) INDEMNIFIED PARTY. However, such indemnities and releases shall not apply to any particular indemnified party (but shall apply to the other indemnified parties) to the extent the subject of the indemnification is caused by or arises out of the gross negligence or willful misconduct of such particular indemnified party.

Section 2.10 Duty to Perform. Nothing herein contained shall detract from or limit the obligation of the Mortgagor to make prompt payment of the Indebtedness at the time and in the manner provided herein and in the Loan Agreement, regardless of whether the Proceeds of Runs herein assigned are sufficient to pay same. The Mortgagor will do and perform every act required of it by this Mortgage at the time or times and in the manner specified.

Section 2.11 Limitation of Liability. The foregoing mortgage Liens and Security Interests are granted as security only and shall not subject the Lender to, or transfer or in any way affect or modify, any obligation or liability of the Mortgagor with respect to any of the Collateral or any transaction in connection therewith.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

The Mortgagor represents and warrants to the Lender that:

Section 3.1 Title. The Collateral (including without limitation the Mineral Properties) is accurately, completely, adequately and sufficiently described herein and in Exhibit A as required by all applicable laws for this Mortgage to create a Lien on all of the Collateral. The execution, delivery and performance of this Mortgage and the creation of the liens hereunder do not violate any provision of or constitute a default under any operating agreement or other instrument affecting or comprising any of the Collateral or to which the Mortgagor is a party. The Mortgagor represents and warrants to the Lender that (a) the Mineral Properties described in Exhibit A hereto are valid, subsisting leases and contracts, in full force and effect, (b) all producing wells located on the lands described in Exhibit A have been drilled, operated and produced in conformity with all applicable laws, rules and regulations of all regulatory authorities having jurisdiction, and are subject to no penalties on account of past production, and that such wells are in fact bottomed under and are producing from, and the well bores are wholly within, lands described in Exhibit A (or in the case of wells located on properties unitized therewith, such unitized properties), (c) the Mortgagor, to the extent of the interest specified in Exhibit A, has legal, valid and defensible title to each property right or interest constituting the Mineral Properties, subject to exceptions permitted by Section 6.2 of the Loan Agreement, and the respective operating interests and net revenue interests of the Mortgagor in and to the Hydrocarbons as set forth on Exhibit A hereto, and the Mortgagor's percentage interests in the Mineral Properties, cash flow, net income and other distributions and in the cost of exploration, development and production, all as set forth in Exhibit A hereto, are true and correct in all material respects and accurately reflect the respective interests to which the Mortgagor is legally obligated or entitled, (d) the Mortgagor is not obligated, by virtue of any prepayment under any contract providing for the sale by the Mortgagor of Hydrocarbons which contains a "take or pay" clause or under any similar arrangement, to deliver Hydrocarbons at some future time without then or thereafter receiving full payment therefor, and (e) no agreement, contract or instrument set forth in Exhibit A or Exhibit B contains any provision which would prevent the practical realization of the benefits of this Mortgage as to the Collateral. With respect to all wells existing on the date hereof, such shares of production and expenses are not subject to change (pursuant to non-consent provisions of operating agreements described in Exhibit A or Exhibit B or otherwise) except, and only to the extent that, such changes are expressly described in Exhibit A. The Mortgagor will warrant and forever defend the Collateral unto the Lender against every person whomsoever lawfully claiming the same or any part thereof except persons claiming under encumbrances of record permitted by Section 6.2 of the Loan Agreement, and will maintain and preserve the Lien hereby created so long as any of the Indebtedness remains unpaid.

Section 3.2 Rents, Royalties. All rents, royalties and other payments (except for those which are being contested in good faith and by appropriate proceedings and for which the Mortgagor has established adequate reserves and so long as the payment of same is not a condition to be met in order to maintain an oil, gas and/or other mineral lease or other agreement in force) due and payable under the Mineral Properties which are productive of oil and/or gas (or are included in units productive of oil and/or gas) and all other oil, gas and/or mineral leases,

contracts and other agreements forming a part of the Mortgaged Property, have been and are being properly and timely paid, and the Mortgagor is not in default with respect to any obligations (and the Mortgagor is not aware of any default by any third party with respect to such third party's obligations) under such leases, contracts and other agreements, or otherwise attendant to the ownership or operation of the Collateral, where such default could adversely affect the ownership or operation of the Collateral to which such obligations relate. The Mortgagor is not currently accounting (and does not anticipate accounting) for any royalties, or overriding royalties or other payments out of production, on a basis (other than delivery in kind) where such payments are based other than on proceeds received by Mortgagor from sale; the Mortgagor has advised the Lender in writing of situations, if any, where a contingent liability to so account may exist.

Section 3.3 No Limitations on Payments for Production. Except as otherwise specifically disclosed to the Lender in writing with respect to any particular part of the Mineral Properties, (i) neither Mortgagor, nor its predecessors in title, have received prepayments (including, but not limited to, payments for gas not taken pursuant to "take or pay" arrangements) for any Hydrocarbons produced or to be produced from the Mineral Properties after the date hereof; (ii) none of the Mineral Properties is subject to any contractual or other arrangement whereby payment for production is to be deferred for a substantial period after the month in which such production is delivered (i.e., in the case of oil not in excess of sixty (60) days, and in the case of gas not in excess of ninety (90) days); (iii) none of the Mineral Properties is subject to any contractual, or other, arrangement for the sale of crude oil which cannot be cancelled on ninety (90) days (or less) notice, and none of the Mineral Properties is subject to a gas sales contract which contains terms which are not customary in the industry; (iv) none of the Mineral Properties is subject at the present time to any regulatory refund obligation and, to the best of Mortgagor's knowledge, no facts exist which might cause the same to be imposed; (v) none of the Mineral Properties is subject to an arrangement or agreement under which any purchaser or other Person is entitled to "make-up" or otherwise receive deliveries of Hydrocarbons at any time after the date hereof without paying at such time the full contract price therefor; and (vi) no Person is entitled to receive any portion of the interest of the Mortgagor in any Hydrocarbons or to receive cash or other payments from the Mortgagor to "balance" any disproportionate allocation of Hydrocarbons under any operating agreement, gas balancing and storage agreement, gas processing or dehydration agreement, or other similar agreements.

Section 3.4 Pricing. The prices being received for the production of Hydrocarbons do not violate any Contract, law or regulation. Where applicable, all of the wells located on the Mineral Properties and production of Hydrocarbons therefrom have been properly classified under appropriate governmental regulations.

Section 3.5 Consents and Preferential Rights. There are no preferential purchase rights held by third parties affecting any part of the Collateral, or rights of third parties to prohibit the pledge or mortgage to Lender of any part of the Collateral without the consent of such third parties.

Section 3.6 No Inconsistent Agreements. The Mortgagor has not performed any acts or signed any agreements which might prevent the Lender from enforcing any of the terms of this Mortgage or which would limit the Lender in any such enforcement.

Section 3.7 Status of Contracts. All material Contracts in effect on the date hereof are specifically listed or Exhibit A or Exhibit B hereof. All of the Contracts and obligations of the Mortgagor that relate to the Mineral Properties (i) are in full force and effect and constitute legal, valid and binding obligations of the Mortgagor, and (ii) neither the Mortgagor nor, to the knowledge of the Mortgagor, any other party to the Contracts (a) is in breach of or default, or with the lapse of time or the giving of notice, or both, would be in breach or default, with respect to any of its obligations thereunder or (b) has given or threatened to give notice of any default under or inquiry into any possible default under, or action to alter, terminate, rescind or procure a judicial reformation of any Contract.

Section 3.8 Accounts. The Accounts represent bona fide obligations of the respective account debtors, which obligations are free and clear of any set off, compensation, counterclaim, defense, allowance or adjustment other than discounts for prompt payment shown on the invoice, and arose in the ordinary course of the Mortgagor's business.

Section 3.9 Status of Equipment. To the best of the Mortgagor's knowledge, the Equipment, fixtures and other tangible personal property forming a part of the Collateral are in good repair and condition and are adequate for the normal operation of the Collateral in accordance with prudent industry standards; all of such Collateral is located on the Mineral Properties, except for that portion thereof which is located elsewhere (including that usually located on the Mineral Properties but now temporarily located elsewhere) in the course of the normal operation of the Mineral Properties.

Section 3.10 UCC Information. The chief executive office of the Mortgagor has been continuously located within the State of Texas from and after its formation. Mortgagor was formed as a legal entity after July 1, 2001. The exact name of the Mortgagor is set forth on the cover page of this Mortgage.

ARTICLE 4

COVENANTS

Section 4.1 Insurance and Notice. The Mortgagor will procure and maintain for the benefit of the Lender original paid-up insurance policies against such liabilities, casualties, risks and contingencies, in such amounts and form and substance, with such financially sound and reputable companies, and with such expiration dates, as are acceptable to the Lender, and containing a non-contributory standard mortgagee clause or its equivalent in favor of the Lender. The Mortgagor will at all times maintain costs of regaining control of well insurance or similar insurance to the extent customary in the industry in the pertinent area of operations. Each policy shall contain an agreement by the insurer not to cancel or amend the policy without giving the Lender at least thirty (30) days prior written notice of its intention to do

so. Upon request of the Lender, the Mortgagor will furnish or cause to be furnished to the Lender from time to time a summary of the insurance coverage of the Mortgagor in form and substance satisfactory to the Lender and if requested will furnish the Lender original certificates of insurance and/or copies of the applicable policies and all renewals thereof. In the event the Mortgagor should, for any reason whatsoever, fail to keep the corporeal (tangible) Collateral or any part thereof so insured, or to keep said policies so payable, or fail to deliver to the Lender the original or certified policies of insurance and the renewals therefor upon demand, then the Lender, if it so elects, may itself have such insurance effected in such amounts and with such companies as it may deem proper and may pay the premiums therefor (as an Advance as defined hereinbelow). The Mortgagor will notify the Lender immediately in writing of any material blowout, fire or other casualty to or accident involving the Mortgaged Property, the Equipment or the Hydrocarbons, whether or not such blowout, fire, casualty or accident is covered by insurance. The Mortgagor will promptly further notify the Mortgagor's insurance company and to submit an appropriate claim and proof of claim to the insurance company if such a casualty or accident occurs. In the event of any loss on any of such policies while Mortgagor is in Default, the Lender may, at its election, either apply the net proceeds thereof toward the payment of the Indebtedness or pay the net proceeds thereof to the Mortgagor, either wholly or in part, and under such conditions as the Lender may determine to enable the Mortgagor to repair or restore the Collateral. So long as Mortgagor is not in Default, the net proceeds of any loss on any insurance policy shall be paid to Mortgagor to repair or restore the collateral or to pay the Indebtedness at Mortgagor's election.

Section 4.2 Operation of the Mortgaged Property. Whether or not the Mortgagor is the operator of the Mortgaged Property, the Mortgagor will, at the Mortgagor's own expense, (a) do all things necessary to keep unimpaired the Mortgagor's rights in the Mortgaged Property (subject to any permitted abandonment provisions hereinbelow), (b) cause the lands described in Exhibit A to be maintained, developed, protected against drainage, and continuously operated for the production of hydrocarbons in a good and workmanlike manner as would a prudent operator, and in accordance with generally accepted practices in the field where the Mortgaged Properties are located and applicable operating agreements, and (c) cause to be paid, promptly as and when due and payable, all rentals and royalties payable in respect of the Mortgaged Property, and all expenses incurred in or arising from the operation or development of the Mortgaged Property. The Mortgagor will observe and comply with all terms and provisions, express or implied, of the Mineral Properties, and all agreements and contracts of any type relating to the Mortgaged Property, in order to keep the same in full force and effect, including, without limitation, maintenance of productive capacity of each well or unit comprising the Mortgaged Property, and will not, without the prior written consent of the Lender, surrender, abandon or release (or otherwise reduce its rights under) any such lease, in whole or in part, so long as any well situated thereon (whether or not such well is located on the Mineral Properties), or located on any unit containing all or any part of such leases, is capable (or is subject to being made capable through drilling, reworking or other operations which it would be economically feasible to conduct) of producing hydrocarbons in commercial quantities (as determined without considering the effect of this Mortgage but considering the cost of such drilling, reworking and other operations); provided, however, that the Mortgagor may, to the extent expressly required

by the terms of any such lease under a “Pugh clause” or similar provision, or to the extent otherwise required by law, confirm to the lessor thereof that the lease has by its terms terminated as to any specified portion thereof on which no such well exists. Without the express prior written consent of the Lender, Mortgagor will not abandon or consent to the abandonment of any well producing from the Mortgaged Property (or properties unitized therewith) so long as such well is capable (or is subject to being made capable through drilling, reworking or other operations which it would be commercially feasible to conduct) of producing hydrocarbons in commercial quantities (as determined without considering the effect of this Mortgage but considering the cost of such drilling, reworking and other operations). The Mortgagor will not without the express prior written consent of the Lender elect not to participate in a proposed operation on the Mortgaged Property where the effects of such election would be the forfeiture either temporarily (i.e., until a certain sum of money is received out of the forfeited interest) or permanently of any interest in the Mortgaged Property.

Section 4.3 Pooling and Unitization. The Mortgagor has the right, and is hereby authorized, to pooi or unitize all or any part of any tract of land described in Exhibit A, insofar as relates to the Mortgaged Property, with adjacent lands, leaseholds and other interests, when, in the reasonable judgment of the Mortgagor, it is necessary or advisable to do so in order to form a drilling unit to facilitate the orderly development of that part of the Mortgaged Property affected thereby, or to comply with the requirements of any law or governmental order or regulation relating to the spacing of wells or proration of the production therefrom; provided, however, that the Hydrocarbons produced from any unit so formed shall be allocated among the separately owned tracts or interests comprising the unit in proportion to the respective surface areas thereof; and provided further that the Mortgagor is not be entitled to form any such unit without the written consent of the Lender (which consent shall not be unreasonably withheld) if the effect of such formation would be to decrease the amount of Hydrocarbons which would be subject to this Mortgage. Any unit so formed may relate to one or more zones or horizons, and a unit formed for a particular zone or horizon need not conform in area to any other unit relating to a different zone or horizon, and a unit formed for the production of oil need not conform in area with any unit formed for the production of gas. Immediately after formation of any such unit, the Mortgagor shall furnish to the Lender a true copy of the pooling agreement, declaration of pooling or other instrument creating such unit, in such number of counterparts as the Lender may reasonably request. The interest in any such unit attributable to the Mortgaged Property (or any part thereof) included therein shall become a part of the Mortgaged Property and shall be subject to the Lien hereof in the same manner and with the same effect as though such unit and the interest of the Mortgagor therein were specifically described in Exhibit A. The Mortgagor may enter into pooling or unitization agreements not hereinabove authorized only with the prior written consent of the Lender.

Section 4.4 Contracts. The Mortgagor will not enter into any operating agreement or other Contract which materially adversely affects the Collateral or the Mineral Properties, or which is not in the ordinary course of business. The Mortgagor will promptly take all action necessary to enforce or secure the observance or performance of any term, covenant, agreement or condition to be observed or performed by third parties under any Contract, or any

part thereof, or to exercise any of its rights, remedies, powers and privileges under any Contract, all in accordance with the respective terms thereof The Mortgagor will not do or permit anything to be done to the Collateral that may violate the terms of any insurance covering the Collateral or any part thereof

Section 4.5 Filing. The Mortgagor agrees that a carbon, photographic, facsimile, photostatic or other reproduction of this Mortgage or of a financing statement is sufficient as a financing statement. This Mortgage may be effective as a financing statement filed as a fixture filing with respect to all fixtures included within the Collateral, and shall also be effective as the financing statement covering as extracted collateral and minerals or the like (including oil and gas) and other substances of value that may be extracted or severed from the earth and accounts related thereto. The mailing address of the Mortgagor and the address of the Lender from which information concerning the Security Interests evidenced hereunder may be obtained are the respective addresses of the Mortgagor and the Lender set forth in Article 6. The Mortgagor shall pay all costs of or incidental to the recording or filing this Mortgage and of any financing, amendment, continuation, termination or other statements concerning the Collateral.

Section 4.6 Collateral Indemnity. If the validity or priority of this Mortgage or any rights, security interests or other interests created or evidenced hereby shall be attacked, endangered or questioned or if any legal proceedings are instituted with respect thereto, the Mortgagor will give prompt written notice thereof to the Lender and at the Mortgagor's own cost and expense will take commercially reasonable steps to cure any defect that may be developed or claimed, and to defend such legal proceedings, and the Lender (whether or not named as a party to legal proceedings with respect thereto) is hereby authorized and empowered to take such additional steps as are commercially reasonable for the defense of any such legal proceedings or the protection of the validity or priority of this Mortgage and the rights, security interests and other interests created or evidenced hereby, and all reasonable expenses so incurred shall be considered Advances as provided in Section 4.8 ("Advances by Lender") hereof, and shall be a part of the Indebtedness.

Section 4.7 Taxation of Mortgage. In the event that any governmental authority shall impose any taxation of mortgages or the indebtedness they secure, the Mortgagor agrees to pay such governmental taxes, assessments or charges either to the governmental authority or to the Lender, as provided by law.

Section 4.8 Advances by Lender. Should the Mortgagor fail to pay same within ten (10) business days of written demand, the Mortgagor authorizes the Lender in the Lender's discretion to advance any sums necessary for the purpose of paying (i) insurance premiums, (ii) taxes, forced contributions, service charges, local assessments and governmental charges, (iii) any Liens or encumbrances affecting the Collateral (whether superior or subordinate to the Lien of this Mortgage) not permitted by this Mortgage or the Loan Agreement, (iv) necessary repairs and maintenance expenses or (v) any other amounts which are covered by the Loan Agreement or which the Lender deems necessary and appropriate to preserve the validity and ranking of this Mortgage, to cure any Defaults or to prevent the occurrence of any

Default, or otherwise authorized by this Mortgage (collectively, the "Advances") of whatever kind; provided, however, that nothing herein contained shall be construed as making such Advances obligatory upon Lender, or as making Lender liable for any loss, damage, or injury resulting from the nonpayment thereof The Mortgagor covenants and agrees that within five (5) days after demand therefor by the Lender, the Mortgagor will repay the Advances to the Lender, together with interest thereon at the rate provided in the Loan Agreement and the Note from the date incurred. All such Advances (and interest) shall be included in the Indebtedness secured hereby, subject to the maximum amount of the Indebtedness set forth above in Section 2.5 ("Maximum Amount").

ARTICLE *5*

DEFAULT AND REMEDIES

Section 5.1 Events of Default. Any of the following events shall be considered an "Event of Default" as that term is used herein:

(a) Principal and Interest Payments. The Borrower fails to make payment when due of any principal or interest installment on the Note or any other Indebtedness to the Lender.

(b) Loan Agreement. The occurrence of an Event of Default as defined in the Loan Agreement.

Section 5.2 Remedies. (a) Upon the occurrence of any Event of Default, the Lender may take such action, without notice or demand, as it deems advisable to protect and enforce its rights against the Mortgagor and in and to the Collateral, including, but not limited to, the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as the Lender may determine, in its sole discretion, without impairing or otherwise affecting the other rights and remedies of the Lender: (i) institute proceedings for the complete foreclosure of this Mortgage in which case the Collateral or any part thereof may be sold for cash or upon credit in one or more portions; or (ii) to the extent permitted and pursuant to the procedures provided by applicable law, institute proceedings for the partial foreclosure of this Mortgage for the portion of the Indebtedness then due and payable, subject to the continuing Lien of this Mortgage for the balance of the Indebtedness not then due; or (iii) institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained in this Mortgage or the Loan Agreement; or (iv) recover judgment on the Note either before, during or after any proceedings for the enforcement of this Mortgage; or (v) apply for the appointment of a trustee, receiver, liquidator or conservator of the Collateral, without regard for the adequacy of the security for the Indebtedness and without regard for the solvency of the Mortgagor or of any person, firm or other entity liable for the payment of the Indebtedness; or (vi) pursue such other remedies as the Lender may have under applicable law.

(b) The proceeds or avails of any sale made under or by virtue of this Section, together with any other sums which then may be held by the Lender under this Mortgage,

whether under the provisions of this Section or otherwise, shall be applied to the Indebtedness in such manner as the Lender, in its sole discretion, shall determine.

(c) Upon any sale made under or by virtue of this Section, the Lender may bid for and acquire the Collateral or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the Indebtedness the net sales price after deducting therefrom the expenses of the sale and the costs of the action and any other sums which the Lender is authorized to deduct under this Mortgage.

Section 5.3 Collateral Account. Upon an Event of Default the Lender shall have the right to require the Mortgagor to use a lockbox account (the "Collateral Account") at a bank selected by Lender. Upon an Event of Default the Collateral Account shall be subject to access and withdrawal by the Lender only. Payments due and payable on the Note may be debited from the Collateral Account. Upon an Event of Default payments (in the form of checks, drafts, cash or otherwise) received by the Mortgagor (and not paid directly to Lender) in satisfaction, in whole or in part, of any Proceeds of Runs, Accounts or General Intangibles (or Proceeds therefrom) of the Mortgagor shall be deposited by the Mortgagor in the Collateral Account. The Mortgagor will deposit for credit to the Collateral Account all such items of payment and remittances within two (2) business days of the receipt thereof, and shall not commingle any such items of payment and remittances with any of the Mortgagor's other property. Funds in the Collateral Account shall be subject to a security interest in favor of the Lender to secure the Indebtedness, and the Lender may apply or cause to be applied (subject to collection) any or all of the balance from time to time standing in the Collateral Account against any amounts then due and payable under the Indebtedness in such order as determined by the Lender.

Section 5.4 General Authority. The Mortgagor hereby irrevocably appoints the Lender its agent and attorney in fact, with full power of substitution, in the name of the Mortgagor or the Lender, for the sole use and benefit of the Lender, but at the Mortgagor's expense, to exercise, at any time and from time to time while an Event of Default has occurred and is continuing, all or any of the following powers with respect to all or any of the Collateral:

(i) to endorse the name of the Mortgagor upon any check, draft or other instrument payable to the Mortgagor evidencing payment upon any Accounts or General Intangible,

(ii) to notify postal service authorities to change the address for delivery of the assigned payments of Collateral to a "lockbox" address designated and controlled by the Lender, and to receive, open and dispose of assigned payments of Collateral addressed to the Mortgagor,

(iii) to demand, sue for, collect, receive and give acquittance for any and all Accounts and other monies due or to become due for or as Collateral or by virtue thereof,

(iv) to settle, compromise, compound, prosecute or defend any action or proceeding with respect to any of the Collateral, and

(v) to extend the time of payment of any or all of the Collateral and to make any allowance and other adjustments with reference thereto.

The aforesaid mandate and power of attorney, being coupled with an interest, is irrevocable so long as any of the Indebtedness remain outstanding.

Section 5.5 Accounts and Contracts. While an Event of Default has occurred and is continuing, (i) the Mortgagor will make no material change to the terms of any Account or Contract without the prior written permission of the Lender, and (ii) the Mortgagor upon request of the Lender will promptly notify (and the Mortgagor hereby authorizes the Lender so to notify) each account debtor in respect of any Account or General Intangible that such Collateral has been assigned to the Lender hereunder, and that any payments due or to become due in respect of such Collateral are to be made directly to the Lender or its designee.

Section 5.6 Sale. Upon the occurrence of an Event of Default, the Lender may exercise all rights of a secured party under the UCC and other applicable law (including the Uniform Commercial Code as in effect in another applicable jurisdiction) and, in addition, the Lender may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, (i) withdraw all cash in the Collateral Account and apply such cash and other cash, if any, then held by it as Collateral against the Indebtedness or (ii) sell the Collateral or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Lender may deem satisfactory. The Lender may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale). The Mortgagor will execute and deliver such documents and take such other action as the Lender deems necessary or advisable in order that any such sale may be made in compliance with law. Upon any such sale the Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of the Mortgagor which may be waived, and the Mortgagor, to the extent permitted by law, hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. The Mortgagor agrees that ten (10) days prior written notice of the time and place of any sale or other intended disposition of any of the Collateral constitutes “reasonable notification” within the meaning of the UCC, except that shorter or no notice shall be reasonable as to any Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market. The notice (if any) of such sale shall (1) in case of a public sale, state the time and place fixed for such sale, and (2) in the case of a private sale, state the day after which such sale may be consummated. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as

the Lender may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Lender may determine. The Lender shall not be obligated to make any such sale pursuant to any such notice. The Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Lender until the selling price is paid by the purchaser thereof, but the Lender shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice.

Section 5.7 Set-Off. Upon the occurrence of any Event of Default, the Lender shall have the right to set-off any funds of the Mortgagor in the possession of the Lender against any amounts then due by the Mortgagor to the Lender pursuant to the Mortgage.

Section 5.8 Confession of Judgment. For purposes of foreclosure under Louisiana executory process procedures, the Mortgagor hereby acknowledges the Indebtedness and confesses judgment in favor of Lender for the full amount of the Indebtedness.

Section 5.9 Expenses. The Mortgagor will pay all reasonable expenses, including but not limited to reasonable attorneys' fees, incurred in connection with the full protection and preservation of, and foreclosure, collection or other realization of or on, the Collateral or this Mortgage, or in connection with the enforcement of any of the Mortgagor's obligations or the Lender's rights and remedies set forth herein, whether or not suit or any foreclosure proceedings are filed. All insurance expenses and all expenses of protecting, storing, warehousing, appraising, preparing for sale, handling, maintaining and shipping the Collateral, any and all excise, property, sales, and use taxes imposed by any federal, state or local authority on any of the Collateral, all expenses in respect of periodic appraisals and inspections of the Collateral to the extent the same may be requested from time to time, and all expenses in respect of the sale or other disposition thereof shall be borne and paid by the Mortgagor. All such expenses shall be treated as Advances as provided in Section 4.8 ("Advances by Lender") hereof and thus included in the Indebtedness secured hereby.

Section 5.10 Keeper. In the event the Collateral, or any part thereof, is seized as an incident to an action for the recognition or enforcement of this Mortgage by executory process, ordinary process, sequestration, writ of fieri facias or otherwise, the Mortgagor and the Lender agree that the court issuing any such order shall, if petitioned for by Lender, direct the applicable sheriff to appoint as a keeper of the Collateral, the Lender or any agent designated by Lender or any person named by the Lender at the time such seizure is effected. This designation is pursuant to Louisiana Revised Statutes 9:5131 through 5135 and 9:5136 through 5140.2, as the same may be amended, and Lender shall be entitled to all the rights and benefits afforded thereunder. It is hereby agreed that the keeper shall be entitled to receive as compensation, in excess of its reasonable costs and expenses incurred in the administration or preservation of the Collateral, an amount equal to two percent of the gross revenues of the Collateral, which shall be

included as Indebtedness secured by this Mortgage. The designation of keeper made herein shall not be deemed to require Lender to provoke the appointment of such a keeper.

Section 5.11 Waivers. The Mortgagor waives in favor of the Lender any and all homestead exemptions and other exemptions of seizure or otherwise to which Mortgagor is or may be entitled under the constitution and statutes of the State of Louisiana insofar as the Collateral is concerned. The Mortgagor further waives: (a) the benefit of appraisement as provided in Louisiana Code of Civil Procedure Articles 2332, 2336, 2723 and 2724, and all other laws conferring the same; (b) the demand and three days delay accorded by Louisiana Code of Civil Procedure Article 2721; (c) the notice of seizure required by Louisiana Code of Civil Procedure Articles 2293 and 2721; (d) the three days delay provided by Louisiana Code of Civil Procedure Articles 2331 and 2722; and (e) the benefit of the other provisions of Louisiana Code of Civil Procedure Articles 2331, 2722 and 2723, not specifically mentioned above.

Section 5.12 Authentic Evidence. Any and all declarations of facts made by authentic act before a notary public in the presence of two witnesses by a person declaring that such facts lie within his knowledge, shall constitute authentic evidence of such facts for the purpose of executory process. The Mortgagor specifically agrees that such an affidavit by a representative of the Lender as to the existence, amount, terms and maturity of the Indebtedness and of a default thereunder shall constitute authentic evidence of such facts for the purpose of executory process.

Section 5.13 Assemble Collateral. For the purpose of enforcing any and all rights and remedies under this Mortgage the Lender may (i) require the Mortgagor to, and the Mortgagor agrees that it will, at its expense and upon the request of the Lender, forthwith assemble all or any part of the Collateral as directed by the Lender and make it available at a place designated by the Lender which is, in its opinion, reasonably convenient to the Lender and the Mortgagor, whether at the premises of the Mortgagor or otherwise, and Lender shall be entitled to specific performance of this obligation, (ii) to the extent permitted by applicable law of this or any other state, enter, with or without process of law and without breach of the peace, any premise where any of the Collateral is or may be located, and without charge or liability to it seize and remove such Collateral from such premises, (iii) have access to and use the Mortgagor's books and records relating to the Collateral, and (iv) prior to the disposition of the Collateral, store or transfer it without charge in or by means of any storage or transportation facility owned or leased by the Mortgagor, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent the Lender deems appropriate and, in connection with such preparation and disposition, use without charge any trademark, trade name, copyright, patent or technical process used by the Mortgagor.

Section 5.14 Limitation on Duty of Lender. Beyond the exercise of reasonable care in the custody thereof, the Lender shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon. The Lender shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its

own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouse man, carrier, forwarding agency, consignee or other agent or bailee selected by the Lender in good faith.

Section 5.15 Appointment of Agent. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Lender may appoint a bank or trust company or one or more other Persons with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment.

ARTICLE 6

MISCELLANEOUS

Section 6.1 Notices. Any notice or demand which, by provision of this Mortgage, is required or permitted to be given or served to the Mortgagor and the Lender shall be deemed to have been sufficiently given and served for all purposes if made in accordance with the Loan Agreement to the following addresses:

If to Mortgagor:	NGS Sub. Corp. 820 Gessner, Suite 1340 Houston, Texas 77024 Attention: Robert S. Hlerlin
If to Lender:	Prospect Energy Corporation 10 East 40th Street, Suite 4400 New York, New York 10016 Attention: John Barry

Section 6.2 Amendment. Neither this Mortgage nor any provisions hereof may be changed, waived, discharged or terminated orally or in any manner other than by an authentic instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

Section 6.3 Invalidity. In the event that any one or more of the provisions contained in this Mortgage shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Mortgage.

Section 6.4 Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to

exercising any of its rights, powers or privileges under this Mortgage shall operate as a waiver thereof

Section 6.5 Cumulative Rights. The rights and remedies of the Lender under this Mortgage and the Collateral Documents shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 6.6 Titles of Articles, Sections and Subsections. All titles or headings to articles, sections, subsections or other divisions of this Mortgage or the exhibits hereto are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such articles, sections, subsections or other divisions, such other content being controlling as to the agreement between the parties hereto.

Section 6.7 Singular and Plural. Words used herein in the singular, where the context so permits, shall be deemed to include the plural and vice versa. The definitions of words in the singular herein shall apply to such words when used in the plural where the context so permits and vice versa.

Section 6.8 Termination. Upon full and final payment and performance of the Indebtedness and the termination of the Loan Agreement, this Mortgage shall terminate, and the Lender shall pay to the Mortgagor all amounts then remaining in the possession of the Lender from collections on or proceeds of the Collateral. Upon request of the Mortgagor, the Lender shall execute and deliver to the Mortgagor at the Mortgagor's expense such termination statements as the Mortgagor may reasonably request to evidence such termination.

Section 6.9 Successors and Assigns. (a) All covenants and agreements contained by or on behalf of the Mortgagor in this Mortgage shall bind its successors and assigns and shall inure to the benefit of the Lender and its successors and assigns.

(b) This Mortgage is for the benefit of the Lender and for such other Person or Persons as may from time to time become or be the holders of any of the Indebtedness, and this Mortgage shall be transferrable and negotiable, with the same force and effect and to the same extent as the Indebtedness may be transferrable, it being understood that, upon the transfer or assignment by the Lender of any of the Indebtedness, the legal holder of such Indebtedness shall have all of the rights granted to the Lender under this Mortgage. The Mortgagor specifically agrees that upon any transfer of all or any portion of the Indebtedness, this Mortgage shall secure with retroactive rank the then existing Indebtedness to the transferee and any and all Indebtedness to such transferee thereafter arising.

(c) If less than all of the Indebtedness secured by this Mortgage is transferred, each part of such Indebtedness shall share pro-rata in the security of this Mortgage as provided by Louisiana Civil Code Article 3311, and the Lender or subsequent transfer or shall not be deemed to have warranted or agreed to have subordinated any remaining or future Indebtedness to that portion of such Indebtedness transferred.

(d) The Mortgagor hereby recognizes and agrees that the Lender may, from time to time, one or more times, transfer all or any portion of the Indebtedness to one or more third parties. Such transfers may include, but are not limited to, sales of participation interests in such Indebtedness in favor of one or more third party lenders. Upon any transfer of all or any portion of the Indebtedness, the Lender may transfer and deliver any or all of the Collateral to the transferee of such Indebtedness and such Collateral shall secure any and all of the Indebtedness in favor of such a transferee then existing and thereafter arising, and after any such transfer has taken place, the Lender shall be fully discharged from any and all future liability and responsibility to the Mortgagor with respect to such Collateral, and the transferee thereafter shall be vested with all the powers, rights and duties with respect to such Collateral.

SECTION 6.10 GOVERNING LAW. THIS MORTGAGE IS MADE UNDER AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA AND THE STATE OF LOUISIANA.

Section 6.11 Certificates. The production of mortgage, conveyance, tax research or other certificates is waived by consent, and the Mortgagor agrees to hold me, Notary, harmless for failure to procure and attach same.

Section 6.12 Acceptance. Pursuant to Louisiana Civil Code Article 3289, this Mortgage need not be signed by the Lender, and the Mortgagor hereby confirms that the Lender’s consent to and acceptance of this Mortgage shall be irrevocably presumed.

THUS DONE AND PASSED in the place and on the day and in the month and year hereinabove written, in the presence of the two undersigned witnesses who hereunto sign their names with the Mortgagor and me, Notary, after due reading of the whole.

WITNESSES:

MORTGAGOR: NGS SUB. CORP.

By:

Name:
Title:

NOTARY PUBLIC

PROMISSORYNOTE

Borrower:	Lender:
Natural Gas Systems, Inc. Two Memorial City Plaza 820 Gessner, Suite 1340 Houston, Texas 77024	Prospect Energy Corporation 10 East 40th Street Suite 4400 New York, New York 10016

Principal Amount:	Maturity Date of Note:	Date of Note:
U.S. $4,800,000.00	February 2, 2010	February 2, 2005

PROMISE TO PAY. NATURAL GAS SYSTEMS, INC., a Nevada corporation (“Borrower”) promises to pay to the order of PROSPECT ENERGY CORPORATION, a Maryland corporation (“Lender”) in lawful money of the United States of America the sum of four million eight hundred thousand and 00/100 dollars (U.S. $4,800,000.00), or such other or lesser amounts as may be reflected from time to time on the books and records of Lender as evidencing the aggregate unpaid principal balance of loan advances made to Borrower on the basis as provided below, together with simple interest assessed on the variable rate basis provided below, with interest being assessed on the unpaid principal balance of this Note as outstanding from time to time, commencing on the date hereof and continuing until this Note is paid in full. Interest on Advances under this Note shall be calculated on the basis of a *365* (or in a leap year 366) day year and the actual number of days elapsed.

LOAN AGREEMENT. This Note is made and executed pursuant to a loan agreement between Borrower and Lender dated the date hereof (as amended, renewed or restated from time to time, the “Loan Agreement”), and is entitled to the benefits thereof Unless otherwise defined herein, each capitalized term used herein shall have the same meaning set forth in the Loan Agreement. Reference is made to the Loan Agreement for provisions for the acceleration of the maturity hereof on the occurrence of certain events specified therein, for mandatory prepayments required of the Borrower in certain circumstances, and for all other pertinent provisions.

LINE OF CREDIT. This Note is a non-revolving “master note” evidencing advances that may be made from time to time to Borrower under the Loan Agreement as provided in the Loan Agreement. Advances under this Note may be requested only in writing by Borrower or by an authorized person. All communications, instructions or directions by telephone or otherwise to Lender are to be directed to Lender’s office as provided in the Loan Agreement. The following persons are authorized to request advances under the Line of Credit until Lender receives from Borrower at Lender’s address shown above written notice of revocation of their authority: Robert S. Herlin or Sterling McDonald. Borrower agrees to be liable for all sums either (a) advanced in accordance with the instructions of an authorized person or (b) credited pursuant to

the Loan Agreement to any of Borrower's deposit accounts. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower has with Lender, including the Loan Agreement and any other agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender pursuant to the Loan Agreement.

PAYMENT. Borrower will pay interest on Advances at the Base Rate monthly in arrears on the last day of each successive calendar month. Borrower will pay the balance of all outstanding principal on this Note, together with all accrued but unpaid interest, at the Maturity Date. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. All payments and prepayments made by Borrower hereunder shall be made to Lender, in immediately available funds, before 11:00 a.m. (Eastern Time) on the day that such payment is required, or otherwise is, to be made. Any payment received and accepted by Lender after such time shall be considered for all purposes (including the calculation of interest to the extent permitted by law) as having been made on the next following Business Day. Whenever any payment to be made hereunder falls on a day other than a Business Day, then unless otherwise provided in the Loan Agreement such payment shall be made on the next succeeding Business Day (without penalty or default), and such extension of time shall in each case be included in the calculation of interest. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. This Note bears interest on and after the date hereof to and including the Maturity Date at the variable rate per annum equal to the Base Rate in accordance with the Loan Agreement. The interest rate on this Note is subject to change from time to time based on changes in the Treasury Rate, as provided in the Loan Agreement. If the index rate used in determining the Treasury Rate becomes unavailable during the term of this Note, Lender may designate a substitute index after notice to Borrower. Borrower understands that Lender may make loans based on other rates as well. Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law. The unpaid principal balance of this Note shall bear interest from and after an Event of Default or the Maturity Date until paid at the Default Rate from time to time in effect.

PREPAYMENT. Borrower may prepay this Note in full or in part at any time by paying the then unpaid principal balance of this Note, plus accrued simple interest and any unpaid late charges through date of prepayment, subject to restrictions regarding permitted timing and advance notice set forth in the Loan Agreement, and subject to payment of the Prepayment Premium under the circumstances set forth in the Loan Agreement. Borrower may be required to prepay

this Note from time to time in accordance with the Loan Agreement. If Borrower prepays this Note in full, or if Lender accelerates payment, Borrower understands that, unless otherwise required by law, any prepaid fees or charges will not be subject to rebate and will be earned by Lender at the time this Note is signed. Unless otherwise agreed to in writing by Lender, any partial prepayments of this Note will be applied in inverse order of maturity and will not relieve Borrower of Borrower's obligation to make scheduled payments under this Note.

LATE CHARGE. If Borrower fails to pay any payment under this Note in full within ten (10) days of when due, Borrower agrees to pay Lender a late payment fee in an amount equal to 10.000% of the delinquent amount due. Late charges will not be assessed following declaration of default and acceleration of maturity of this Note.

DEFAULT. If any Event of Default occurs, Lender shall have all the rights and remedies (including acceleration of the Maturity Date of this Note) available to it pursuant to the Loan Agreement or applicable law. Upon the occurrence of an Event of Default, Lender shall have the right, at its sole option, to declare formally this Note to be in default and to accelerate the maturity and insist upon immediate payment in full of the unpaid principal balance then outstanding under this Note, plus accrued interest and Prepayment Premium, together with reasonable attorneys' fees, costs, expenses and other fees and charges as provided herein, and Lender shall have the rights and remedies set forth in the Loan Agreement. Lender shall have the further right, again at its sole option, to declare formal default and to accelerate the maturity and to insist upon immediate payment in full of each and every other loan, extension of credit, debt, liability and/or obligation of every nature and kind that Borrower may then owe to Lender, whether direct or indirect or by way of assignment, and whether absolute or contingent, liquidated or unliquidated, voluntary or involuntary, determined or undetermined, secured or unsecured, whether Borrower is obligated alone or with others on a "solidary" or "joint and several" basis, as a principal obligor or otherwise, all without further notice or demand, unless Lender shall otherwise elect.

DEFAULT RATE. If Borrower defaults under this Note, Lender shall have the right to prospectively increase the simple interest rate under this Note to be equal to the Default Rate per annum until this Note is paid in full.

ATTORNEYS' FEES. If Lender refers this Note to an attorney for collection, or files suit against Borrower to collect this Note, or if Borrower files for bankruptcy or other relief from creditors, Borrower agrees to pay Lender's reasonable attorneys' fees.

COLLATERAL. This Note is secured by the Collateral and collateral documents as provided in the Loan Agreement.

GOVERNING LAW. BORROWER AGREES THAT THIS NOTE AND THE LOAN EVIDENCED HEREBY SHALL BE GOVERNED UNDER THE LAWS OF THE STATE OF LOUISIANA. SPECIFICALLY, THIS BUSINESS OR COMMERCIAL NOTE IS SUBJECT TO LA. R.S. 9:3509 ET SEQ.

WAIVERS. Borrower and each guarantor of this Note hereby waive presentment for payment, protest, notice of protest and notice of nonpayment, and all pleas of division and discussion, and severally agree that their obligations and liabilities to Lender hereunder shall be on a “solidary” or “joint and several” basis. Borrower and each guarantor further severally agree that discharge or release of any party who is or may be liable to Lender for the indebtedness represented hereby, or the release of any collateral directly or indirectly securing repayment hereof, shall not have the effect of releasing any other party or parties, who shall remain liable to Lender, or of releasing any other collateral that is not expressly released by Lender. Borrower and each guarantor additionally agree that Lender’s acceptance of payment other than in accordance with the terms of this Note, or Lender’s subsequent agreement to extend or modify such repayment terms, or Lender’s failure or delay in exercising any rights or remedies granted to Lender, shall likewise not have the effect of releasing Borrower or any other party or parties from their respective obligations to Lender, or of releasing any collateral that directly or indirectly secures repayment hereof In addition, any failure or delay on the part of Lender to exercise any of the rights and remedies granted to Lender shall not have the effect of waiving any of Lender’s rights and remedies. Any partial exercise of any rights and/or remedies granted to Lender shall furthermore not be construed as a waiver of any other rights and remedies; it being Borrower’s intent and agreement that Lender’s rights and remedies shall be cumulative in nature. Borrower and each guarantor further agrees that, should any event of default occur or exist under this Note, any waiver or forbearance on the part of Lender to pursue the rights and remedies available to Lender, shall be binding upon Lender only to the extent that Lender specifically agrees to any such waiver or forbearance in writing. A waiver or forbearance on the part of Lender as to one event of default shall not be construed as a waiver or forbearance as to any other default. Borrower and each guarantor of this Note further agrees that any late charges provided for under this Note will not be charges for deferral of time for payment and will not and are not intended to compensate Lender for a grace or cure period, and no such deferral, grace or cure period has been or will be granted to Borrower in return for the imposition of any late charge. Borrower recognizes that Borrower’s failure to make timely payment of amounts due under this Note will result in damages to Lender, including but not limited to Lender’s loss of the use of amounts due, and Borrower agrees that any late charges imposed by Lender hereunder will represent reasonable compensation to Lender for such damages. Failure to pay in full any installment or payment timely when due under this Note, whether or not a late charge is assessed, will remain and shall constitute an event of default hereunder.

SUCCESSORS AND ASSIGNS LIABLE. Borrower’s and each guarantor’s obligations and agreements under this Note shall be binding upon Borrower’s and each guarantor’s respective successors, heirs, legatees, devisees, administrators, executors and assigns. The rights and remedies granted to Lender under this Note shall inure to the benefit of Lender’s successors and assigns, as well as to any subsequent holder or holders of this Note.

CAPTION HEADINGS. Caption headings of the sections of this Note are for convenience purposes only and are not to be used to interpret or to define their provisions. In this Note,

whenever the context so requires, the singular includes the plural and the plural also includes the singular.

SEVERABILITY. If any provision of this Note is held to be invalid, illegal or unenforceable by any court, that provision shall be deleted from this Note and the balance of this Note shall be interpreted as if the deleted provision never existed.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER: NATURAL GAS SYSTEMS, INC.

By:_____
Name:
Title:

STATE OF LOUISIANA)
)
)SS:
)
PARISH OF ORLEANS)

BEFORE ME, the undersigned Notary Public duly commissioned qualified and sworn within and for the State and Parish written above, personally came and appeared _____,to me personally known, and who being by me duly sworn, did say that he is the authorized _____ of Natural Gas Systems, Inc., whose name is subscribed to the foregoing Promissory Note and that he executed the foregoing Promissory Note by authority of said corporation's Board of Directors on behalf of said corporation as its free act and deed.

THUS DONE AND SIGNED before me and the two undersigned witnesses in the Parish and State aforesaid, on this 2nd day of February, 2005. Witness my hand and official seal.

WITNESSES:

_____ _____
Name: Name:

_____
Name:

_____
NOTARY PUBLIC

Seal

My Commission expires:_____

SECURITY AGREEMENT
(Stock)

THIS SECURITY AGREEMENT ("Agreement") dated as of February 2, 2005, is made by and between NGS Sub. Corp., a Delaware corporation ("Pledgor"), and PROSPECT ENERGY CORPORATION, a Maryland corporation ("Lender"), who agree as follows:

RECITALS

A. The Pledgor is a subsidiary of Natural Gas Systems, Inc., a Delaware corporation, which in turn is a subsidiary of Natural Gas Systems, Inc., a Nevada corporation (the "Borrower"). The Borrower is or will be indebted unto the Lender for loans made or to be made pursuant to the terms of a loan agreement (as amended, supplemented or restated from time to time, the "Loan Agreement") dated as of February 2, 2005, by and between the Borrower and the Lender.

B. In order to secure the Borrower's full and punctual payment and performance of the Indebtedness as defined in the Loan Agreement, the Pledgor has agreed to execute and deliver this Agreement and to pledge, deliver and grant a continuing security interest in and to the Collateral (as hereafter defined).

AGREEMENT

NOW, THEREFORE, in consideration of the premises, the Pledgor and the Lender agree as follows:

Section 1. Definitions. (A) As used in this Agreement, the terms "Agreement", "Borrower", "Lender", "Loan Agreement" and "Pledgor" shall have the meanings indicated above.

(B) As used in this Agreement, the terms "Event of Default", "Indebtedness" and "Person" have the respective meanings defined in the Loan Agreement.

(C) As used in this Agreement, the terms "Arkla", "Four Star" and "Subsidiary and Subsidiaries" shall have the meanings indicated in Section 2 below.

Section 2. Security Interest. (A) To secure the Borrower's full and punctual payment and performance of all present and future Indebtedness to the Lender or any successor or transferee thereof, including without limitation all promissory notes heretofore or hereafter executed by the Borrower pursuant to the Loan Agreement, in principal, interest, deferral and delinquency charges, prepayment premiums, costs and attorney's fees, as therein stipulated, or under or pursuant to any present or future hedging or derivative agreements relating to interest rates, currency exchange rates or commodity prices (such as any swap agreement, any cap, collar, floor, exchange or forward transaction, any option, or other similar transaction), the Pledgor hereby pledges, pawns, transfers and grants to the Lender a continuing security interest in and to all of the following property of the Pledgor, whether now owned or existing or hereafter acquired or arising (collectively the "Collateral"):

1. 1,000 shares of the common stock, no par value, of Four Star Development Corporation, a Louisiana corporation ("Four Star") represented by Certificate No. dated _____, 20, registered in the Pledgor's name, together with any additional shares of Four Star issued hereafter as stock dividends, stock splits or otherwise, or shares received as a result of any merger or consolidation of Four Star, all rights of any nature whatsoever which may be issued or granted by Four Star to the Pledgor, all right, title and interest of the Pledgor as a shareholder of Four Star including without limitation the right to vote, all certificates and instruments representing or evidencing all such shares and rights, all cash, liquidation and other dividends now or hereafter declared thereon, all stock redemption payments and all other monies due or to become due thereunder, all stock warrants and other rights to subscribe to securities now or hereafter incident thereto or declared or granted in connection therewith, and all distributions (cash or property) made or to be made in connection therewith or incident thereto, and together with all proceeds of all or any of the foregoing, in whatever form.

2. 100% of the membership interests in Arkla Petroleum, L.L.C., a Louisiana limited liability company ("Arkla"), registered in the Pledgor's name, together with any additional membership interests of Arkla issued hereafter as distributions or otherwise, or membership interests received as a result of any merger or consolidation of Arkla, all rights of any nature whatsoever which may be issued or granted by Arkia to the Pledgor, all right, title and interest of the Pledgor as a member of Arkla including without limitation the right to vote, all certificates and instruments representing or evidencing all such membership interests and rights, all cash, liquidation and other distributions now or hereafter declared thereon, all redemption payments and all other monies due or to become due thereunder, all warrants and other rights to subscribe to membership interests now or hereafter incident thereto or declared or granted in connection therewith, and all distributions (cash or property) made or to be made in connection therewith or incident thereto, and together with all proceeds of all or any of the foregoing, in whatever form.

Four Star and Arkla are hereinafter sometimes referred to collectively as the "Subsidiaries", and each as a "Subsidiary".

(C) The security interests are granted as security only and shall not subject the Lender to, or transfer or in any way affect or modify, any obligation or liability of the Pledgor with respect to any of the Collateral or any transaction in connection therewith.

Section 3. Delivery of Collateral. The Lender hereby accepts the delivery of the Collateral on behalf of itself and on behalf of any future transferee of the Indebtedness. The Pledgor will execute and deliver to the Lender all assignments, endorsements, powers and other documents reasonably requested at any time and from time to time by the Lender with respect to

the Collateral and the rights and powers granted to the Lender hereunder, and will deliver to the Lender any stock certificates representing stock dividends on, or stock splits of, any of the Collateral or any certificated membership interests representing distributions on any of the Collateral.

Section 4. Waiver of Rights; Intervention. The Pledgor and Four Star acknowledge that Article VII of the Articles of Incorporation of Four Star dated September 26, 1978, grants to Four Star a right of first refusal to purchase the stock of any shareholder desiring to sell any of its stock. In addition, Article VII of Four Star's Articles of Incorporation provides that a shareholder may pledge its shares as security for an indebtedness of a shareholder provided that the pledge agreement provides that before any pledgee requests a transfer of the shares under the pledge, the stock must be offered to the corporation at the same price that the pledgee is crediting the indebtedness secured by the pledge. Four Star here by joins in the execution of this Agreement and waives its rights of first refusal to purchase the stock of any shareholder or any stock held by any pledgee. Four Star further waives the requirement that any pledge agreement entered into by a shareholder must contain a right of first refusal in favor of the corporation to purchase shares of stock offered for sale by any pledgee of such stock.

Section 5. Representations. (A) Except as expressly provided above in Section 4 of this Agreement, the Pledgor has not performed any acts or signed any agreements which might prevent the Lender from enforcing any of the terms of this Agreement or which would limit the Lender in any such enforcement. No security agreement or similar or equivalent document or instrument covering all or any part of the Collateral has been executed by the Pledgor and remains in effect. No Collateral is in the possession of any Person (other than the Pledgor) asserting any claim thereto or security interest therein, except that the Lender or its designee may have possession of Collateral as contemplated hereby.

(B) The certificated securities evidencing the Collateral and the uncertificated membership interest, are each owned legally, directly and beneficially and of record by the Pledgor, and each is not subject to any interest, option or right of any Person except as expressly provided above in Section 4 of this Agreement. The Collateral constitutes all of the interest that the Pledgor owns in the Subsidiaries, which as of the date of this Agreement is one hundred (100%) percent of the stock and membership interests, as applicable, issued by each Subsidiary. The Pledgor has delivered a complete and accurate copy of each Subsidiary's articles of incorporation or organization and by laws or operating agreement, in each instance as applicable, to the Lender.

Section 6. Covenants. (A) The Pledgor agrees not to sell, offer to sell, transfer or otherwise dispose of any of the Collateral or any interest therein, and not to create, incur or permit to exist any pledge, security interest, lien, charge, encumbrance, restriction on transfer, right to purchase, option, right of first refusal or other impediment to title whatsoever with respect to any of the Collateral, other than this Agreement and other than the rights referenced in Section 3 of this Agreement that Four Star waives herein.

(B) The Pledgor will not amend or agree to amend any Subsidiary's articles of incorporation or organization or by laws or operating agreement, in each instance as applicable, or otherwise enter into any further agreement pertaining to any of the Collateral. The Pledgor will not consent to or permit the issuance to any Person of any additional shares or membership interests in any Subsidiary.

Section 7. Voting Rights. (A) So long as no Event of Default as defined in the Loan Agreement shall have occurred, the Pledgor shall have the right, from time to time, to exercise voting and other consensual rights to give approvals, ratifications and waivers pertaining to the Collateral, and the Lender upon receiving a written request from the Pledgor and the Borrower accompanied by a certificate stating that no Event of Default has occurred will deliver to the Pledgor (or as specified in such request) such proxies, approvals, ratifications, waivers and other instruments pertaining to the Collateral as may be specified in such request and be in form and substance satisfactory to the Lender.

(B) Upon the occurrence of an Event of Default, the Lender shall have the right, at Lender's option, to exercise the voting and other consensual rights to give approvals, ratifications and waivers and to take any other action with respect to all the Collateral with the same force and effect as if the Lender were the absolute and sole owner thereof, and the Pledgor' s right to exercise such voting and other consensual rights shall, at Lender's option, cease and become vested in the Lender.

Section 8. Remedies upon Default. (A) Upon the occurrence of an Event of Default as defined in the Loan Agreement the Lender may exercise all rights of a secured party under the Louisiana Commercial Laws – Secured Transactions and other applicable law (including the Uniform Commercial Code as in effect in another applicable jurisdiction) and, in addition, the Lender may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, (i) transfer the whole or any part of the Collateral into the name of the Lender or its nominee, (ii) sell the Collateral or any part thereof at a broker's board or on a securities exchange, or (iii) sell the Collateral or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Lender may deem satisfactory. The Lender may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale). The Pledgor will execute and deliver such documents and take such other action as the Lender deems necessary or advisable in order that any such sale may be made in compliance with law. Upon any such sale the Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each Purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of the Pledgor which may be waived, and the Pledgor, to the extent permitted by law, hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. The Pledgor agrees that ten (10) days prior written notice of the time and place of any sale or other intended disposition of any of the Collateral constitutes "reasonable notification" within the meaning of Sections 9-611 and 9-612 of the UCC except that shorter or no notice shall

be reasonable as to any Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market. The notice (if any) of such sale shall (1) in case of a public sale, state the time and place fixed for such sale, and (2) in the case of a private sale, state the day after which such sale may be consummated. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Lender may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Lender may determine. The Lender shall not be obligated to make any such sale pursuant to any such notice. The Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Lender until the selling price is paid by the purchaser thereof, but the Lender shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice.

(B) The Lender, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose the security interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction. For the purposes of Louisiana executory process procedures, the Pledgor does hereby acknowledge the Indebtedness and confess judgment in favor of the Lender for the full amount of the Indebtedness. The Pledgor does by these presents consent, agree and stipulate that upon the occurrence of an Event of Default it shall be lawful for the Lender, and the Pledgor does hereby authorize the Lender, to cause all and singular the Collateral to be seized and sold under executory or ordinary process, at the Lender's sole option, without appraisement, appraisement being hereby expressly waived, in one lot as an entirety or in separate parcels as the Lender may determine, to the highest bidder, and otherwise exercise the rights, powers and remedies afforded herein and under applicable Louisiana law. Any and all declarations of fact made by authentic act before a Notary Public in the presence of two witnesses by a person declaring that such facts lie within his knowledge shall constitute authentic evidence of such facts for the purpose of executory process. The Pledgor hereby waives in favor of the Lender: (a) the benefit of appraisement as provided in Louisiana Code of Civil Procedure Articles 2332, 2336, 2723 and 2724, and all other laws conferring the same; (b) the demand and three days delay accorded by Louisiana Code of Civil Procedure Article 2721; (c) the notice of seizure required by Louisiana Code of Civil Procedure Articles 2293 and 2721; (d) the three days delay provided by Louisiana Code of Civil Procedure Articles 2331 and 2722; and (e) the benefit of the other provisions of Louisiana Code of Civil Procedure Articles 2331, 2722 and 2723, not specifically mentioned above.

(C) The Pledgor recognizes that the Lender may be unable to effect a public sale of all or part of the Collateral by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire all or a part of the Collateral for their own account, for investment, and not with a view to the distribution or resale thereof. If the Lender deems it

advisable to do so for the foregoing or for other reasons, the Lender is authorized to limit the prospective bidders on or purchasers of any of the Collateral to such a restricted group of purchasers and may cause to be placed on certificates for any or all of the Collateral a legend to the effect that such security has not been registered under the Securities Act of 1933, as amended, and may not be disposed of in violation of the provision of said act, and to impose such other limitations or conditions in connection with any such sale as the Lender deems necessary or advisable in order to comply with said act or any other securities or other laws. The Pledgor acknowledges and agrees that any private sale so made may be at prices and on other terms less favorable to the seller than if such Collateral were sold at public sale and that the Lender has no obligation to delay the sale of such Collateral for the period of time necessary to permit the registration of such Collateral for public sale under any securities laws. The Pledgor agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. If any consent, approval, or authorization of any federal, state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Collateral, or any partial sale or other disposition of the Collateral, the Pledgor will execute all applications and other instruments as may be required in connection with securing any such consent, approval or authorization and will otherwise use its best efforts to secure same. In addition, if the Collateral is disposed of pursuant to Rule 144, the Pledgor agrees to complete and execute a Form 144, or comparable successor form, at the Lender's request; and the Pledgor agrees to provide any material adverse information in regard to the current and prospective operations of any corporation whose stock constitutes all or a portion of the Collateral of which the Pledgor has knowledge and which has not been publicly disclosed, and the Pledgor hereby acknowledges that the Pledgor's failure to provide such information may result in criminal and/or civil liability.

Section 9. Limitation on Duty of lender. Beyond the exercise of reasonable care in the custody thereof, the Lender shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon. The Lender shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any broker or other agent or bailee selected by the Lender in good faith. The Lender shall be deemed to have exercised reasonable care with respect to any of the Collateral in its possession if the Lender takes such action for that purpose as the Pledgor shall reasonably request in writing; but no failure to comply with any such request shall, of itself, be deemed a failure to exercise reasonable care.

Section 10. Appointment of Agent. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Lender may appoint a bank or trust company or one or more other Persons with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment.

Section 11. Expenses. In the event that the Borrower fails to comply with any provisions of the Loan Agreement or the Pledgor fails to comply with any provisions of this Agreement, such that the value of any Collateral or the validity, perfection, rank or value of any security interest hereunder is thereby diminished or potentially diminished or put at risk, the Lender may, but shall not be required to, effect such compliance on behalf of the Borrower and/or the Pledgor, and the Pledgor shall reimburse the Lender for the costs thereof on demand. All insurance expenses and all expenses of protecting, storing, appraising, preparing for sale, handling, maintaining and shipping the Collateral, any and all excise, property, sales, and use taxes imposed by any federal, state or local authority on any of the Collateral, all expenses in respect of periodic appraisals and inspections of the Collateral to the extent the same may be requested from time to time, and all expenses in respect of the sale or other disposition thereof shall be borne and paid by the Pledgor; and if the Pledgor fails to promptly pay any portion thereof when due, the Lender may, at its option, but shall not be required to, pay the same and charge the Pledgor's account therefor, and the Pledgor agrees to reimburse the Lender therefor on demand. All sums so paid or incurred by the Lender for any of the foregoing and any and all other sums for which the Pledgor may become liable hereunder and all costs and expenses (including reasonable attorneys' fees, legal expenses and court costs) incurred by the Lender in enforcing or protecting any of the rights or remedies under this Agreement, together with interest thereon until paid at the Default Rate, shall be additional Indebtedness under the Loan Agreement and the Pledgor agrees to pay all of the foregoing sums promptly on demand.

Section 12. Termination. Upon the payment in full of the Indebtedness and the termination of the Loan Agreement, this Agreement shall terminate. Upon request of the Pledgor, the Lender shall deliver the remaining Collateral (if any) to the Pledgor.

Section 13. Notices. Any notice or demand which, by provision of this Agreement, is required or permitted to be given or served to the Pledgor and the Lender shall be deemed to have been sufficiently given and served for all purposes if made in accordance with the Loan Agreement. For purposes of this Section 12, any notice or demand to be given or served to the Pledgor shall be sent to the following address (until another address or addresses is given in writing by the Pledgor to the other parties):

If to Pledgor: NGS Sub. Corp.

Two Memorial City Plaza
820 Gessner, Suite 1340
Houston, Texas 77024

Attention: Robert S. Herlin, President
Facsimile Number: (713) 935-0199
Telephone Number: (713) 935-0122

Section 14. Amendment. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally or in any manner other than by an instrument in writing signed by the party against whom enforcement of the change, waiver,

discharge or termination is sought.

Section 15. Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any of its rights, powers or privileges under this Agreement shall operate as a waiver thereof.

Section 16. Cumulative Rights. The rights and remedies of the Lender under this Agreement shall be cumulative and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 17. Titles of Sections. All titles or headings to sections of this Agreement are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such sections, such other content being controlling as to the agreement between the parties hereto.

Section 18. GOVERNING LAW. THIS AGREEMENT IS A CONTRACT MADE UNDER AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA AND THE STATE OF LOUISIANA.

Section 19. Successors and Assigns. All covenants and agreements contained by or on behalf of the Pledgor in this Agreement shall bind the Pledgor's successors and assigns and shall inure to the benefit of the Lender and its successors and assigns. This Agreement is for the benefit of the Lender and for such other Person or Persons as may from time to time become or be the holders of any of the Indebtedness, and this Agreement shall be transferable with the same force and effect and to the same extent as the Indebtedness may be transferable, it being understood that, upon the transfer or assignment by the Lender of any of the Indebtedness, the legal holder of such Indebtedness shall have all of the rights granted to the Lender under this Agreement. The Pledgor specifically agrees that upon any transfer of all or any portion of the Indebtedness, the Lender may transfer and deliver the Collateral to the transferee of such Indebtedness and the Collateral shall secure any and all of the Indebtedness in favor of such a transferee, that such transfer of the Collateral shall not affect the priority and ranking thereof, and that the Collateral shall secure with retroactive rank the then existing Indebtedness of the Borrower to the transferee and any and all Indebtedness thereafter arising. After any such transfer has taken place, the Lender shall be fully discharged from any and all future liability and responsibility to the Pledgor with respect to the Collateral and the transferee thereafter shall be vested with all the powers, rights and duties with respect to the Collateral.

Section 20. Counterparts. This Agreement may be executed in two or more counterparts, and it shall not be necessary that the signatures of all parties hereto be contained on any one counterpart hereof, each counterpart shall be deemed an original, but all of which when taken together shall constitute one and the same instrument.

{Remainder of Page Intentionally Blank; Signature Page Follows]

IN WITNESS WHEREOF, the Pledgor and the Lender have caused this Agreement to be duly executed as of the date first above written.

PLEDGOR: NGS Sub. Corp.,
a Delaware corporation

BY: _____
Name:
Title:

FOUR STAR: FOUR STAR DEVELOPMENT CORPORATION,
a Louisiana corporation

BY:_____
Name:
Title:

LENDER: PROSPECT ENERGY CORPORATION,
a Maryland corporation

BY:_____
Name:
Title:

SECURITY AGREEMENT
(Stock)

THIS SECURITY AGREEMENT ("Agreement") dated as of February 2, 2005, is made by and between NATURAL GAS SYSTEMS, INC., a Delaware corporation ("Pledgor"), and PROSPECT ENERGY CORPORATION, a Maryland corporation ("Lender"), who agree as follows:

RECITALS

A. The Pledgor is a subsidiary of Natural Gas Systems, Inc., a Nevada corporation (the "Borrower"). The Borrower is or will be indebted unto the Lender for loans made or to be made pursuant to the terms of a loan agreement (as amended, supplemented or restated from time to time, the "Loan Agreement") dated as of February 2, 2005, by and between the Borrower and the Lender.

B. In order to secure the Borrower's full and punctual payment and performance of the Indebtedness as defined in the Loan Agreement, the Pledgor has agreed to execute and deliver this Agreement and to pledge, deliver and grant a continuing security interest in and to the Collateral (as hereafter defined).

AGREEMENT

NOW, THEREFORE, in consideration of the premises, the Pledgor and the Lender agree as follows:

Section 1. Definitions. (A) As used in this Agreement, the terms "Agreement", "Borrower", "Lender", "Loan Agreement" and "Pledgor" shall have the meanings indicated above.

(B) As used in this Agreement, the terms "Event of Default", "Indebtedness" and "Person" have the respective meanings defined in the Loan Agreement.

(C) As used in this Agreement, the terms "NGS Sub" and "Subsidiary" shall have the meanings indicated in Section 2 below.

Section 2. Security Interest. (A) To secure the Borrower's full and punctual payment and performance of all present and future Indebtedness to the Lender or any successor or transferee thereof, including without limitation all promissory notes heretofore or hereafter executed by the Borrower pursuant to the Loan Agreement, in principal, interest, deferral and delinquency charges, prepayment premiums, costs and attorney's fees, as therein stipulated, or under or pursuant to any present or future hedging or derivative agreements relating to interest rates, currency exchange rates or commodity prices (such as any swap agreement, any cap, collar, floor, exchange or forward transaction, any option, or other similar transaction), the Pledgor hereby pledges, pawns, transfers and grants to the Lender a continuing security interest in and to all of the following property of the Pledgor, whether now owned or existing or hereafter acquired or arising (collectively the "Collateral"):

One Hundred Thousand (100,000) shares of the common stock of NGS Sub. Corp., a Delaware corporation ("NGS Sub") represented by Certificate No. CS-i dated September 26, 2003, registered in the Pledgor's name, together with any additional shares of NGS Sub issued hereafter as stock dividends, stock splits or otherwise, or shares received as a result of any merger or consolidation of NGS Sub, all rights of any nature whatsoever which may be issued or granted by NGS Sub to the Pledgor, all right, title and interest of the Pledgor as a shareholder of NGS Sub including without limitation the right to vote, all certificates and instruments representing or evidencing all such shares and rights, all cash, liquidation and other dividends now or hereafter declared thereon, all stock redemption payments and all other monies due or to become due thereunder, all stock warrants and other rights to subscribe to securities now or hereafter incident thereto or declared or granted in connection therewith, and all distributions (cash or property) made or to be made in connection therewith or incident thereto, and together with all proceeds of all or any of the foregoing, in whatever form.

NGS Sub is hereinafter sometimes referred to as the "Subsidiary".

(C) The security interests are granted as security only and shall not subject the Lender to, or transfer or in any way affect or modify, any obligation or liability of the Pledgor with respect to any of the Collateral or any transaction in connection therewith.

Section 3. Delivery of Collateral. The Lender hereby accepts the delivery of the Collateral on behalf of itself and on behalf of any future transferee of the Indebtedness. The Pledgor will execute and deliver to the Lender all assignments, endorsements, powers and other documents reasonably requested at any time and from time to time by the Lender with respect to the Collateral and the rights and powers granted to the Lender hereunder, and will deliver to the Lender any stock certificates representing stock dividends on, or stock splits of, any of the Collateral.

Section 4. Representations. (A) The Pledgor has not performed any acts or signed any agreements which might prevent the Lender from enforcing any of the terms of this Agreement or which would limit the Lender in any such enforcement. No security agreement or similar or equivalent document or instrument covering all or any part of the Collateral has been executed by the Pledgor and remains in effect. No Collateral is in the possession of any Person (other than the Pledgor) asserting any claim thereto or security interest therein, except that the Lender or its designee may have possession of Collateral as contemplated hereby.

(B) The certificated securities evidencing the Collateral are each owned legally, directly and beneficially and of record by the Pledgor, and each is not subject to any interest, option or right of any Person. The Collateral constitutes all of the interest that the Pledgor owns in the Subsidiary, which as of the date of this Agreement is one hundred (100%) percent of the stock issued by the Subsidiary. The Pledgor has delivered a complete and accurate copy of the Subsidiary's articles of incorporation and bylaws to the Lender.

Section 5. Covenants. (A) The Pledgor agrees not to sell, offer to sell,

transfer or otherwise dispose of any of the Collateral or any interest therein, and not to create, incur or permit to exist any pledge, security interest, lien, charge, encumbrance, restriction on transfer, right to purchase, option, right of first refusal or other impediment to title whatsoever with respect to any of the Collateral, other than this Agreement.

(B) The Pledgor will not amend or agree to amend the Subsidiary's articles of incorporation or bylaws, or otherwise enter into any further agreement pertaining to any of the Collateral. The Pledgor will not consent to or permit the issuance to any Person of any additional shares in the Subsidiary.

Section 6. Voting Rights. (A) So long as no Event of Default as defined in the Loan Agreement shall have occurred, the Pledgor shall have the right, from time to time, to exercise voting and other consensual rights to give approvals, ratifications and waivers pertaining to the Collateral, and the Lender upon receiving a written request from the Pledgor and the Borrower accompanied by a certificate stating that no Event of Default has occurred will deliver to the Pledgor (or as specified in such request) such proxies, approvals, ratifications, waivers and other instruments pertaining to the Collateral as may be specified in such request and be in form and substance satisfactory to the Lender.

(B) Upon the occurrence of an Event of Default, the Lender shall have the right, at Lender's option, to exercise the voting and other consensual rights to give approvals, ratifications and waivers and to take any other action with respect to all the Collateral with the same force and effect as if the Lender were the absolute and sole owner thereof, and the Pledgor's right to exercise such voting and other consensual rights shall, at Lender's option, cease and become vested in the Lender.

Section 7. Remedies upon Default. (A) Upon the occurrence of an Event of Default as defined in the Loan Agreement the Lender may exercise all rights of a secured party under the Louisiana Commercial Laws – Secured Transactions and other applicable law (including the Uniform Commercial Code as in effect in another applicable jurisdiction) and, in addition, the Lender may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, (i) transfer the whole or any part of the Collateral into the name of the Lender or its nominee, (ii) sell the Collateral or any part thereof at a broker's board or on a securities exchange, or (iii) sell the Collateral or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Lender may deem satisfactory. The Lender may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale). The Pledgor will execute and deliver such documents and take such other action as the Lender deems necessary or advisable in order that any such sale may be made in compliance with law. Upon any such sale the Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of the Pledgor which may be waived, and the Pledgor, to the extent permitted by law, hereby specifically waives all rights of

redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. The Pledgor agrees that ten (10) days prior written notice of the time and place of any sale or other intended disposition of any of the Collateral constitutes "reasonable notification" within the meaning of Sections 9-611 and 9-612 of the UCC except that shorter or no notice shall be reasonable as to any Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market. The notice (if any) of such sale shall (1) in case of a public sale, state the time and place fixed for such sale, and (2) in the case of a private sale, state the day after which such sale may be consummated. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Lender may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Lender may determine. The Lender shall not be obligated to make any such sale pursuant to any such notice. The Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Lender until the selling price is paid by the purchaser thereof, but the Lender shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice.

(B) The Lender, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose the security interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction. For the purposes of Louisiana executory process procedures, the Pledgor does hereby acknowledge the Indebtedness and confess judgment in favor of the Lender for the full amount of the Indebtedness. The Pledgor does by these presents consent, agree and stipulate that upon the occurrence of an Event of Default it shall be lawful for the Lender, and the Pledgor does hereby authorize the Lender, to cause all and singular the Collateral to be seized and sold under executory or ordinary process, at the Lender's sole option, without appraisement, appraisement being hereby expressly waived, in one lot as an entirety or in separate parcels as the Lender may determine, to the highest bidder, and otherwise exercise the rights, powers and remedies afforded herein and under applicable Louisiana law. Any and all declarations of fact made by authentic act before a Notary Public in the presence of two witnesses by a person declaring that such facts lie within his knowledge shall constitute authentic evidence of such facts for the purpose of executory process. The Pledgor hereby waives in favor of the Lender: (a) the benefit of appraisement as provided in Louisiana Code of Civil Procedure Articles 2332, 2336, 2723 and 2724, and all other laws conferring the same; (b) the demand and three days delay accorded by Louisiana Code of Civil Procedure Article 2721; (c) the notice of seizure required by Louisiana Code of Civil Procedure Articles 2293 and 2721; (d) the three days delay provided by Louisiana Code of Civil Procedure Articles 2331 and 2722; and (e) the benefit of the other provisions of Louisiana Code of Civil Procedure Articles 2331, 2722 and 2723, not specifically mentioned above.

(C) The Pledgor recognizes that the Lender may be unable to effect a public sale of all or part of the Collateral by reason of certain prohibitions contained in the Securities

Act of 1933, as amended, and applicable state securities laws but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire all or a part of the Collateral for their own account, for investment, and not with a view to the distribution or resale thereof. If the Lender deems it advisable to do so for the foregoing or for other reasons, the Lender is authorized to limit the prospective bidders on or purchasers of any of the Collateral to such a restricted group of purchasers and may cause to be placed on certificates for any or all of the Collateral a legend to the effect that such security has not been registered under the Securities Act of 1933, as amended, and may not be disposed of in violation of the provision of said act, and to impose such other limitations or conditions in connection with any such sale as the Lender deems necessary or advisable in order to comply with said act or any other securities or other laws. The Pledgor acknowledges and agrees that any private sale so made may be at prices and on other terms less favorable to the seller than if such Collateral were sold at public sale and that the Lender has no obligation to delay the sale of such Collateral for the period of time necessary to permit the registration of such Collateral for public sale under any securities laws. The Pledgor agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. If any consent, approval, or authorization of any federal, state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Collateral, or any partial sale or other disposition of the Collateral, the Pledgor will execute all applications and other instruments as may be required in connection with securing any such consent, approval or authorization and will otherwise use its best efforts to secure same. In addition, if the Collateral is disposed of pursuant to Rule 144, the Pledgor agrees to complete and execute a Form 144, or comparable successor form, at the Lender's request; and the Pledgor agrees to provide any material adverse information in regard to the current and prospective operations of any corporation whose stock constitutes all or a portion of the Collateral of which the Pledgor has knowledge and which has not been publicly disclosed, and the Pledgor hereby acknowledges that the Pledgor's failure to provide such information may result in criminal and/or civil liability.

Section 8. Limitation on Duty of Lender. Beyond the exercise of reasonable care in the custody thereof, the Lender shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon. The Lender shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any broker or other agent or bailee selected by the Lender in good faith. The Lender shall be deemed to have exercised reasonable care with respect to any of the Collateral in its possession if the Lender takes such action for that purpose as the Pledgor shall reasonably request in writing; but no failure to comply with any such request shall, of itself, be deemed a failure to exercise reasonable care.

Section 9. Appointment of Agent. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Lender may appoint a bank or trust company or one or more other Persons with such power and authority as may be necessary for the

effectual operation of the provisions hereof and may be specified in the instrument of appointment.

Section 10. Expenses. In the event that the Borrower fails to comply with any provisions of the Loan Agreement or the Pledgor fails to comply with any provisions of this Agreement, such that the value of any Collateral or the validity, perfection, rank or value of any security interest hereunder is thereby diminished or potentially diminished or put at risk, the Lender may, but shall not be required to, effect such compliance on behalf of the Borrower and/or the Pledgor, and the Pledgor shall reimburse the Lender for the costs thereof on demand. All insurance expenses and all expenses of protecting, storing, appraising, preparing for sale, handling, maintaining and shipping the Collateral, any and all excise, property, sales, and use taxes imposed by any federal, state or local authority on any of the Collateral, all expenses in respect of periodic appraisals and inspections of the Collateral to the extent the same may be requested from time to time, and all expenses in respect of the sale or other disposition thereof shall be borne and paid by the Pledgor; and if the Pledgor fails to promptly pay any portion thereof when due, the Lender may, at its option, but shall not be required to, pay the same and charge the Pledgor's account therefor, and the Pledgor agrees to reimburse the Lender therefor on demand. All sums so paid or incurred by the Lender for any of the foregoing and any and all other sums for which the Pledgor may become liable hereunder and all costs and expenses (including reasonable attorneys' fees, legal expenses and court costs) incurred by the Lender in enforcing or protecting any of the rights or remedies under this Agreement, together with interest thereon until paid at the Default Rate, shall be additional Indebtedness under the Loan Agreement and the Pledgor agrees to pay all of the foregoing sums promptly on demand.

Section 11. Termination. Upon the payment in full of the Indebtedness and the termination of the Loan Agreement, this Agreement shall terminate. Upon request of the Pledgor, the Lender shall deliver the remaining Collateral (if any) to the Pledgor.

Section 12. Notices. Any notice or demand which, by provision of this Agreement, is required or permitted to be given or served to the Pledgor and the Lender shall be deemed to have been sufficiently given and served for all purposes if made in accordance with the Loan Agreement. For purposes of this Section 12, any notice or demand to be given or served to the Pledgor shall be sent to the following address (until another address or addresses is given in writing by the Pledgor to the other parties):

If to Pledgor: Natural Gas Systems, Inc.
Two Memorial City Plaza
820 Gessner, Suite 1340
Houston, Texas 77024

Attention: Robert S. Herlin, President

Facsimile Number: (713) 935-0199
Telephone Number: (713) 935-0122

Section 13. Amendment. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally or in any manner other than by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

Section 14. Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any of its rights, powers or privileges under this Agreement shall operate as a waiver thereof.

Section 15. Cumulative Rights. The rights and remedies of the Lender under this Agreement shall be cumulative and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

Section 16. Titles of Sections. All titles or headings to sections of this Agreement are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such sections, such other content being controlling as to the agreement between the parties hereto.

Section 17. GOVERNING LAW. THIS AGREEMENT IS A CONTRACT MADE UNDER AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA AND THE STATE OF LOUISIANA.

Section 18. Successors and Assigns. All covenants and agreements contained by or on behalf of the Pledgor in this Agreement shall bind the Pledgor's successors and assigns and shall inure to the benefit of the Lender and its successors and assigns. This Agreement is for the benefit of the Lender and for such other Person or Persons as may from time to time become or be the holders of any of the Indebtedness, and this Agreement shall be transferable with the same force and effect and to the same extent as the Indebtedness may be transferable, it being understood that, upon the transfer or assignment by the Lender of any of the Indebtedness, the legal holder of such Indebtedness shall have all of the rights granted to the Lender under this Agreement. The Pledgor specifically agrees that upon any transfer of all or any portion of the Indebtedness, the Lender may transfer and deliver the Collateral to the transferee of such Indebtedness and the Collateral shall secure any and all of the Indebtedness in favor of such a transferee, that such transfer of the Collateral shall not affect the priority and ranking thereof, and that the Collateral shall secure with retroactive rank the then existing Indebtedness of the Borrower to the transferee and any and all Indebtedness thereafter arising. After any such transfer has taken place, the Lender shall be fully discharged from any and all future liability and responsibility to the Pledgor with respect to the Collateral and the transferee thereafter shall be vested with all the powers, rights and duties with respect to the Collateral.

Section 19. Counterparts. This Agreement may be executed in two or more counterparts, and it shall not be necessary that the signatures of all parties hereto be contained on any one counterpart hereof, each counterpart shall be deemed an original, but all of which when taken together shall constitute one and the same instrument.

[Remainder of Page Intentionally Blank; Signature Page Follows]

N WITNESS WHEREOF, the Pledgor and the Lender have caused this Agreement to be duly executed as of the date first above written.

PLEDGOR: NATURAL GAS SYSTEMS, INC.,
a Delaware corporation

BY:_____
Name:
Title:

LENDER: PROSPECT ENERGY CORPORATION,
a Maryland corporation

BY:_____
Name:
Title:

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (this "Agreement") is made and entered into effective as of the 2nd day of February, 2005, by NATURAL GAS SYSTEMS, INC. a Delaware corporation, NGS SUB. CORP., a Delaware corporation ("NGS Sub."), ARKLA PETROLEUM, L.L.C., a Louisiana limited liability company, and FOUR STAR DEVELOPMENT CORPORATION, a Louisiana corporation (collectively the "Guarantors", and each a "Guarantor"), in favor of PROSPECT ENERGY CORPORATION, a Maryland corporation (the "Lender"), guaranteeing the Secured Liabilities (as hereinafter defined) of NATURAL GAS SYSTEMS, INC., a Nevada corporation (the "Borrower").

W I T N E S S E T H:

FOR VALUE RECEIVED, and in consideration of and for credit and financial accommodations extended, to be extended, or continued to or for the account of the above named Borrower, the undersigned Guarantors, whether one or more, hereby jointly and severally, and solidarily, agree as follows:

SECTION 1. Guaranty of Borrower's Secured Liabilities. (a) Each Guarantor does hereby absolutely and unconditionally guarantee for the benefit of the Lender the prompt and punctual payment of all of the following items of indebtedness (collectively the "Secured Liabilities") (capitalized terms used below in the description of the Secured Liabilities have the meanings set forth in the definitions in paragraph (b) below):

(i) All obligations of the Borrower now or hereafter existing under the Loan Agreement and other Loan Documents to the Lender, including all future advances and other future indebtedness under the Loan Agreement, all whether obligatory or discretionary, and including any extensions or renewals of all such indebtedness under the Loan Documents, whether or not the Borrower executes any extension agreement or renewal instrument, including without limitation: (1) all obligations, liabilities and indebtedness now or hereafter arising of the Borrower to the Lender in respect of the principal of and interest on the Note and the Loan (including interest which, but for the filing of a petition in bankruptcy with respect to Borrower, would have accrued on any Secured Liabilities, whether or not a claim is allowed against Borrower for such interest in the related bankruptcy proceeding), and (2) the obligations of the Borrower in respect of fees and all other amounts payable by the Borrower to the Lender under any Loan Documents;

(ii) Any sums advanced or expenses or costs incurred by the Lender which are made or incurred pursuant to, or permitted by, the Collateral Documents and the Loan Agreement, plus interest thereon at the rate herein specified or otherwise agreed upon, from the date of the advances or the incurring of such expenses or costs until reimbursed;

(iii) Any promissory notes evidencing increases to the Loan under the Loan Agreement which the Lender may from time to time make to the Borrower, the Lender not being obligated, however, to make such increased loans; and

(iv) Any liabilities of the Borrower or of any subsidiary of the Borrower to the Lender under (x) transactions in futures, forwards, swaps or option contracts (including both physical and financial settlement transactions) engaged in by the Borrower or any subsidiary as a hedge against adverse changes in the prices of natural gas or oil (including without limitation commodity price hedges, swaps, caps, floors, collars and similar agreements designed to protect the Borrower or any subsidiary against fluctuations in commodity prices), or (y) forward contracts, futures contracts, swaps, option contracts or other financial agreements or arrangements relating to, or the value of which is dependent upon, interest rates or currency exchange rates (including without limitation caps, floors, collars, puts and similar agreements designed to protect the Borrower or any subsidiary against fluctuations in interest rates or currency exchange rates) in each case engaged in by the Borrower or any subsidiary as a risk-management strategy.

(b) For all purposes of this Agreement, the following terms shall have the meanings indicated:

1. "Loan" has the meaning set forth in the Loan Agreement.

2. "Loan Agreement" shall mean that certain Loan Agreement dated as of February 2, 2005, between the Borrower and the Lender, as such agreement may hereafter be amended, renewed, extended, increased or replaced.

3. "Loan Documents" shall mean the Loan Agreement, the Note, the Mortgage and any other Collateral Documents (as defined in the Loan Agreement), and any other instrument or document executed in connection herewith or therewith, as any of said documents may from time to time be amended, supplemented, renewed or restated.

4. "Mortgage" shall mean collectively each and every mortgage or deed of trust granted by the Borrower or by any subsidiary in favor of the Lender pursuant to the Loan Agreement.

5. "Note" shall mean the Note in the original principal amount of $4,800,000.00 issued by the Borrower under the Loan Agreement payable to the order of the Lender, and shall also include any and all extensions, modifications or renewals from time to time of said Promissory Note.

(c) Anything in this Guaranty Agreement to the contrary notwithstanding, if any Fraudulent Transfer Law (as hereinafter defined) is determined by a court of competent jurisdiction to be applicable to the obligations of any Guarantor under this Guaranty Agreement, such obligations of such Guarantor hereunder shall be limited to a maximum aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of Title XI of the United States Code or any applicable provisions of comparable state law (collectively, the "Fraudulent Transfer Laws"),

in each case after giving effect to all other liabilities of such Guarantor, contingent or otherwise, that are relevant under the Fraudulent Transfer Laws.

SECTION 2. Joint and Several, and Solidary Liability. Each Guarantor further agrees that its obligations and liabilities for the prompt and punctual payment, performance and satisfaction or purchase of all of Borrower's Secured Liabilities shall be on a "joint and several" and "solidary" basis with Borrower and the other Guarantors, to the same degree and extent as if Guarantor had been and/or will be a co-borrower, co-principal obligor and/or co-maker of all of Borrower's Secured Liabilities, subject to Subsection 1(c). In the event that there is more than one guarantor under this Agreement, or in the event that there are other guarantors, endorsers, or sureties of all or any portion of Borrower's Secured Liabilities, each Guarantor's obligations and liabilities hereunder shall be on a "joint and several" and "solidary" basis along with such other guarantor or guarantors, endorsers and/or sureties, subject to Subsection 1(c). Additionally, subject to Subsection 1(c), each Guarantor, in furtherance of the foregoing and not in limitation of any other right which the Lender may have against any Guarantor by virtue hereof, hereby guarantees jointly and severally, and solidarily, absolutely and unconditionally, the payment of any and all Secured Liabilities to the Lender whether or not due or payable by the Borrower upon the occurrence in respect of the Borrower of any of the events specified in Subsections (g) or (h) of Section 8.1 of the Loan Agreement (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. 362(a)).

SECTION 3. Duration. This Agreement and each Guarantor's obligations and liabilities hereunder shall remain in full force and effect until such time as all of Borrower's Secured Liabilities shall be paid, performed and/or satisfied in full, in principal, interest, costs and attorney's fees.

SECTION 4. Default by Borrower. Should an Event of Default (as defined in the Loan Agreement) occur, each Guarantor unconditionally and absolutely agrees to pay the full then unpaid amount of all of Borrower's Secured Liabilities guaranteed hereunder. Such payment or payments shall be made immediately following demand by Lender. Each Guarantor hereby waives notice of acceptance of this Agreement and of any Secured Liabilities to which it applies or may apply. Each Guarantor further waives presentment and demand for payment of Borrower's Secured Liabilities, notice of dishonor and of nonpayment, notice of intention to accelerate, notice of acceleration, protest and notice of protest, collection or institution of any suit or other action by Lender in collection thereof, including any notice of default in payment thereof or other notice to, or demand for payment thereof on any party. Each Guarantor additionally waives any and all rights and pleas of division and discussion as provided under Louisiana law, as well as, to the degree applicable, any similar rights as may be provided under the laws of any other state.

SECTION 5. Guarantor's Subordination of Rights. In the event that any Guarantor should for any reason (A) advance or lend monies to Borrower, whether or not such funds are used by Borrower to make payment(s) under Borrower's Secured Liabilities, and/or (B) make

any payment(s) to Lender for and on behalf of Borrower under Borrower's Secured Liabilities, and/or (C) make any payment to Lender in total or partial satisfaction of Guarantor's obligations and liabilities under this Agreement, such Guarantor hereby agrees that any and all rights that such Guarantor may have or acquire to collect from or to be reimbursed by Borrower (or from or by any other guarantor, endorser or surety of Borrower's Secured Liabilities), whether Guarantor's rights of collection or reimbursement arise by way of subrogation to the rights of Lender or otherwise, shall in all respects, whether or not Borrower is presently or subsequently becomes insolvent, be subordinate, inferior and junior to the rights of Lender to collect and enforce payment, performance and satisfaction of Borrower's then remaining Secured Liabilities, until such time as Borrower's Secured Liabilities are fully paid and satisfied. So long as no Event of Default as defined in the Loan Agreement exists, a Guarantor may be repaid by Borrower as to any subordinated debt (if any) expressly permitted by the Loan Agreement. In the event of Borrower's insolvency or consequent liquidation of Borrower's assets, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of claims of both Lender and Guarantors shall be paid to Lender and shall be first applied by Lender to Borrower's then remaining Secured Liabilities. Each Guarantor hereby assigns to Lender all claims which it may have or acquire against Lender for full payment of Borrower's Secured Liabilities guaranteed under this Agreement. If Guarantor is, or at any time may be, an "insider" of Borrower (or of any other guarantor, surety or endorser of Borrower's Secured Liabilities) within the context of Section 101(30) of the Bankruptcy Code (11 U.S.C. 101(30)), Guarantor shall have no rights of, and unconditionally agrees not to seek or obtain, collection or reimbursement from Borrower (or from any other guarantor, surety or endorser of Borrower's Secured Liabilities), whether by subrogation of Lender's rights or otherwise until the thirteenth (13th) month anniversary date following the full and final payment and satisfaction of Borrower's Secured Liabilities.

SECTION 6. Covenants Relating to the Secured Liabilities. Each Guarantor further agrees that Lender may, at its sole option, at any time, and from time to time, without the consent of or notice to Guarantors, or any one of them, or to any other party, and without incurring any responsibility to Guarantors or to any other party, and without impairing or releasing the obligations of Guarantors under this Agreement:

A. Discharge or release any party (including, but not limited to, Borrower, any Guarantor or any other co-guarantor) who is or may be liable to Lender for any of Borrower's Secured Liabilities;

B. Sell, exchange, release, surrender, realize upon or otherwise deal with, in any manner and in any order, any collateral directly or indirectly securing repayment of any of Borrower's Secured Liabilities or the Guaranty Agreement;

C. Change the manner, place or terms of payment, or change or extend the time of payment of or renew or restate, as often and for such periods as Lender may determine, or alter or increase, any of Borrower's Secured

Liabilities, including without limitation increases in the available principal amount of the Borrower's Loan or in the interest rate under the Note;

D. Settle or compromise any of Borrower's Secured Liabilities;

E. Subordinate and/or agree to subordinate the payment of all or any part of Borrower's Secured Liabilities or Lender's security rights in and/or to any collateral directly or indirectly securing any such Secured Liabilities, to the payment and/or security rights of any other present and/or future creditors of Borrower;

F. Apply any sums paid to any of Borrower's Secured Liabilities, with such payments being applied in such priority or with such preferences as Lender may determine in its sole discretion, regardless of what Secured Liabilities of Borrower remains unpaid;

G. Take or accept any other security or guaranty for any or all of Borrower's Secured Liabilities;

H. Make additional secured and/or unsecured loans to Borrower and/or any other Guarantor; and/or

I. Enter into, deliver, modify, amend or waive compliance with, any instrument or arrangement evidencing, securing or otherwise affecting, all or any part of Borrower's Secured Liabilities.

In addition, no course of dealing between Lender and Borrower (or any other guarantor, surety or endorser of Borrower's Secured Liabilities), nor any failure or delay on the part of the Lender to exercise any of Lender's rights and remedies, or any other agreement or agreements by and between the Lender and Borrower (or any other guarantor, surety or endorser) shall have the affect of impairing or releasing Guarantors' obligations and liabilities to Lender or of waiving any of Lender's rights and remedies. Any partial exercise of any rights and remedies granted to Lender shall furthermore not constitute a waiver of any of Lender's other rights and remedies, it being Guarantors' intent and agreement that Lender's rights and remedies shall be cumulative in nature. Each Guarantor further agrees that, should Borrower default under any of Borrower's Secured Liabilities, any waiver or forbearance on the part of Lender to pursue the rights and remedies available to Lender's shall be binding upon the Lender only to the extent that Lender specifically agrees to such waiver or forbearance in writing. A waiver or forbearance on the part of Lender as to one event of default shall not constitute a waiver or forbearance as to any other default.

SECTION 7. No Release of Guarantor. Each Guarantor's obligations and liabilities under this Agreement shall not be released, impaired, reduced or otherwise affected by, and shall continue in full force and effect, notwithstanding the occurrence of any event, including without limitation any one or more of the following events:

A. Death, insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or lack of authority (whether corporate, partnership or trust) of Borrower (or any person acting on Borrower's behalf), any other Guarantor, or any other guarantor, surety or endorser of any of Borrower's Secured Liabilities;

B. Partial payment or payments of any amount due and/or outstanding under any of Borrower's Secured Liabilities (except to the extent that any payments by Guarantors under this Agreement or by Borrower reduce the Secured Liabilities);

C. Any payment by Borrower or any other party to Lender is held to constitute a preferential transfer or a fraudulent conveyance under any applicable law, or for any reason, any Lender is required to refund such payment or pay such amount to Borrower or to any other person;

D. Any dissolution of Borrower or any sale, lease or transfer of all or any part of Borrower's assets;

E. Any failure of Lender to notify Guarantors of the acceptance of this Agreement or of the making of loans or other extensions of credit in reliance on this Agreement or of the failure of Borrower to make any payment due by Borrower to Lender;

F. Any "one action" or "anti-deficiency" law or any other law which may prevent Lender from bringing any action, including a claim for deficiency, against Guarantor, before or after Lender's commencement or completion of any foreclosure action, or any action in lieu of foreclosure; and/or

G. Any election of remedies by Lender that may destroy or impair Guarantor's subrogation rights or Guarantor's right to proceed for reimbursement against Borrower or any other Guarantor or any other guarantor, surety or endorser of any of Borrower's Secured Liabilities, including without limitation any loss of rights Guarantor may suffer by reason of any law limiting, qualifying or discharging Borrower's Secured Liabilities.

This Agreement and Guarantors' obligations and liabilities hereunder shall continue to be effective, and/or shall automatically and retroactively be reinstated if a release or discharge has occurred, as the case may be, if at any time any payment or part thereof to Lender with respect to any of Borrower's Secured Liabilities is rescinded or must otherwise be restored by Lender pursuant to any insolvency, bankruptcy, reorganization, receivership, or any other debt relief granted to Borrower or to any other party. In the event that Lender must rescind or restore any payment received by Lender in satisfaction of Borrower's Secured Liabilities, any prior release or discharge from the terms of this Agreement given to any Guarantor shall be without

effect, and this Agreement and Guarantors' obligations and liabilities hereunder shall automatically be renewed or reinstated and shall remain in full force and effect to the same degree and extent as if such a release or discharge was never granted. It is the intention of Lender and Guarantors that Guarantors' obligations and liabilities hereunder shall not be discharged except by Guarantors' full and complete performance of such obligations and liabilities and then only to the extent of such performance.

SECTION 8. Representations and Warranties. Each Guarantor hereby represents and warrants that:

(a) The representations and warranties made in writing by the Borrower with respect to such Guarantor in the Loan Agreement are true and correct.

(b) Such Guarantor is duly organized, validly existing and in good standing under the laws of the state of its incorporation or formation, has the power to own its property and to carry on its business as now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned by it therein or in which the transaction of its business makes such qualification necessary and the failure to so qualify would have a material adverse effect on its financial condition, business or operations.

(c) Such Guarantor has full power and authority to execute and deliver this Agreement and to incur the obligations provided for herein, all of which have been duly authorized by all proper and necessary corporate action.

(d) Borrower owns (directly or indirectly) one hundred (100%) percent of the voting and ownership equity interests of such Guarantor, and a portion of the proceeds of the Note may be advanced to Guarantor and thus the Secured Liabilities are being incurred for and will inure to the benefit of each Guarantor, which benefit is hereby acknowledged.

(e) Such Guarantor has examined or has an opportunity to examine each of the Loan Agreement and Loan Documents pertaining thereto executed and delivered prior to or on the date hereof.

(f) This Agreement constitutes the valid and binding obligations of such Guarantor, enforceable in accordance with its terms (except that enforcement may be subject to any applicable bankruptcy, insolvency or similar laws generally affecting the enforcement of creditors' rights).

(g) This Agreement will not violate any contract, agreement, law, regulation, order or judgment to which such Guarantor is subject.

(h) The execution, delivery and performance by such Guarantor of this Agreement did not and do not require the consent or approval of any other person, corporation, partnership, limited liability company or other legal entity or governmental agency or entity.

(i) All financial statements of such Guarantor delivered to Lender fairly and accurately present in all material respects the financial condition of such Guarantor and have been prepared in accordance with generally accepted accounting principles consistently applied throughout the period involved. Since the close of the period covered by the latest financial statement delivered to Lender with respect to such Guarantor, there has been no material adverse change in the assets, liabilities or financial condition of Guarantor.

(j) As to NGS Sub., this Agreement is intended by such Guarantor to be, and is, secured by such Guarantor's Mortgage, Collateral Assignment, Security Agreement, and Financing Statement in favor of Lender.

SECTION 9. Covenants. (a) Each Guarantor will at all times comply with the affirmative and negative covenants undertaken by the Borrower with respect to such Guarantor in the Loan Agreement.

(b) Each Guarantor will promptly notify Lender in writing upon becoming aware of any change or effect that individually or in the aggregate does or could reasonably be anticipated to materially adversely affect the business, prospects, profits, property or condition (financial or otherwise) of such Guarantor, including without limitation the arising of any litigation, governmental investigation or arbitration or dispute threatened against or affecting Guarantor.

SECTION 10. Enforcement of Guarantors' Obligations and Liabilities. Each Guarantor agrees that following the occurrence of an Event of Default, should Lender deem it necessary to file an appropriate collection action to enforce Guarantor's obligations and liabilities under this Agreement, Lender may commence such a civil action against Guarantor without the necessity of first (A) attempting to collect Borrower's Secured Liabilities from Borrower or from any other guarantor, surety or endorser, whether through filing of suit or otherwise, (B) attempting to exercise against any collateral directly or indirectly securing repayment of any of Borrower's Secured Liabilities, whether through the filing of an appropriate foreclosure action or otherwise, or (C) including Borrower, any Guarantor or any other guarantor, surety or endorser of any of Borrower's Secured Liabilities as an additional party defendant in such a collection action against Guarantor. If there is more than one guarantor under this Agreement, the Guarantor additionally agrees that Lender may file an appropriate collection and/or enforcement action against any one or more of them, without impairing the rights of Lender against any other guarantor under this Agreement. In the event that Lender should ever deem it necessary during the continuance of a Default (as defined in and occurring under the Loan Agreement) to refer this Agreement to attorneys-at-law for the purpose of enforcing Guarantor's obligations and liabilities hereunder, or of protecting or preserving Lender's rights hereunder, each Guarantor agrees to reimburse the Lender for its reasonable attorneys' fees and disbursements. Guarantors additionally agree that Lender shall not be liable for failure to use diligence in the collection of any of Borrower's Secured Liabilities or any collateral security therefor, or in creating or preserving the liability of any person liable on any such Secured Liabilities, or in creating, perfecting or preserving any security for any such Secured Liabilities.

SECTION 11. Additional Documents. Upon the reasonable request of Lender, each Guarantor will, at any time, and from time to time, duly execute and deliver to Lender any and all such further instruments and documents, and supply such additional information, as may be necessary or advisable in the opinion of Lender, to further evidence or perfect this Agreement.

SECTION 12. Transfer of Secured Liabilities. This Agreement is for the benefit of Lender and for such other person or persons as may from time to time become or be the holders of any of Borrower's Secured Liabilities hereby guaranteed and this Agreement shall be transferrable and negotiable, with the same force and effect and to the same extent as Borrower's Secured Liabilities may be transferrable, it being understood that, upon the transfer or assignment by Lender of any of Borrower's Secured Liabilities hereby guaranteed, the legal holder of such Secured Liabilities shall have all of the rights granted to Lender under this Agreement.

Each Guarantor hereby recognizes and agrees that Lender may, from time to time, one or more times, transfer any portion of Borrower's Secured Liabilities to one or more third parties in accordance with the terms of the Loan Agreement. Such transfers may include, but are not limited to, sales of a participation interest in such Secured Liabilities in favor of one or more third party lenders in accordance with any applicable terms in the Loan Agreement. Each Guarantor specifically agrees and consents to all such transfers and assignments and Guarantor further waives any subsequent notice of and right to consent to any such transfers and assignments as may be provided under applicable Louisiana (or other) law. Each Guarantor additionally agrees that the purchaser of a participation interest in Borrower's Secured Liabilities will be considered as the absolute owner of a percentage interest of such Secured Liabilities and that such a purchaser will have all of the rights granted to the purchaser under any participation agreement governing the sale of such a participation interest, provided that such participation agreement cannot increase or alter the obligations of Guarantor (other than as to the number or identity of Guarantor's obligees).

SECTION 13. Right of Offset. As collateral security for the repayment of Guarantor's obligations and liabilities under this Agreement, and for the Borrower's Secured Liabilities, each Guarantor hereby grants Lender, as well as its successors and assigns, a continuing security interest in, and the right to apply at any time and from time to time during the continuance of an Event of Default under the Loan Agreement, any and all funds that such Guarantor may then have on deposit with or in the possession or control of Lender and its successors or assigns or in Certificates of Deposit or other deposit accounts as to which Guarantor is account holder (with the exception of funds deposited in IRA, pension or other tax-deferred deposit accounts), towards repayment of any of Borrower's Secured Liabilities subject to this Agreement. Each Guarantor agrees that any holder of a participation in either Note may exercise any and all rights of counter-claim, set-off, banker's lien and other liens with respect to any and all monies owing by such Guarantor to such holder as fully as if such holder of a participation were a holder of a note in the amount of such participation.

SECTION 14. Marshaling. The Guarantors shall not at any time hereafter assert any right under any law pertaining to marshaling (whether of assets or liens) and the Guarantors expressly agree that the Lender may execute or foreclose upon the Collateral Documents in such order and manner as the Lender, in its sole discretion, deems appropriate.

SECTION 15. Amendment. No amendment, modification, consent or waiver of any provision of this Agreement, and no consent to any departure by Guarantors therefrom, shall be effective unless the same shall be in writing signed by a duly authorized officer of Lender, and then shall be effective only to the specific instance and for the specific purpose for which given.

SECTION 16. Successors and Assigns Bound. Each Guarantor's obligations and liabilities under this Agreement shall be binding upon such Guarantor's successors, heirs, legatees, devisees, administrators, executors and assigns. The rights and remedies granted to Lender under this Agreement shall also inure to the benefit of Lender's successors and assigns, as well as to any and all subsequent holder or holders of any of Borrower's Secured Liabilities subject to this Agreement.

SECTION 17. Caption Headings. Caption headings of the sections of this Agreement are for convenience purposes only and are not to be used to interpret or to define their provisions. In this Agreement, whenever the context so requires, the singular includes the plural and the plural also includes the singular.

SECTION 18. **GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE SUBSTANTIVE LAWS OF THE STATE OF LOUISIANA.**

SECTION 19. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term hereof, such provision shall be fully severable, this Agreement shall be construed and enforceable as if the illegal, invalid or unenforceable provision had never comprised a part of it, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

SECTION 20. **CONSENT TO JURISDICTION. EACH GUARANTOR HEREBY IRREVOCABLY CONSENTS TO THE JURISDICTION OF THE STATE COURTS OF LOUISIANA AND THE FEDERAL COURTS IN LOUISIANA, AND AGREES THAT ANY ACTION OR PROCEEDING ARISING OUT OF OR BROUGHT TO ENFORCE THE PROVISIONS OF THIS AGREEMENT MAY BE BROUGHT IN ANY COURT HAVING SUBJECT MATTER JURISDICTION.**

SECTION 21. Waiver of Jury Trial. Each Guarantor hereby waives trial by jury in any action or proceeding to which Guarantor and Lender may be parties arising out of or in any way pertaining to this Agreement. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Agreement. This waiver is knowingly, willingly and

voluntarily made by Guarantor, and Guarantor hereby represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. Each Guarantor further represents that it has been represented in the signing of this Agreement and in the making of this waiver by independent legal counsel, selected by its own free will, and that it had the opportunity to discuss this waiver with counsel.

SECTION 22. Notices. Any notice or demand under this Agreement shall be given in accordance with the notice provision in the Loan Agreement.

SECTION 23. Additional Guarantors. The initial Guarantors hereunder shall be such of the domestic Subsidiaries of Borrower as are signatories hereto on the date hereof. From time to time subsequent to the date hereof, additional domestic Subsidiaries of Borrower may become parties hereto, as additional Guarantors (each an "Additional Guarantor"), by executing either a counterpart of this Agreement or a supplement hereto. Upon delivery of any such joinder document to Lender, notice of which is hereby waived by Guarantors, each such Additional Guarantor shall be a Guarantor and shall be as fully a party hereto as if such Additional Guarantor were an original signatory hereof. Each Guarantor expressly agrees that its obligations arising hereunder shall not be affected or diminished by the addition or release of any other Guarantor hereunder, nor by any election of Lender not to cause any Subsidiary of Guarantor to become an Additional Guarantor hereunder. This Agreement shall be fully effective as to any Guarantor that is or becomes a party hereto regardless of whether any other Person becomes or fails to become or ceases to be a Guarantor hereunder.

[Remainder of Page Intentionally Blank; Signature Page Follows]

IN WITNESS WHEREOF, each Guarantor has executed this Agreement in favor of the Lender on the day, month and year first written above.

NATURAL GAS SYSTEMS, INC., a Delaware corporation
NGS SUB. CORP., a Delaware corporation
ARKLA PETROLEUM, L.L.C., a Louisiana limited liability company
FOUR STAR DEVELOPMENT CORPORATION, a Louisiana corporation

By:_____
Name:
Titles: President of corporations
Manager of LLC

ACCEPTED:

PROSPECT ENERGY CORPORATION

By:_____
Name:
Title:

February 2, 2005

STATE OF _____)
)
) SS:
)
COUNTY/PARISH OF _____)

BEFORE ME, the undersigned Notary Public duly commissioned qualified and sworn within and for the State and County or Parish written above, personally came and appeared _____, to me personally known, and who being by me duly sworn, did say that he is the authorized President, respectively, of Natural Gas Systems, Inc., a Delaware corporation, NGS Sub. Corp., a Delaware corporation, and Four Star Development Corporation, a Louisiana corporation, and the authorized _____ of Arkla Petroleum, L.L.C., a Louisiana limited liability company, respectively, whose name is subscribed to the foregoing Guaranty Agreement and that he executed the foregoing Guaranty Agreement by authority of each said corporation's Board of Directors, respectively, and by authority of said limited liability company's _____, on behalf of each said corporation and limited liability company as its respective free act and deed.

THUS DONE AND SIGNED before me and the two undersigned witnesses in the County or Parish and State aforesaid, on this ____day of February, 2005. Witness my hand and official seal.

WITNESSES:

_____
Name:

_____
Name:

_____
Name:

_____
NOTARY PUBLIC

Seal

My Commission expires:_____

WARRANT AGREEMENT

NATURAL GAS SYSTEMS, INC.

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into as of February, ___, 2005, between Natural Gas Systems, Inc.**,** a Nevada corporation (the "Company"), and Prospect Energy Corporation, a Maryland Corporation ("Holder"). Terms not defined herein shall have the meaning defined in the Loan Agreement (defined below).

R E C I T A L S

WHEREAS, the Company proposes to issue to Holder a maximum of SEVEN HUNDRED TWENTY THOUSAND (720,000) warrants (the "Warrants"), each such Warrant entitling the holder thereof to purchase one share of common stock, .001 par value, of the Company (the "Shares" or the "Common Stock"). Initially, the Holder shall be granted 450,000 Warrants. The Company shall deliver additional Warrants under this Agreement in the amount of One (i) Warrant for every Six and two thirds ($6.666667) dollars of additional drawdowns on the Loan in excess of the initial $3,000,000 Advance on the date of each such additional drawdown (so if the full additional $1,800,000 is drawn, then warrants for 270,000 shares);

WHEREAS, the Warrants which are the subject of this Agreement will be issued by the Company to Holder as additional consideration related to a Secured Loan Agreement, attached hereto as **Exhibit B**, made by the Company to the Holder (the "Loan Agreement");

WHEREAS, the Shares issuable upon the exercise of the Warrants herein shall be subject to the Registration Rights Agreement (defined below), attached hereto as **Exhibit C**, between the Company and the Holder; and

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

A G R E E M E N T

1. Warrant Certificates. The warrant certificates to be delivered pursuant to this Agreement (the "Warrant Certificates") shall be in the form set forth in Exhibit A, attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Warrant Agreement.

2. Right to Exercise Warrants. Each Warrant may be exercised, in whole or in part, from the date of this Agreement until 11:59 P.M. (Eastern Standard Time) on the date that is five (5) years after the date of this Agreement (the "Expiration Date"). Each Warrant not exercised on or before the Expiration Date shall expire.

Each Warrant shall entitle its holder to purchase from the Company one share of Common Stock (each an "Exercise Share") at an exercise price of Seventy Five Cents ($0.75) per share, subject to adjustment as set forth below ("Exercise Price").

The Company shall not be required to issue fractional shares of Common Stock upon the exercise of this Warrant or to deliver Warrant Certificates which evidence fractional shares of capital stock. In the event that a fraction of an Exercise Share would, except for the provisions of this paragraph 2, be issuable upon the exercise of this Warrant, the Company shall pay to the Holder exercising the Warrant an amount in cash equal to such fraction multiplied by the current market value of the Exercise Share. For purposes of this paragraph 2, the current market value shall be determined as follows:

(a) if the Shares are traded in the over-the-counter market and not on any national securities exchange and not in the NASDAQ Reporting System, the average of the mean between the last bid and asked prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, for the last business day prior to the date on which the Warrant is exercised, or, if not so reported, the average of the closing bid and asked prices for a Share as furnished to the Company by any member of the National Association of Securities Dealers, Inc., selected by the Company and Holder for that purpose.

(b) if the Shares are listed or traded on a national securities exchange or in the NASDAQ Reporting System, the closing price on the principal national securities exchange on which they are so listed or traded or in the NASDAQ Reporting System, as the case may be, on the last business day prior to the date of the exercise of the Warrant. The closing price referred to in this Clause (b) shall be the last reported sales price or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices on such day, in either case on the national securities exchange on which the Shares are then listed or in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined by the Holder and the Board of Directors of the Company.

3. Mutilated or Missing Warrant Certificates. In case any of the Warrant Certificates shall be mutilated, lost, stolen or destroyed prior to the Expiration Date, the Company shall issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and in substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent right or interest.

4. Reservation of Shares. The Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Shares or its authorized and issued Shares held in its treasury for the purpose of enabling it to satisfy its obligation to issue Exercise Shares upon exercise of Warrants, the full number of Exercise Shares deliverable upon the exercise of all outstanding Warrants.

The Company covenants that all Exercise Shares which may be issued upon exercise of Warrants will be validly issued, fully paid and non-assessable outstanding Shares of the Company.

5. Rights of Holder. The Holder shall not, by virtue of anything contained in this Warrant Agreement or otherwise, prior to exercise of this Warrant, be entitled to any right whatsoever, either in law or equity, of a stockholder of the Company, including without limitation, the right to receive dividends or to vote or to consent or to receive notice as a stockholder in respect of the meetings of stockholders or the election of directors of the Company of any other matter.

6. Investment Intent; Accredited Investor. Holder represents and warrants to the Company that Holder is acquiring the Warrants for investment purposes and with no present intention of distributing or reselling any of the Warrants. Holder represents that it is an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the “Act”).

7. Certificates to Bear Legend. The Warrants and the certificate or certificates therefore shall bear the following legend by which each holder shall be bound:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANS-FERRED WITHOUT AN EFFECTIVE REGIS-TRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASON-ABLY SATISFACTORY TO THE COR-PORATION AND ITS COUN-SEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

The Exercise Shares and the certificate or certificates evidencing any such Exercise Shares shall bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE."

Certificates for Warrants or Exercise Shares, as the case may be, without such legend shall be issued if such Warrants or Exercise Shares are sold pursuant to an effective registration statement under the Act or if the Company has received an opinion from counsel reasonably satisfactory to counsel for the Company that such legend is no longer required under the Act.

8. Adjustment of Number of Shares and Class of Capital Stock Purchasable. The number of Exercise Shares and class of capital stock purchasable under this Warrant are subject to adjustment from time to time as set forth in this Section 8.

(a) Adjustment for Change in Capital Stock. If the Company:

(i) pays a dividend or makes a distribution on its Common Stock, in each case, in shares of its Common Stock;

(ii) subdivides its outstanding shares of Common Stock into a greater number of shares;

(iii) combines its outstanding shares of Common Stock into a smaller number of shares; or

(iv) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock

then the number and classes of Exercise Shares purchasable upon exercise of each Warrant in effect immediately prior to such action shall be adjusted so that the holder of any Warrant thereafter exercised may receive the number and classes of shares of capital stock of the Company which such holder would have owned immediately following such action if such holder had exercised the Warrant immediately prior to such action.

For a dividend or distribution the adjustment shall become effective immediately after the record date for the dividend or distribution. For a subdivision, combination or reclassification, the adjustment shall become effective immediately after the effective date of the subdivision, combination or reclassification.

If after an adjustment the holder of a Warrant upon exercise of it may receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company shall in good faith determine the allocation of the adjusted Exercise Price between or among the classes of capital stock. After such allocation, that portion of the Exercise Price applicable to each share of each such class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to the Exercise Shares in this Agreement.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger, transfer of assets or any other business combination which reclassifies or changes its outstanding Common Stock, the successor corporation (or corporation controlling the successor corporation or the Company, as the case may be) shall by operation of law assume the Company's obligations under this Agreement. Upon consummation of such transaction, the Warrants shall auto-matically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Warrant would have owned immediately after the consolidation, merger, transfer or business combination if the holder had exercised the Warrant immediately before the effective date of such transaction. As a condition to the consummation of such transaction, the Company shall arrange for the person or entity obligated to issue securities or deliver cash or other assets upon exercise of the Warrant to, concurrently with the consummation of such transaction, assume the Company's obligations hereunder by executing an instrument so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 8. The provisions of this Section 8(b) shall similarly apply to successive reclassifications, reorganizations, consolidations, mergers or other business combinations.

9. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or Holder shall bind and inure to the benefit of their respective successor and assigns hereunder.

10. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all proposes be deemed to be an original, and such counterparts shall together constitute by one and the same instrument.

11. Notices. All notices or other communications under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand or mailed by certified mail, postage prepaid, return receipt requested, addressed as follows: if to the Company: Natural Gas Systems, Inc., Two Memorial City Plaza, 820 Gessner, Suite 1340. Houston, TX 77024 , Attention: Chief Executive Officer, and to the Holder: at the address of the Holder appearing on the books of the Company or the Company's transfer agent, if any.

Either the Company or the Holder may from time to time change the address to which notices to it are to be mailed hereunder by notice in accordance with the provisions of this Paragraph 11.

12. Supplements and Amendments. The Company may from time to time supplement or amend this Agreement without the approval of any Holders in order to cure any ambiguity or to be correct or supplement any provision contained herein which may be defective or inconsistent with any other provision, or to make any other provisions in regard to matters or questions herein arising hereunder which the Company may deem necessary or desirable and which shall not materially adversely affect the interest of the Holder. Except as set forth in the immediately preceding sentence, this Agreement may not be amended without the prior written consent of the Holder.

13. Severability. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

14. Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State of Nevada and for all purposes shall be governed and construed in accordance with the laws of said State.

17. Headings. Paragraphs and subparagraph headings, used herein are included herein for convenience of reference only and shall not affect the construction of this Agreement nor constitute a part of this Agreement for any other purpose.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the date and year first above written.

COMPANY
Natural Gas Systems, Inc.

By: _____
Name: Robert S. Herlin, CEO

HOLDER:
Prospect Energy Corporation

By: _____

Name: _____

Exhibit A

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANS-FERRED WITHOUT AN EFFECTIVE REGIS-TRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASON-ABLY SATISFACTORY TO THE COR-PORATION AND ITS COUN-SEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

WARRANT TO PURCHASE SHARES
OF COMMON STOCK OF
NATURAL GAS SYSTEMS, INC

Initial Number of Shares:	450,000
Exercise Price:	$0.75 per share
Date of Grant:	January ___, 2005
Expiration Date:	January ___, 2010

THIS CERTIFIES THAT, Prospect Energy Corporation, a Maryland corporation, or any person or entity to whom the inter-est in this Warrant is lawful-ly transferred (Holder) is entitled to purchase the above number (as adjust-ed pursuant to Section 4 hereof) of fully paid and non-assess-able shares of the Common Stock (the Shares) of Natural Gas Systems, Inc., a Nevada corporation (the Company), having an Exercise Price as set forth above, subject to the provi-sions and upon the terms and condi-tions set forth herein and in the Warrant Agreement dated January __, 2005 (the Warrant Agreement). The exercise price, as adjusted from time to time as provided herein, is referred to as the Exercise Price.

1. Term. The purchase right represented by this Warrant is exer-cisable, in whole or in part, at any time commencing on the Date of Grant and ending on the Expiration Date, after which time the Warrant shall be void.

2. Method of Exercise; Payment; Issuance of New Warrant. Subject to Section 1 hereof, the right to purchase Shares repre-sented by this Warrant may be exercised by Holder, in whole or in part, for the total number of Shares remaining available for exercise by the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A duly executed) at the principal office of the Company and by the payment to the Company, by check made payable to the Company drawn on a United States bank and for United States funds, or by delivery to the Company of evidence of cancellation of indebtedness of the Company to such Holder, of an amount equal to the then appli-cable Exercise Price per share multiplied by the number of Shares then being purchased or by net exercise pursuant to Section 6 hereof. In the event of any exercise of the purchase right represented by this War-rant, certificates for the Shares so purchased shall be promptly delivered to Holder and, unless this Warrant has been fully exercised or has expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exer-cised shall also be promptly delivered to Holder.

3. Exercise Price. The Exercise Price at which this Warrant may be exercised shall be the Exercise Price, as adjusted from time to time pursuant to Section 4 hereof.

4. Adjustment of Number of Shares. The number of shares and/or class of capital stock purchasable upon exercise of this Warrant are subject to adjustment as provided in Section 8 of the Warrant Agreement.

5. Transferability and Negotiability of Warrant. This Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (includ-ing, without limitation, the delivery of investment represen-tation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Com-pany). Subject to the provisi-ons of this Section 5, title to this War-rant may be transferred in the same manner as a negotiable instrument transferable by endorsement and delivery.

6. Net Exercise. In lieu of exercising this Warrant for cash, the Holder may elect to exchange this Warrant for Shares equal to the value of this Warrant by surrender of this Warrant, together with notice of such election, at the principal office of the Company, in which event the Company shall issue to the holder a number of Shares computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where:

X= the number of Shares to be issued to the holder.
Y= the number of Shares to be purchased under this Warrant.
A= value per share of one Share determined in accordance with Section 2 of the Warrant Agreement.
B= the Exercise Price (as adjusted).

7. Registration Rights. Upon exercise of this Warrant, the Holder shall have and be entitled to exercise, together with all other holders of registrable securities possessing piggy back registration rights under that certain Registration Rights Agreement, of even date herewith and attached hereto as **Exhibit C**, between the Company and the parties who have executed the counterpart signature pages thereto or are otherwise bound thereby (the Registration Rights Agreement), the rights of registration granted under the Registration Rights Agreement (with respect to the Shares of Common Stock issuable upon exercise of this Warrant). By its receipt of this Warrant, Holder agrees to be bound by the Registration Rights Agreement.

8. Miscellaneous. The Company cove-nants that it will at all times reserve and keep available, solely for the purpose of issue upon the exercise hereof, a sufficient number of Shares to permit the exer-cise hereof in full. Such Shares, when issued in compliance with the provisions of this Warrant and the Company s Certificate of Incorporation, will be duly authorized, validly issued, fully paid and non-assessable. No Holder of this Warrant, as such, shall, prior to the exercise of this Warrant, be entitled to vote or receive dividends or be deemed to be a stockholder of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon Holder, as such, any rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action, receive notice of meetings, receive dividends or subscription rights, or otherwise. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reason-ably satisfactory in form and amount to the Company or, in the case of any such mutila-tion, upon surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like date and tenor. The terms and provisions of this Warrant shall inure to the bene-fit of, and be binding upon, the Company and the Holder hereof and their respec-tive successors and as-signs. This Warrant shall be governed by and construed under the laws of the State of Nevada.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date and year first written above.

Holder:
_____
By: _____

Name: _____

Company:
Natural Gas Systems, a Nevada Corporation
By: _____

Name: _____

NOTICE OF EXERCISE

TO: NATURAL GAS SYSTEMS, INC.

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of NATURAL GAS SYSTEMS, INC. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full, together with all applicable transfer taxes, if any.

2. The undersigned hereby elects to purchase _____ shares of the Common Stock of NATURAL GAS SYSTEMS, INC. pursuant to the terms of the attached Warrant on a net exercise basis in accordance with Section 6.

3. Please issue a certificate or certificates repre-senting said shares of the Common Stock in the name of the under-signed or in such other name as is specified below:

Name:_____
Tax ID:_____

Address:_____
_____
_____
_____
_____

Signed:_____

Date:_____

REVOCABLE WARRANT AGREEMENT

NATURAL GAS SYSTEMS, INC.

THIS REVOCABLE WARRANT AGREEMENT (this "Agreement") is made and entered into as of February, ___, 2005, between Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and Prospect Energy Corporation, a Maryland Corporation ("Holder"). Terms not defined herein shall have the meaning defined in the Loan Agreement (defined below).

R E C I T A L S

WHEREAS, the Company proposes to issue to Holder a maximum of FOUR HUNDRED EIGHTY THOUSAND (480,000) revocable warrants (the "Revocable Warrants"), each such Revocable Warrant entitling the holder thereof to purchase, under certain conditions, one share of common stock, .001 par value, of the Company (the "Shares" or the "Common Stock"). Initially, the Holder shall be granted 300,000 Revocable Warrants. The Company shall deliver additional Revocable Warrants under this Agreement in the amount of One (1) Warrant for every Ten ($10.00) dollars of additional drawdowns on the Loan in excess of the initial $3,000,000.00 Advance on the date of each such additional drawdown; and

WHEREAS, the Revocable Warrants which are the subject of this Agreement will be issued by the Company to Holder as additional consideration related to a Secured Loan Agreement, attached hereto as **Exhibit B**, made by the Company to the Holder (the "Loan Agreement");

WHEREAS, the Revocable Warrants shall be subject to revocation by the Company without any further consideration if the Company meets certain financial tests specified in Section 3 below.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

A G R E E M E N T

1. Revocable Warrant Certificates. The warrant certificates to be delivered pursuant to this Agreement (the "Revocable Warrant Certificates") shall be in the form set forth in Exhibit A, attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Revocable Warrant Agreement.

2. Right to Exercise Revocable Warrants. Each Revocable Warrant may be exercised, in whole or in part, from March 15, 2006 until 11:59 P.M. (Eastern Standard Time) on the date that is five (5) years after the date of this Agreement (the "Expiration Date"). Each Revocable Warrant not exercised or revoked on or before the Expiration Date shall expire.

Other than as specified in Section 3 herein, each Revocable Warrant shall entitle its holder to purchase from the Company one share of Common Stock (each an "Exercise Share") at an exercise price of Seventy Five Cents ($0.75) per share, subject to adjustment as set forth below ("Exercise Price").

The Company shall not be required to issue fractional shares of Common Stock upon the exercise of this Revocable Warrant or to deliver Revocable Warrant Certificates which evidence fractional shares of capital stock. In the event that a fraction of an Exercise Share would, except for the provisions of this paragraph 2, be issuable upon the exercise of this Revocable Warrant, the Company shall pay to the Holder exercising the Revocable Warrant an amount in cash equal to such fraction multiplied by the current market value of the Exercise Share. For purposes of this paragraph 2, the current market value shall be determined as follows:

(a) if the Shares are traded in the over-the-counter market and not on any national securities exchange and not in the NASDAQ Reporting System, the average of the mean between the last bid and asked prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, for the last business day prior to the date on which the Revocable Warrant is exercised, or, if not so reported, the average of the closing bid and asked prices for a Share as furnished to the Company by any member of the National Association of Securities Dealers, Inc., selected by the Company and Holder for that purpose.

(b) if the Shares are listed or traded on a national securities exchange or in the NASDAQ Reporting System, the closing price on the principal national securities exchange on which they are so listed or traded or in the NASDAQ Reporting System, as the case may be, on the last business day prior to the date of the exercise of the Revocable Warrant. The closing price referred to in this Clause (b) shall be the last reported sales price or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices on such day, in either case on the national securities exchange on which the Shares are then listed or in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined by the Holder and the Board of Directors of the Company.

3. Revocation of the Revocable Warrants. Notwithstanding anything to the contrary, all Revocable Warrants granted by the Company to the Holder under this Agreement shall be subject to forfeiture, revocation and cancellation without any further or additional consideration due or owed to Holder in the event that the Company and its Subsidiaries, on a consolidated basis, prior to February 1, 2006 meets the "EBITDA Test," as defined below in this Section 3. The "EBITDA Test" shall mean that the Company and its Subsidiaries, on a consolidated basis, generates EBITDA of at least $200,000.00 per month for any three consecutive calendar months prior to March 1, 2006. Terms not defined in this Agreement with regards to this Section 3 are defined in the Loan Agreement, attached hereto as **Exhibit B**.

4. Mutilated or Missing Revocable Warrant Certificates. In case any of the Revocable Warrant Certificates shall be mutilated, lost, stolen or destroyed prior to the Expiration Date, the Company shall issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Revocable Warrant Certificate, or in lieu of and in substitution for the Revocable Warrant Certificate lost, stolen or destroyed, a new Revocable Warrant Certificate of like tenor and representing an equivalent right or interest.

5. Reservation of Shares. The Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Shares or its authorized and issued Shares held in its treasury for the purpose of enabling it to satisfy its obligation to issue Exercise Shares upon exercise of Revocable Warrants, the full number of Exercise Shares deliverable upon the exercise of all outstanding Revocable Warrants.

The Company covenants that all Exercise Shares which may be issued upon exercise of Revocable Warrants will be validly issued, fully paid and non-assessable outstanding Shares of the Company.

6. Rights of Holder. The Holder shall not, by virtue of anything contained in this Revocable Warrant Agreement or otherwise, prior to exercise of this Revocable Warrant, be entitled to any right whatsoever, either in law or equity, of a stockholder of the Company, including without limitation, the right to receive dividends or to vote or to consent or to receive notice as a stockholder in respect of the meetings of stockholders or the election of directors of the Company of any other matter.

7. Investment Intent; Accredited Investor. Holder represents and warrants to the Company that Holder is acquiring the Revocable Warrants for investment purposes and with no present intention of distributing or reselling any of the Revocable Warrants. Holder represents that it is an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Act").

8. Certificates to Bear Legend. The Revocable Warrants and the certificate or certificates therefore shall bear the following legend by which each holder shall be bound:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGIS-TRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASON-ABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

The Exercise Shares and the certificate or certificates evidencing any such Exercise Shares shall bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE."

Certificates for Revocable Warrants or Exercise Shares, as the case may be, without such legend shall be issued if such Revocable Warrants or Exercise Shares are sold pursuant to an effective registration statement under the Act or if the Company has received an opinion from counsel reasonably satisfactory to counsel for the Company that such legend is no longer required under the Act.

9. Adjustment of Number of Shares and Class of Capital Stock Purchasable. The number of Exercise Shares and class of capital stock purchasable under this Revocable Warrant are subject to adjustment from time to time as set forth in this Section 9.

(a) Adjustment for Change in Capital Stock. If the Company:

(i) pays a dividend or makes a distribution on its Common Stock, in each case, in shares of its Common Stock;

(ii) subdivides its outstanding shares of Common Stock into a greater number of shares;

(iii) combines its outstanding shares of Common Stock into a smaller number of shares; or

(iv) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock

then the number and classes of Exercise Shares purchasable upon exercise of each Revocable Warrant in effect immediately prior to such action shall be adjusted so that the holder of any Revocable Warrant thereafter exercised may receive the number and classes of shares of capital stock of the Company which such holder would have owned immediately following such action if such holder had exercised the Revocable Warrant immediately prior to such action.

For a dividend or distribution the adjustment shall become effective immediately after the record date for the dividend or distribution. For a subdivision, combination or reclassification, the adjustment shall become effective immediately after the effective date of the subdivision, combination or reclassification.

If after an adjustment the holder of a Revocable Warrant upon exercise of it may receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company shall in good faith determine the allocation of the adjusted Exercise Price between or among the classes of capital stock. After such allocation, that portion of the Exercise Price applicable to each share of each such class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to the Exercise Shares in this Agreement.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger, transfer of assets or any other business combination which reclassifies or changes its outstanding Common Stock, the successor corporation (or corporation controlling the successor corporation or the Company, as the case may be) shall by operation of law assume the Company's obligations under this Agreement. Upon consummation of such transaction, the Revocable Warrants shall auto-matically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Revocable Warrant would have owned immediately after the consolidation, merger, transfer or business combination if the holder had exercised the Revocable Warrant immediately before the effective date of such transaction. As a condition to the consummation of such transaction, the Company shall arrange for the person or entity obligated to issue securities or deliver cash or other assets upon exercise of the Revocable Warrant to, concurrently with the consummation of such transaction, assume the Company's obligations hereunder by executing an instrument so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 9. The provisions of this Section 9(b) shall similarly apply to successive reclassifications, reorganizations, consolidations, mergers or other business combinations.

10. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or Holder shall bind and inure to the benefit of their respective successor and assigns hereunder.

11. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all proposes be deemed to be an original, and such counterparts shall together constitute by one and the same instrument.

12. Notices. All notices or other communications under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand or mailed by certified mail, postage prepaid, return receipt requested, addressed as follows: if to the Company: Natural Gas Systems, Inc., Two Memorial City Plaza, 820 Gessner, Suite 1340. Houston, TX 77024 , Attention: Chief Executive Officer, and to the Holder: at the address of the Holder appearing on the books of the Company or the Company's transfer agent, if any.

Either the Company or the Holder may from time to time change the address to which notices to it are to be mailed hereunder by notice in accordance with the provisions of this Paragraph 12.

13. Supplements and Amendments. The Company may from time to time supplement or amend this Agreement without the approval of any Holders in order to cure any ambiguity or to be correct or supplement any provision contained herein which may be defective or inconsistent with any other provision, or to make any other provisions in regard to matters or questions herein arising hereunder which the Company may deem necessary or desirable and which shall not materially adversely affect the interest of the Holder. Except as set forth in the immediately preceding sentence, this Agreement may not be amended without the prior written consent of the Holder.

14. Severability. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

15. Governing Law. This Agreement shall be deemed to be a contract made under the laws of the State of Nevada and for all purposes shall be governed and construed in accordance with the laws of said State.

16. Headings. Paragraphs and subparagraph headings, used herein are included herein for convenience of reference only and shall not affect the construction of this Agreement nor constitute a part of this Agreement for any other purpose.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the date and year first above written.

COMPANY
Natural Gas Systems, Inc.

By: _____
Name: Robert S. Herlin, CEO

HOLDER:
Prospect Energy Corporation

By: _____

Name: _____

Exhibit A

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANS-FERRED WITHOUT AN EFFECTIVE REGIS-TRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASON-ABLY SATISFACTORY TO THE COR-PORATION AND ITS COUN-SEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

REVOCABLE WARRANT TO PURCHASE SHARES
OF COMMON STOCK OF NATURAL GAS SYSTEMS, INC

Initial Number of Shares: 300,000
Exercise Price: $0.75 per share
Date of Grant: January ___, 2005
Expiration Date: January ___, 2010

THIS CERTIFIES THAT, Prospect Energy Corporation, a Maryland corporation, or any person or entity to whom the inter-est in this Revocable Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjust-ed pursuant to Section 4 hereof) of fully paid and non-assessable shares of the Common Stock (the "Shares") of Natural Gas Systems, Inc., a Nevada corporation (the "Company), having an Exercise Price as set forth above, subject to the provisions and upon the terms and condi-tions set forth herein and in the Revocable Warrant Agreement dated January __, 2005 ("Revocable Warrant Agreement"). The exercise price, as adjusted from time to time as provided herein, is referred to as the "Exercise Price."

NOTWITHSTANDING ANYTING TO THE CONTRARY, THIS REVOCABLE WARRANT IS SUBJECT TO REVOCATION WITHOUT CONSIDERATION BY THE COMPANY UNDER CERTAIN CONDITIONS DEFINED IN THE REVOCABLE WARRANT AGREEMENT.

1. Term. Subject to the revocation provisions of Section 3 of the Revocable Warrant Agreement, the purchase right represented by this Revocable Warrant is exer-cisable, in whole or in part, at any time commencing on the March 15, 2006 and ending on the Expiration Date, after which time the Revocable Warrant shall be void.

2. Method of Exercise; Payment; Issuance of New Revocable Warrant. Subject to Section 1 hereof, the right to purchase Shares repre-sented by this Revocable Warrant may be exercised by Holder, in whole or in part, for the total number of Shares remaining available for exercise by the surrender of this Revocable Warrant (with the notice of exercise form attached hereto as Exhibit A duly executed) at the principal office of the Company and by the payment to the Company, by check made payable to the Company drawn on a United States bank and for United States funds, or by delivery to the Company of evidence of cancellation of indebtedness of the Company to such Holder, of an amount equal to the then appli-cable Exercise Price per share multiplied by the number of Shares then being purchased or by net exercise pursuant to Section 6 hereof. In the event of any exercise of the purchase right represented by this Revocable Warrant, certificates for the Shares so purchased shall be promptly delivered to Holder and, unless this Revocable Warrant has been fully exercised or has expired, a new Revocable Warrant representing the portion of the Shares, if any, with respect to which this Revocable Warrant shall not then have been exer-cised shall also be promptly delivered to Holder.

3. Exercise Price. The Exercise Price at which this Revocable Warrant may be exercised shall be the Exercise Price, as adjusted from time to time pursuant to Section 4 hereof.

4. Adjustment of Number of Shares. The number of shares and/or class of capital stock purchasable upon exercise of this Revocable Warrant are subject to adjustment as provided in Section 9 of the Revocable Warrant Agreement.

5. Transferability and Negotiability of Revocable Warrant. This Revocable Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (includ-ing, without limitation, the delivery of investment represen-tation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Com-pany). Subject to the provisi-ons of this Section 5, title to this Revocable Warrant may be transferred in the same manner as a negotiable instrument transferable by endorsement and delivery.

6. Net Exercise. In lieu of exercising this Revocable Warrant for cash, the Holder may elect to exchange this Revocable Warrant for Shares equal to the value of this Revocable Warrant by surrender of this Revocable Warrant, together with notice of such election, at the principal office of the Company, in which event the Company shall issue to the holder a number of Shares computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where:

X= the number of Shares to be issued to the holder.
Y= the number of Shares to be purchased under this Revocable Warrant.
A= value per share of one Share determined in accordance with Section 2 of the Revocable Warrant Agreement.
B= the Exercise Price (as adjusted).

7. Registration Rights. Upon exercise of this Revocable Warrant , the Holder shall have and be entitled to exercise, together with all other holders of registrable securities possessing “piggy back” registration rights under that certain Registration Rights Agreement, of even date herewith and attached hereto as **Exhibit C**, between the Company and the parties who have executed the counterpart signature pages thereto or are otherwise bound thereby (the “Registration Rights Agreement”), the rights of registration granted under the Registration Rights Agreement (with respect to the Shares of Common Stock issuable upon exercise of this Revocable Warrant). By its receipt of this Revocable Warrant , Holder agrees to be bound by the Registration Rights Agreement.

8. Miscellaneous. The Company cove-nants that it will at all times reserve and keep available, solely for the purpose of issue upon the exercise hereof, a sufficient number of Shares to permit the exer-cise hereof in full. Such Shares, when issued in compliance with the provisions of this Revocable Warrant and the Company's Certificate of Incorporation, will be duly authorized, validly issued, fully paid and non-assessable. No Holder of this Revocable Warrant, as such, shall, prior to the exercise of this Revocable Warrant, be entitled to vote or receive dividends or be deemed to be a stockholder of the Company for any purpose, nor shall anything contained in this Revocable Warrant be construed to confer upon Holder, as such, any rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action, receive notice of meetings, receive dividends or subscription rights, or otherwise. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Revocable Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reason-ably satisfactory in form and amount to the Company or, in the case of any such mutila-tion, upon surrender and cancellation of such Revocable Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Revocable Warrant of like date and tenor. The terms and provisions of this Revocable Warrant shall inure to the bene-fit of, and be binding upon, the Company and the Holder hereof and their respec-tive successors and as-signs. This Revocable Warrant shall be governed by and construed under the laws of the State of Nevada.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date and year first written above.

Holder:	Company:
_____	Natural Gas Systems, a Nevada Corporation
By: _____	By: _____
Name: _____	Name: _____

NOTICE OF EXERCISE

TO: NATURAL GAS SYSTEMS, INC.

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of NATURAL GAS SYSTEMS, INC. pursuant to the terms of the attached Revocable Warrant, and tenders herewith payment of the purchase price of such shares in full, together with all applicable transfer taxes, if any.

2. The undersigned hereby elects to purchase _____ shares of the Common Stock of NATURAL GAS SYSTEMS, INC. pursuant to the terms of the attached Revocable Warrant on a net exercise basis in accordance with Section 6.

3. Please issue a certificate or certificates repre-senting said shares of the Common Stock in the name of the under-signed or in such other name as is specified below:

Name:_____
Tax ID:_____

Address:_____
_____
_____
_____
_____

Signed:_____

Date:_____

NATURAL GAS SYSTEMS, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made as of January ____, 2005, by and among Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and the undersigned holders of common stock of the Company together with their qualifying transferees (the "Holders").

RECITALS:

A. In connection with the Company's issuance of a note to Holders, the Company has granted to the Holders warrants exercisable into Common Shares.

B. The issuance of the note and the warrants is conditional upon the extension of the rights set forth herein, and by this Agreement the Company and the Holders desire to provide for certain rights as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein, the parties, severally and not jointly, hereby agree as follows:

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein, the parties agree as follows:

1. Registration Rights.

1.1 Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) The terms "register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act of 1933, as amended (the "Securities Act"), and the declaration or ordering of the effectiveness of such registration statement.

(b) The term "Registrable Securities" means (i) any and all shares of Common Stock of the Company issuable upon the exercise of that certain Warrant Agreement dated January __, 2005 (which shares of Registrable Common Stock are referred to herein as the "Common Shares"); (ii) stock issued in lieu of the stock referred to in (i) in any reorganization which has not been sold to the public; or (iii) stock issued in respect of the stock referred to in (i) and (ii) as a result of a stock split, stock dividend, recapitalization or the like, which has not been sold to the public; provided, however, that Registrable Securities shall not include any Common Shares which have previously been registered or which have been sold to the public either pursuant to a registration statement or in a private transaction in which the transferor's rights under this Agreement are not assigned.

(c) The terms "Holder" or "Holders" means any person or persons to whom Registrable Securities were originally issued or qualifying transferees under subsection 1.9 hereof who hold Registrable Securities.

(d) The term "Initiating Holders" means any Holder or Holders, of 40% or greater of the aggregate of the Registrable Securities then outstanding.

(e) The term "SEC" means the Securities and Exchange Commission.

(f) The term "Registration Expenses" shall mean all expenses incurred by the Company in complying with subsections 1.2, 1.3, 1.4 and 1.5 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company.)

1.2 Company Registration.

(a) Registration. If at any time or from time to time, the Company shall determine to register any of its securities, for its own account or the account of any of its shareholders, other than a registration on Form S-8 relating solely to employee stock option or purchase plans, or a registration on Form S-4 relating solely to a SEC Rule 145 transaction, or a registration pursuant to Section 1.3 hereof, the Company will:

(i)promptly give to each Holder written notice thereof at least 30 days prior to the initial filing of the registration statement relating to such offering; and

(ii)use commercially reasonable efforts to include in such registration (and compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 15 days after receipt of such written notice from the Company, by any Holder or Holders, except as set forth in subsection 1.2(b) below.

(b) Underwriting.

(i)If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to subsection 1.2(a)(i). In such event the right of any Holder to registration pursuant to subsection 1.2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and the other shareholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company.

(ii)Notwithstanding any other provision of this subsection 1.2, if the underwriter managing such public offering determines that marketing factors require a limitation of the number of shares to be underwritten, the underwriter may limit the number of Registrable Securities to be included in the registration and underwriting, or may exclude Registrable Securities entirely from such registration and underwriting. The Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among Holders requesting registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by each of such Holders as of the date of the notice pursuant to subsection 1.2(a)(i) above; provided that, if and to the extent not in conflict with any registration rights granted to other holders of the Company's securities in existence as of the date hereof, the number of shares of Registrable Securities requested to be included in such underwriting shall not be reduced unless the securities being sold by shareholders other than the Holders are excluded from the Underwriting on a proportional basis. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

1.3 Form S-3. In addition to the rights and obligations set forth in subsection 1.2 above, if a Holder requests that the Company file a registration statement on Form S-3 (or any successor to Form S-3) for a public offering of shares of Registrable Securities, the reasonably anticipated aggregate price to the public of which (net of underwriting discounts and commissions) would exceed $1,000,000 and the Company is then a registrant entitled to use Form S-3 to register the shares for such an offering, the Company shall use commercially reasonable efforts to cause such shares to be registered for the offering as soon as practicable on Form S-3 (or any successor form to Form S-3); provided, however the Company shall not be required to effect a registration pursuant to this subsection 1.3:

(a) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(b) during the period starting with the date of filing of, and ending on a date 60 days following the effective date of, a registration statement pursuant to subsection 1.2, provided that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective;

(c) if the Company at the request of a Holder has effected a registration pursuant to this subsection 1.3 within a 12-month period from the date of such request; or

(d) if the Company shall furnish to such Holder a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be detrimental to the Company and its shareholders for such registration statement to be filed on or before the date filing would be required and it is therefore essential to defer the filing of such registration statement, in which case the Company shall have the right to defer such filing for a period of not more than 90 days after the furnishing of such a certificate of deferral, provided that the Company may not defer such filing pursuant to this subsection 1.3 more than once in any six month period.

In the event such Holders propose to offer the shares of Registrable Securities pursuant to this subsection 1.3 by means of an underwriting, the proposed underwriter(s) shall be selected by a majority in interest of the Holders and shall be reasonably acceptable to the Company. The Company shall give written notice to all other Holders and all other shareholders of the Company with registration rights (collectively, the "Other Holders") of the receipt of a request for registration pursuant to this subsection 1.3 and shall provide a reasonable opportunity for the Other Holders to participate in the registration. The right of any Holder to registration pursuant to this subsection 1.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's and/or such Other Holders' Registrable Securities and/or other securities of the Company eligible for registration in the underwriting (unless otherwise mutually agreed by a majority in interest of the Holders and the Other Holders) to the extent provided herein. The Company shall (together with the Holders and the Other Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters. Notwithstanding any other provision of this subsection 1.3, if the underwriter advises the Company in writing that marketing factors require a limitation of the number of shares to be underwritten, the Company shall so advise the Holders and the Other Holders of the number of shares of Registrable Securities and other securities of the Company eligible for registration that may be included in the registration and underwriting shall be allocated among the Holders and Other Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities, and other securities of the Company eligible for registration, to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting. If any Holder of Registrable Securities or other disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Company, the underwriter and the Initiating Holders. Any Registrable Securities which are excluded from the underwriting by reason of the underwriter's marketing limitation or withdrawn from such underwriting shall be withdrawn from such registration.

1.4 Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Section 1 shall be borne by the Company except as follows:

(a) The Company shall not be required to pay for expenses of any registration proceeding begun pursuant to subsection 1.3, the request for which has been subsequently withdrawn by the Holders, in which latter such case, such expenses shall be borne by the Holders requesting such withdrawal. In the event that a withdrawal by the Holders is based on material adverse information relating to the Company that is different from the information known or available to the Holders requesting registration at the time of their request for registration under subsection 1.3, such registration shall not be treated as a counted requested registration for the purposes of subsection 1.3 hereof, and in which case, such expenses shall be borne by the Company.

(b) For each registration, the Company shall not be required to pay fees or disbursements of more than one firm of legal counsel to the Holders, such fees to not exceed $10,000 in the aggregate.

(c) The Company shall not be required to pay underwriters' fees, discounts or commissions relating to Registrable Securities, and all stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than fees and disbursements of counsel included in the Registration Expenses).

1.5 Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Agreement, the Company will keep each Holder participating therein advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. Except as otherwise provided in subsection 1.4, at its expense the Company will:

(a) with respect to a demand made for registration pursuant to Section 1.3, prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to 120 days or if such registration statement is on Form S-3 (or any successor to Form S-3) and provides for sales of securities from time to time pursuant to Rule 415 under the Securities Act for up to one year.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish, without charge, to the Holders such numbers of copies of a prospectus, including each preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) The Company shall:

(i) make available for inspection by a representative of the Holders, the managing underwriter participating in any disposition pursuant to such registration statement and one firm of attorneys designated by the Holders (upon execution of customary confidentiality agreements reasonably satisfactory to the Company and its counsel), at reasonable times and in reasonable manner, financial and other records, documents and properties of the Company that are pertinent to the conduct of due diligence customary for an underwritten offering, and cause the officers, directors and employees of the Company to supply all information reasonably requested by any such representative, underwriter or attorney in connection with a registration statement as shall be necessary to enable such persons to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act;

(ii) use its best efforts to cause all Registrable Securities covered by a registration statement to be listed on any securities exchange or any automated quotation system on which similar securities issued by the Company are then listed;

(iii) cause to be provided to the Holders that are selling Registrable Securities pursuant to such registration statement and to the managing underwriter if any disposition pursuant to such registration statement is an underwritten offering, upon the effectiveness of such registration statement, a customary "10b-5" opinion of independent counsel (an "Opinion") and a customary "cold comfort" letter of independent auditors (a "Comfort Letter") in each case addressed to such Holders and managing underwriter, if any;

(iv) notify in writing the Holders that are selling Registrable Securities pursuant to such registration statement and any managing underwriter if any disposition pursuant to such registration statement is an underwritten offering, (A) when the registration statement has become effective and when any post-effective amendment thereto has been filed and becomes effective, (B) of any request by the SEC or any state securities authority for amendments and supplements to the registration statement or of any material request by the SEC or any state securities authority for additional information after the registration statement has become effective, (C) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose, (D) if, between the effective date of the registration statement and the closing of any sale of Registrable Securities covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, including this Agreement, relating to disclosure cease to be true and correct in all material respects or if the Company receives any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, (E) of the happening of any event during the period the registration statement is effective such that such registration statement or the related prospectus contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make statements therein not misleading (in the case of a prospectus, in light of circumstances under which they were made) and (F) of any determination by the Company that a post-effective amendment to the registration statement would be appropriate. The Holders hereby agree to suspend, and to cause any managing underwriter to suspend, use of the prospectus contained in a registration statement upon receipt of such notice under clause (C), (E) or (F) above until, in the case of clause (C), such stop order is removed or rescinded or, in the case of clauses (E) and (F), the Company has amended or supplemented such prospectus to correct such misstatement or omission or otherwise.

If the notification relates to an event described in clause (C), the Company promptly shall use its best efforts to obtain the withdrawal of the stop order. If the notification relates to an event described in clauses (E) or (F), the Company shall promptly prepare and furnish to such seller and each underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein no misleading;

(v)provide and cause to be maintained a transfer agent and registrar for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement;

(vi)deliver promptly to each Holder participating in the offering and each underwriter, if any, copies of all correspondence between the SEC and the Company, its counsel or auditors and all memoranda relating to discussions with the SEC and its staff with respect to the registration statement, other than those portions of any such correspondence and memoranda which contain information subject to attorney-client privilege with respect to the Company, and, upon receipt of such confidentiality agreements as the Company may reasonably request, make reasonably available for inspection by any Holder of such Registrable Securities covered by such registration statement, by any underwriter, if any, participating in any disposition to be effected pursuant to such registration statement and by any attorney, accountant or other agent retained by any such Holder or any such underwriter, all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees to supply all information reasonably requested by any such Holder, underwriter, attorney, accountant or agent in connection with such registration statement;

(vii)use its best efforts to obtain the withdrawal of any order suspending the effectiveness of the registration statement;

(viii)provide a CUSIP number for all Registrable Securities not later than the effective date of the registration statement;

(ix)make reasonably available its employees and personnel and otherwise provide reasonable assistance to the underwriters in the marketing of Registrable Securities in any underwritten offering;

(x)promptly prior to the filing of any document which is to be incorporated by reference into the registration statement or the prospectus (after the initial filing of such registration statement) provide copies of such document to counsel to the seller of Registrable Securities and to the managing underwriter, if any, and make the Company's representatives reasonably available for discussion of such document and make such changes in such document concerning such sellers prior to the filing thereof as counsel for such sellers or underwriters may reasonably request; and

(xi) cooperate with the sellers of Registrable Securities and the managing underwriter, if any, to facilitate the timely preparation and delivery of certificates not bearing any restrictive legends representing the Registrable Securities to be sold, and cause such Registrable Securities to be issued in such denominations and registered in such names in accordance with the underwriting agreement prior to any sale of Registrable Securities to the underwriters or, if not an underwritten offering, in accordance with the instructions of the sellers of Registrable Securities at least three business days prior to any sale of Registrable Securities.

1.6 Indemnification.

(a) The Company will indemnify and hold harmless to the fullest extent permitted by law each Holder of Registrable Securities and each of its officers, directors and partners, and each person controlling such Holder, with respect to which such registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter of the Registrable Securities held by or issuable to such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereto) arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement under which such securities were registered under the Securities Act or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; (ii) any untrue statement (or alleged untrue statement) of a material fact contained in any preliminary, final or summary prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statement therein, in light of the circumstances under which they were made, or not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Securities Exchange Act of 1934, as amended, (the "Exchange Act") or any state securities law applicable to the Company or any rule or regulation promulgated under the Securities Act, the Exchange Act or any such state law and relating to action or inaction required of the Company in connection with any such registration, qualification of compliance, and will reimburse each such Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, within a reasonable amount of time after incurred for any reasonable legal and any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 1.6(a) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); and provided further, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by an instrument duly executed by such Holder or underwriter specifically for use therein.

(b) Each Holder will, if Registrable Securities held by or issuable to such Holder are included in the securities as to which such registration, qualification or compliance is being effected, severally and not jointly, indemnify and hold harmless to the fullest extent permitted by law the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company within the meaning of the Securities Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, partners, persons or underwriters for any reasonable legal or any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by the Holder in an instrument duly executed by such Holder specifically for use therein; provided, however, that the indemnity agreement contained in this subsection 1.6(b) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if such settlement is effected without the consent of the Holder, (which consent shall not be unreasonably withheld); provided further, that the total amount for which any Holder shall be liable under this subsection 1.6(b) shall not in any event exceed the net proceeds received by such Holder from the sale of Registrable Securities held by such Holder in such registration; and provided further, that a Holder will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Holder by an instrument duly executed by the Company or underwriter specifically for use therein.

(c) Each party entitled to indemnification under this subsection 1.6 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense; and provided further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent such failure resulted in material prejudice to the Indemnifying Party; and provided further, that an Indemnified Party (together with all other Indemnified Parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the Indemnifying Party, if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If for any reason the foregoing indemnity is unavailable or is insufficient to hold harmless an indemnified party under Section 1.6, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of any Claim in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party, on the one hand, and the Indemnified Party, on the other hand, with respect to such offering of securities. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. If, however, the allocation provided in the second preceding sentence is not permitted by applicable law, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party in such proportion as is appropriate to reflect not only such relative faults, but also any other relevant equitable considerations. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 1.6(d) were to be determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the preceding sentences of this Section 1.6(d). The amount paid or payable in respect of any Claim shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such Claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the U.S. Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding anything in this Section 1.6 to the contrary, no Indemnifying Party (other than the Company) shall be required pursuant to this Section 1.6(d) to contribute any amount in excess of the net proceeds received by such Indemnifying Party from the sale of Registrable Securities in the offering to which the losses, claims, damages or liabilities of the Indemnified Parties relate, less the amount of any indemnification payment made pursuant to Section 1.6.

(e) The indemnity agreements contained herein shall be in addition to any other rights to indemnification or contribution which any Indemnified Party may have pursuant to law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by, or on behalf of, any Indemnified Party and shall survive the transfer of the Registrable Securities by any such party.

1.7 Information by Holder. Any Holder or Holders of Registrable Securities included in any registration shall promptly furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to herein.

1.8 Rule 144 Reporting. With a view to making available to Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees at all times to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) so long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144, and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as the Holder may reasonably request in complying with any rule or regulation of the SEC allowing the Holder to sell any such securities without registration.

1.9 Transfer of Registration Rights. A Holder's rights to cause the Company to register its securities and keep information available, granted to it by the Company under subsections 1.2, 1.3 and 1.8, may be not be assigned except for an assignment (i) by such Holder of at least 100,000 shares (as adjusted for stock splits, stock dividends, recapitalizations and like events), (or such lesser number of shares as represents all of the Registrable Shares then held by such Holder) or (ii) to any constituent partners or members of a Holder which is a partnership or limited liability company, or to affiliates (as such term is defined in Rule 405 of the Securities Act) of a Holder, provided, that (a) the Company is given written notice by such Holder at the time of or within a reasonable time after said transfer, stating the name and address of said transferee or assignee; and identifying the securities with respect to which such registration rights are being assigned; (b) the assignee or transferee of such rights agrees in writing to be bound by the terms and conditions of this Agreement, and (c) solely as to transfers pursuant to clause (iii) above, any transferees or assignees agree to act through a single representative. The Company may prohibit the transfer of any Holders' rights under this subsection 1.9 to any proposed transferee or assignee who the Company reasonably believes is a competitor of the Company, or when such transfer may violate applicable securities laws.

1.10 Subordination of Registration Rights. Notwithstanding anything to the contrary, each Holder expressly agrees and acknowledges that the rights granted to it pursuant to this Agreement subject to the rights granted to certain other holders of the Company's securities pursuant to those registration rights agreement in existence as of the date hereof.

1.11 Limitations on Subsequent Registration Rights. From and after the date hereof, the Company shall not, without the prior written consent of the Holders (which consent will not be unreasonably withheld) of not less than a majority of the Registrable Securities then outstanding enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder to demand any registration including any registration rights similar to those rights described in subsection 1.3 or include such securities in any registration filed under subsections 1.2 or 1.3 hereof if such inclusion would adversely affect the rights of any Holder (or any qualifying transferee under subsection 1.9) under such subsections.

1.12 "Market Stand-Off" Agreement. Each Holder hereby agrees that, during the period of duration (not to exceed 90 days) specified by the Company and an underwriter of common stock or other securities of the Company following the effective date of public offering of securities , it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase, pledge or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except common stock included in such registration pursuant to the terms of this Agreement. In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares of securities of every other person subject to the foregoing restriction) until the end of such period.

1.13 Delay of Registration. No Holder shall have any rights to take any actions to restrain, enjoin, or otherwise delay any registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.14 Termination of Registration Rights. No holder shall be entitled to exercise any right provided for in this Section 1 at any time when such Holder may sell all its shares in a three (3) month period under Rule 144 of the Act.

2. General.

2.1 Waivers and Amendments. With the written consent of the record holders of at least a majority of the Registrable Securities, the obligations of the Company and the rights of the parties under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), and with the same consent the Company, when authorized by resolution of its Board of Directors, may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement; provided, however, that no such modification, amendment or waiver shall reduce the aforesaid percentage of Registrable Securities without the consent of all of the Holders of the Registrable Securities. . Upon the effectuation of each such waiver, consent, agreement of amendment or modification, the Company shall promptly give written notice thereof to the record holders of the Registrable Securities who have not previously consented thereto in writing. This Agreement or any provision hereof may be changed, waived, discharged or terminated only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought, except to the extent provided in this subsection 3.1.

2.2 Governing Law. This Agreement shall be governed in all respects by the laws of the State of Nevada without regard the principles of conflicts of law thereof.

2.3 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

2.4 Entire Agreement. This Agreement and the other documents (include Exhibits referenced herein) delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and this Agreement shall supersede and cancel all prior agreements between the parties hereto with regard to the subject matter hereof.

2.5 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be delivered by overnight courier service (receipt requested) or mailed by first class mail, postage prepaid, certified or registered mail, return receipt requested, addressed (a) if to any Holder , at such party's address as set forth in the Company's records, or at such other address as such party shall have furnished to the Company in writing, or (b) if to the Company, at such address as the Company shall have furnished to the Holder in writing.

2.6 Severability. In case any provision of this Agreement shall be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement or any provision of the other Agreement s shall not in any way be affected or impaired thereby.

2.7 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

2.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date set forth underneath their respective signatures below.

"COMPANY"

Natural Gas Systems, Inc.,
a Nevada corporation

By: _____
Robert S. Herlin, President and CEO

Date: _____, 2005

"HOLDER"

By: _____

Print: _____

Date: _____, 2005

DEFINITIVE ASSET PURCHASE AGREEMENT

THIS DEFINITIVE ASSET PURCHASE AGREEMENT (the "Agreement") is made and entered into on the _____ day of _____, 2005**,** by and between Chadco, Inc., a Louisiana corporation, and Alan Chadwick McCartney and Sonya Lynn McCarty McCartney (together "Sellers"), and NGS Sub. Corp., a foreign corporation domiciled in the State of Delaware ("Buyer").

Sellers are the owners of oil, gas and mineral interests and wells; equipment; and improvements located in the Tullos Urania and Colgrade Fields, LaSalle and Winn Parishes, Louisiana (the "Facility"). Sellers desire to sell to Buyer, and Buyer desires to purchase from Sellers the property and assets of Sellers situated at the Facility described hereinbelow.

Accordingly, in consideration of the foregoing and of the mutual promises, covenants, and subject to the terms and conditions set forth below, the parties agree as follows:

SECTION 1. ASSETS TO BE CONVEYED. On the Closing Date (as defined in Section 9.1), Sellers shall sell, assign, transfer and deliver to Buyer, or its designee, and Buyer or its designee shall purchase from Sellers the following with warranty of title by through and under Sellers except as limited hereinbelow (collectively, the "Assets"):

1.1 Leases. The interests in the oil, gas and mineral leases, leasehold interests, operating interests, servitudes, working interests, royalty interests, overriding royalty interests, operating rights and/or mineral rights in oil, natural gas, petroleum, hydrocarbons, and other minerals as described in **Exhibit "A"** attached hereto and made a part hereof as to all depths (the "**Mineral Leases**").

1.1.1. It is the intention of Seller to sell and Buyer to buy all of Sellers' net revenue interest in the mineral leases described up to and including 0.830000 except as otherwise noted, with Sellers reserving a royalty interest equal to the difference between 0.830000 and the lessor's burden. For those leases in which Sellers own a net revenue interest of less than 0.830000, Sellers will convey all of their right, title and leasehold working interest. Anything contained herein to the contrary not withstanding, Sellers warrant that they are conveying to Buyer a net revenue interest in each Mineral Lease of not less than the net revenue interests shown on **Exhibit "A".**

1.2 Wells. Subject to the provisions of subpart 1.2.1, below, all oil and gas wells described on **Exhibit "B-1"** and **B-2"** attached hereto and made a part hereof (the "**Wells**"). Sellers hereby warrant that they are conveying to Buyer not less than the net revenue interest set out for each well on **Exhibit "B-1"** and **"B-2".**

1.2.1 The records of the Louisiana Office of Conservation reflect breaks in production from the Wells described on **Exhibit "B-2"** which would result in the expiration of the leases on which said Wells were drilled in the absence of any other production or development activity on those Leases or on any units of which said leased lands formed a part. Sellers represent and warrant to Buyer that those Wells described on **Exhibit "B-2"** or other lease and/or unit wells have produced in sufficient quantities and with sufficient regularity to maintain the Leases in force and effect in accordance with their terms insofar as Sellers' right to produce the Wells described on **Exhibit "B-2"** and retain said production. In the event it should be determined that one or more of the Wells described on **Exhibit "B-2"** have not produced sufficiently to maintain the leases in force and effect, then, in that event, the Purchase Price shall be reduced pro rata for each such Well. Sellers covenant and agree that upon receipt of written notice from Buyer they will immediately refund to Buyer the pro rata portion of the Purchase Price for each Well on which the lease has not been maintained in force and effect.

1.3 Personal Property. All tangible personal property, accessories, fixtures, appurtenances, and equipment located on, used in connection with or attached to the Mineral Interests and Wells described in Paragraphs 1.1 and 1.2 above and having to do with production of oil, gas or other minerals in the Facility, including, but not limited to, fixtures, tanks, jacks, pumps, equipment, pipe, tubing, equipment in repair, pipelines, attached gathering systems, (whether on location or off site in storage or in repair) depending upon or used in connection with the Mineral Interests and Wells described in Paragraphs 1.1 and 1.2 above described on **Exhibit "C"** attached hereto and made a part hereof (the **"Equipment"**); all oil, gas, casinghead gas, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons, products refined and manufactured therefrom, other minerals, and the accounts and proceeds from the sale of all of the foregoing; (the "**Hydrocarbons**") (the "**Severed Hydrocarbons**"); all contracts and agreements that benefit or burden the Leasehold Interests and production therefrom described in the foregoing paragraph and located in or having to do with the Facility, including, but not limited to, operating agreements, unitization agreements, pooling agreements, declarations of pooling or unitization, farmout agreements, rights-of-way, easements, surface agreements, assignments, and oil, gas, liquids, condensate, casinghead gas and gas sales, purchase, exchange, gathering, transportation and processing contracts (the "**Contracts**"); and the pipelines and all equipment associated therewith (collectively the "**Personal Property**").

1.3.1 Warranty as to personal property. Seller warrants that personal property is located as is described on the attached exhibits, but does not warrant the condition thereof, the fitness for any intended purpose and sells same "as is, where is".

1.4 Any causes of action against others that are assignable and not specifically dealt with herein, but that are attributable to the rights and properties described in Paragraphs 1.1, 1.2, 1.3, and 1.4, above.

1.5 All records, files, engineering data, accounting records, production records, geologic and geophysical data (including all licenses and ownership rights, tapes, interpretations, and maps), well files and all other documentary information owned and maintained by Sellers pertaining to the Assets, and any other documents pertaining to or in any way dealing with the Leases, Wells, Equipment, Hydrocarbons, Severed Hydrocarbons, Surface Leases, Contracts and Gathering System as described hereinabove.

1.6 It is understood that Sellers shall continue to operate as contract operators and well service providers in the Facility and, as such, shall retain and own trucks, vehicles, workover equipment, spare parts, pipe, tubing, pumps, jacks, downhole equipment and other miscellaneous equipment normal to that operation and not included in the Personal Property (for example, a pump or jack removed from a shut-in well included in the Leasehold Interests shall be included in the Personal Property, whereas a pump or jack in inventory of Sellers for general use of its customers shall not be included in the Personal Property). It is the intention of this Agreement that Buyer shall acquire all accessories, fixtures, equipment and appurtenances to any and all Assets, but shall not acquire any spare parts, pipe, tubing, pumps, jacks, downhole equipment and other personal property not derived from the Assets and used in the business of Sellers in their contract operations business.

1.7 It is Sellers' intent to convey to Buyer all of Sellers' interest of every nature and kind as to all depths in and to the Assets whether or not same are described with particularity in this Agreement. Sellers will execute such additional documents as Buyer may reasonably require to confirm title in Buyer to all Assets.

1.8 It is acknowledged that there is a pending dispute between Sellers and the State of Louisiana regarding expropriation of all or a portion of the LTF Urania No. 1, LTF Urania No. 2 and Tremont B No. 11 leases and the wells located thereon, a dispute that is expected to result in litigation in the 28th Judicial District Court for the Parish of LaSalle, State of Louisiana. It is agreed that Sellers will retain title in and to said lease and wells located thereon to fully and completely prosecute that action. Upon termination of said lawsuit Sellers will convey to Buyer all of Sellers' interest in said lease and wells, together with one-third (1/3) of the net compensation received therein after payment of related direct costs of litigation including attorney's fees. If at the expiration of one year from the date of execution of this Agreement the dispute with respect to the LTF Urania No. 1 has not been resolved, Seller will, upon Buyer's request, assign said well and the attendant lease rights to Buyer.

SECTION 2. ASSUMPTION OF LIABILITIES. Buyer shall assume any and all obligations of Sellers under the Leases and Contracts being acquired herein and which are specifically and individually described on the attached Exhibits, but Sellers shall remain obligated for the liability, cost of defense, and other expenses related to any breach of said obligations or violations of any laws, rules or regulations of any governmental entity which occur or relate to periods occurring prior to closing and Sellers shall, indemnify, defend and hold Buyer harmless from any claims or losses incurred by Buyer as a result thereof, including reasonable attorney's fees, reasonable costs of investigation and other reasonable costs incurred by Buyer in litigating same.

SECTION 3. PURCHASE.

3.1 Price and Allocation. The total purchase price for the Assets is EIGHT HUNDRED TWELVE THOUSAND SEVEN HUNDRED THIRTY-THREE AND NO/100 ($812,733.00) DOLLARS (the "**Purchase Price**") payable at closing adjusted for the net of revenues over direct expenses attributable to the Assets from the Effective Date to the Closing Date. Within ninety (90) days following the Closing, Buyer and Sellers shall mutually agree upon an allocation of the Purchase Price among the Assets, and each party shall prepare and file with their respective income tax returns for the tax year in which the Closing occurs, IRS Form 8594 allocating the Purchase Price (including any adjustments pursuant to Section 4 or elsewhere in this Agreement) in accordance with Section 1060 of the Internal Revenue Code of 1986, as amended and in accordance with the Asset Allocation. Notwithstanding anything to the contrary in this Agreement, this Section 3 shall survive the Closing without limitation.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF SELLERS. Sellers, jointly and severally, make the following representations and warranties, all of which have been relied upon by Buyer in entering into this Agreement, all of which are true and correct as of the date hereof, and, except as otherwise provided, all of which shall be true and correct at the Closing Date.

4.1 Organization. Chadco, Inc. is a corporation duly organized, validly existing, and in good standing under the laws of the State of Louisiana, and has full power and authority to enter into and perform this Agreement.

4.2 Authorization; Binding Agreement. The execution and delivery of this Agreement by Sellers has been duly authorized by Chadco, Inc.'s Board of Directors, and, if necessary, its shareholders, and this Agreement constitutes a valid and binding agreement of Chadco, Inc., enforceable in accordance with its terms. At closing the execution and delivery of the Warranty Deed and any other documents requiring Chadco, Inc.'s signature will have been duly authorized by all necessary corporate and shareholder action and shall constitute the legal, valid and binding obligations of Chadco, Inc.

4.3 No Breach. Except as set out on Exhibit "E" attached, the execution, delivery and performance of this Agreement by Sellers will not result in the breach of, or constitute a default under, the provisions of any agreement or other instrument to which Sellers are parties or by which they or their property is bound or affected including any of the Assets being transferred hereunder.

4.4 Title to Assets. Except as set out on Exhibit "E" attached, Sellers shall convey to Buyer at Closing Date, by Warranty Deed, title to the Assets, in each case free and clear of all liens, security interests, mortgages, deeds of trust, pledges, judgments, leases, rights of refusal or other encumbrances whatever (**"Liens"**).

4.5 Litigation and Governmental Regulation. Except as set out on Exhibit "E" attached, there is no judgment outstanding and no litigation, proceeding, claim or investigation of any nature pending or threatened against Sellers or the Assets that might adversely affect the conveyance of the Facility or materially impair the value of the Assets. Sellers are not parties to or subject to the provisions of any judgment, order, writ, injunction, decree or award of any court, arbitrator or governmental or regulatory official, body or authority that could adversely affect the Facility or any of the Assets.

4.6 Payment of Taxes. Sellers have duly and timely filed all returns for personal property, severance, ad valorem and other taxes and charges due as of the Effective Date of this Agreement and have paid all applicable taxes and charges. All severance, ad valorem, and other taxes and charges based on production attributable to the Assets shall be the obligation of the party entitled to the production on which such tax or charge is based. All other taxes against the Assets shall be prorated between Sellers and Buyer as of the Effective Date in accordance with generally accepted accounting practices.

4.7 Insolvency Proceedings. No insolvency proceedings of any character, affecting Sellers or the Assets are pending or threatened. Sellers have not made an assignment for the benefit of creditors or taken any action with a view to or that would constitute a valid basis for the institution of any such insolvency proceedings or which transfer would constitute a fraudulent conveyance or preference.

4.8 Compliance with Law. Sellers have complied with each, and are not in violation of any, law, rule or regulation, and has not failed to obtain or to adhere to the requirements of any license, permit or authorization necessary to the ownership of the Assets and Facility or to the utilization of same in the ordinary course of business, which noncompliance, violation or failure to obtain or adhere might reasonably be expected to have a material adverse effect on any of the Assets or the Facility, including the timely and proper preparation and filing of all state, local and federal reports.

4.9 Validity of Contemplated Transactions; etc. (a) The execution, delivery and performance of this Agreement and the Warranty Deed by Sellers will not contravene or violate (i) any law, rule or regulation to which Sellers are subject, (ii) any judgment, order, writ, injunction, decree or award of any court, arbitrator or governmental or regulatory official, body or authority which is applicable to Sellers, or (iii) the Articles of Incorporation, or By-laws of Chadco, Inc.

(b) Such execution, delivery or performance will not violate, be in conflict with or result in the breach (with or without giving notice or lapse of time, or both) of any term, condition, or provision of, or require the consent of any other party to any indenture, agreement, contract, commitment, lease, plan, license, permit, authorization or other instrument or document to which Sellers are parties, by which the Sellers have rights or by which any of the Assets or Facility may be bound or affected, other than those consents obtained prior to the Closing, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights or obligations of Sellers.

4.10 No Third Party Options. There are no existing agreements, options, commitments, Liens or rights with, to or in any person to acquire any of the Assets or Facility.

4.11 Conditions Affecting Assets. There are no conditions existing with respect to Sellers' markets, products, clients, customers, facilities, personnel or suppliers which could reasonably be expected to have a material adverse effect on the Assets and Facilities other than conditions that may affect the industry in which Sellers operate as a whole.

4.12 Environmental Matters.

(a) Definitions. For the purposes of this Section 4.12, the following terms shall have the meanings indicated:

(i) "**Environment**" shall mean soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwater, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

(ii) "**Environmental, Health, and Safety Liabilities**" shall mean any cost, damages, expense, liability, obligation, or other responsibility arising from or under Environmental Law or Occupational Safety and Health Law and consisting of or relating to:

(A) any environmental, health, or safety matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of chemical substances or products);

(B) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, investigative, remedial, or inspection costs and expenses arising under Environmental Law or Occupational Safety and Health Law;

(C) financial responsibility under Environmental Law or Occupational Safety and Health Law for cleanup costs or corrective action, including any investigation, cleanup, removal, containment, or other remediation or response actions required by applicable Environmental Law or Occupational Safety and Health Law (whether or not such cleanup has been required or requested by any governmental body or any other person or entity) and for any natural resource damages; or

(D) any other compliance, corrective, investigative, or remedial measures required under Environmental Law or Occupational Safety and Health Law.

The terms "removal," "remedial," and "response action," include the types of activities covered by the United States Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. ' 9601 et seq., as amended ("CERCLA").

(iii) "Environmental Law" shall mean the Hazardous Materials Transportation Act, 49 U.S.C. ' 1801 et seq., the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. ' 6901 et seq., the Clean Water Act, 33 U.S.C. '1251 et, the Clean Air Act, 42 U.S.C. ' 7401 et seq., the Toxic Substances Control Act, 15 U.S.C. ' 2601 et seq., the Oil Pollution Act of 1990, 33 U.S.C. ' 2701 et seq., the Occupational Safety and Health Act, 29 U.S.C. ' 651 et seq, the Universal Waste Rule (40 CFR Part 273) and all other legal requirements that relate to:

(A) advising appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the environment;

(B) preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the environment;

(C) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated;

(D) assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the environment when used or disposed of;

(E) protecting resources, species, or ecological amenities;

(F) reducing to acceptable levels the risks inherent in the transportation of hazardous substances, pollutants, oil, or other potentially harmful substances;

(G) cleaning up pollutants that have been released, preventing the threat of release, or paying the costs of such clean up or prevention; or

(H) making responsible parties pay private parties, or groups of them, for damages done to their health or the environment, or permitting self-appointed representatives of the public interest to recover for injuries done to public assets.

(iv) "Hazardous Materials" shall mean any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, corrosive, ignitable, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including, but in no way limited to, petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials.

(v) "Occupational Safety and Health Law" shall mean any legal requirement designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards.

(b) Environmental Compliance.

(i) With the exception of those matters set out on **Exhibit "D"** attached hereto and made a part hereto, insofar as the Mineral Interests, Wells and Facility in general, Sellers are not now and will not be at Closing in violation of any Environmental Law.

(ii) Sellers have no basis to expect, nor have Sellers, or, any other person or entity for whose conduct they are or may be held responsible, received any citation, directive, inquiry, notice, order, summons, warning, or other communication that relates to any alleged, actual, or potential violation or failure to comply with any Environmental Law, or of any alleged, actual, or potential obligation to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Assets of Facility.

(iii) Except for normal use of the Assets and Facility and normal operations in conformance with customary industry standards and not in violation of any Environmental Law, there are no Hazardous Materials present on or in the Assets or the Facility, including any Hazardous Materials contained in barrels, above or underground storage tanks, landfills, land deposits, land, water, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent or incorporated into any structure therein or thereon, except for minerals that are naturally present in their original geological formation.

(iv) Sellers have no reports, studies, analyses, tests, or monitoring possessed or initiated by Sellers pertaining to Hazardous Materials in, on, or under the Facilities and the Assets, or concerning compliance by Sellers or any other person or entity for whose conduct they are or may be held responsible, with Environmental Laws.

4.13 Quality of Assets. The Assets were acquired and have been maintained in accordance with regular business practices of Sellers. The Assets are substantially all of the inventory, equipment, mineral interests, wells, contracts and real property used by Sellers in conducting their business in the Facility during the twelve-month period immediately preceding the Closing contemplated by this Agreement.

4.14 Completeness of Disclosure. No representation or warranty made in this agreement by or on behalf of Sellers and in any list, certificate, Exhibit, Schedule or other instrument, document, agreement or writing made a part hereof or delivered hereunder or in connection with the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits or will omit to state any fact necessary to make any statement herein or therein not materially misleading.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF BUYER. Buyer makes the following representations and warranties, all of which have been relied upon by Sellers in entering into this Agreement, all of which are true and correct as of the date hereof, and, except as otherwise provided, all of which shall be true and correct as of the Effective Date and the Closing Date.

5.1 Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, is qualified to do business in and is in good standing under the laws of the State of Louisiana, and has full power and authority to enter into and perform this Agreement.

5.2 Authorization. The Board of Directors of Buyer has duly authorized the execution and delivery of this Agreement and this Agreement constitutes a valid and binding agreement of Buyer, enforceable in accordance with its terms.

5.3 No Breach. Except as set out on Exhibit "E" attached, the execution, delivery and performance of this Agreement by Buyer will not result in the breach of, or constitute default under, the provisions of any agreement or other instrument to which Buyer is a party or by which Buyer is bound.

5.4 Litigation. Except as otherwise provided herein, there is no action, suit, investigation or other proceedings pending or threatened which may adversely affect Buyer's ability to perform this Agreement in accordance with its terms, and Buyer is not aware of any facts which could reasonably result in any such proceeding.

5.5 Employees. Buyer reserves the right to interview any employees currently working at the Facility for the purposes of continued employment with Buyer. If an offer of employment is tendered and accepted, Buyer assumes no prior obligation regarding said employees, including but not limited to employment contracts, accrued and unpaid leave, workman compensation claims, or any claims regarding employment benefits.

SECTION 6. PRE-CLOSING OBLIGATIONS. The parties covenant and agree as follows with respect to the period prior to the Closing Date:

6.1 Confidentiality. Each party agrees that any and all information learned or obtained by it from the other shall be confidential and agrees not to disclose any such information to any person other than such party's attorneys, agents, representatives, lenders, or existing or potential investors who have executed a Confidentiality Agreement materially in the same form and term as to that between the parties hereto, as is necessary for the purpose of effecting the transactions contemplated by this Agreement. This Confidentiality Provision shall remain in force and be binding on all parties for a period of two years after the Closing Date.

6.2 Access. Prior to the Closing Date, Sellers shall give Buyer or representatives of Buyer reasonable access to the Facility for purposes of inspection, appraisal, testing, surveying, and other activities that may be necessary in the course of the Inspection Period. The Buyer shall be given, or has been given, sufficient time to perform a Due Diligence Examination on the Facility, including, but not limited to, a thorough inventory of the land, buildings, and equipment to be purchased; verification of historical production, revenues, operating expenses and historical capital expenditures; satisfactory completion of a third party Phase I Environmental audit; and verification of current production, flowing pressures, remaining reserves, product prices, gathering and processing agreements and costs and applicable product sales agreements. Buyer hereby agrees to indemnify and hold Sellers harmless from any loss, claim or liability arising out of or related to Buyer performing its Due Diligence Examination at the Facility or activities associated therewith.

6.3 Additional Covenant. Buyer and Sellers shall take all commercially reasonable efforts to cause the consummation of the transaction contemplated by this Agreement and shall not take any action that is inconsistent with their obligations under this Agreement in any material respect.

SECTION 7. CONDITIONS PRECEDENT.

7.1 Conditions to Buyer's Obligation. The obligation of Buyer to consummate the transaction contemplated by this Agreement is subject to the satisfaction of each of the following conditions (unless otherwise waived by Buyer):

7.1.1 Representations and Warranties. The representations and warranties of Sellers shall be true, complete, and correct in all material respects as of the Closing Date with the same force and effect as if then made.

7.1.2 Compliance with Conditions. All of the terms, conditions and covenants to be complied with or performed by Sellers on or before the Closing Date shall have been duly complied with and performed in all material respects.

7.1.3 Title to Assets. On the Closing Date, the Assets will be delivered to Buyer free and clear of all Liens.

7.1.4 Closing Documents. Sellers shall deliver to Buyer all of the closing documents specified in Section 8.2.1, all of which documents shall be dated as of the Closing Date, duly executed, and in a form reasonably acceptable to Buyer.

7.2 Conditions to Sellers' Obligation. The obligation of Sellers to consummate the transaction contemplated by this Agreement is subject to satisfaction of each of the following conditions (unless otherwise waived by Sellers):

7.2.1 Representations and Warranties. The representations and warranties of Buyer to Sellers shall be true, complete and correct in all material respects as of the Closing Date with the same force and effect as if then made.

7.2.2 Compliance with Conditions. All of the terms, conditions and covenants to be complied with or performed by Buyer on or before the Closing Date shall have been duly complied with and performed in all material respects.

7.2.3 Payment. Buyer shall pay Sellers the Purchase Price as provided in Section 3 of this Agreement.

7.2.4 Closing Documents. Buyer shall deliver to Sellers all the closing documents specified in Section 8.2.2, all of which documents shall be dated as of the Closing Date, as applicable, duly executed, and in a form reasonably satisfactory to Sellers.

SECTION 8. CLOSING. With regard to all dates and time periods set forth or referred to in this Agreement, it is understood and agreed that time is of the essence.

8.1 Closing Date. The Closing shall occur as soon as commercially possible, but no later than February 4, 2005. However, it shall have an effective date of December 1, 2004, at 12:01 a.m. (the "Effective Date"). The Closing shall occur at a place and time mutually agreed upon by the parties.

8.2 Performance at Closing. The following documents shall be executed and delivered at Closing:

8.2.1 By Sellers. Sellers shall deliver to Buyer (i) Deed conveying to Buyer title to the Assets with those warranties as provided herein and with full substitution and subrogation to any and all rights of warranty against Sellers' predecessors in title; (ii) certificate of good standing of Chadco, Inc., issued as of a recent date by Secretary of State of the State of Louisiana; (iii) an officer's certificate attesting to Chadco, Inc.'s compliance with the matters set forth in Sections 7.1 and certifying the resolutions of Sellers' board of directors and shareholders (if applicable) authorizing the execution and delivery of this Agreement and the transactions contemplated hereby; (iv) a certificate of non-foreign status on Chadco, Inc.; and (v) originals or copies, as applicable of all documents and records which Sellers are obligated to provide Buyer under the terms of this Agreement.

8.2.2 By Buyer. Buyer shall deliver to Sellers (i) a copy of the articles of incorporation of Buyer, certified as of a recent date by the Secretary of State of the state of Buyer's formation; (ii) certificate of good standing of Buyer, issued as of a recent date by the Secretary of State of the State of Texas; (iii) certificate of good standing of Buyer, issued as of a recent date, by the Secretary of State of the State of Louisiana showing Buyer is authorized to do business in the State of Louisiana; (iv) certificates of Buyer which show Buyer is qualified to own and operate the assets being conveyed herein, issued as of a recent date by the Louisiana Department of Conservation and any and all other Louisiana governmental agencies which may require said qualification; (v) an officer's certificate attesting to Buyer's compliance with the matters set forth in Sections 8.2.1 and 8.2.2, and certifying the resolutions of the board of directors of Buyer authorizing the execution and delivery of this Agreement and the transactions contemplated hereby, and (vi) the Purchase Price.

8.2.3 Other Documents and Acts. The parties will also execute such other documents, and perform such other acts, before and after Closing, as may be necessary for the complete implementation and consummation of this Agreement, including the execution by Sellers of any documents reasonably required by any purchaser of production to effectuate payment of proceeds attributable to production from the Facility to Buyer.

SECTION 9. POST-CLOSING OBLIGATIONS. The parties covenant and agree as follows with respect to the period subsequent to Closing:

9.1 Indemnification. Sellers, jointly and severally, undertake and agree to indemnify and hold Buyer harmless against any and all losses, costs, liabilities, claims, obligations, assessments, damages, fines and expenses, including reasonable attorney's fees and investigation costs (together, "Claims"), incurred or suffered by Buyer arising from (i) the ownership and operation of the Facility or ownership of the Assets during Sellers' period of ownership prior to the Closing Date, and (ii) a breach, misrepresentation, or other violation of any of Sellers' covenants, warranties or representations contained in this Agreement. Buyer undertakes and agrees to indemnify and hold Sellers harmless against any and all Claims incurred or suffered by Sellers arising from (a) the ownership and operation of the Facility or ownership of the Assets after the Closing Date; (b) a breach, misrepresentation, or other violation of any of Buyer's covenants, warranties and representations contained in this Agreement. The foregoing indemnities are intended by Sellers and Buyer, respectively, to cover all acts, suits, proceedings, claims, demands, assessments, adjustments, costs, and expenses with respect to any and all of the specific matters in these indemnities, respectively, set forth and shall be without limitation as to amount.

9.2 Agreement Not to Compete. Sellers shall not acquire any interest in any of the property intended to be included in the Assets, including, but not by way of limitation, by mineral deed, mineral lease, assignment, farmout, operating agreement or servitude, whether directly or through subsidiaries or parties interposed, so long as Buyer claims any ownership in or right to said Assets.

9.3 Agreement by Seller to Remediate Certain Areas. Seller shall, within thirty (30) days after the Closing Date, complete the remediation to full compliance with state regulations of the sites listed on **Exhibit "D"**, as generally described on such Exhibit.

9.4 Change of Operator. With fifteen (15) days of the Closing Date Buyer shall make all necessary filings with the Louisiana Office of Conservation to change the operator on all wells acquired by Buyer to Buyer or Buyer's designated contract operator.

9.5 Post-Closing Requirements: Sellers agree to comply with the post-closing requirements set out on Exhibit "E", attached.

SECTION 10. GENERAL PROVISIONS.

10.1 Risk of Loss. The risk of loss or damage to the Assets shall be upon Sellers at all times prior to Closing and Sellers shall keep all of the Assets fully insured through the date of Closing in accordance with Sellers' usual business practice during the twelve (12) months preceding the Closing Date. In the event of loss or damage, Sellers shall promptly notify Buyer thereof and may, at their option, attempt to repair, replace or restore the lost or damaged property to its former condition. If such repair, replacement, or restoration has not been completed prior to the scheduled Closing Date, Buyer may terminate this Agreement or, in Buyer's sole and uncontrolled discretion, accept assignment of all insurance proceeds attributable to the loss and proceed with Closing in accordance with the terms and provisions of this Agreement.

10.2 Expenses; Legal Fees. Except as otherwise provided herein, all expenses involved in the preparation and consummation of this Agreement shall be borne by the party incurring the same whether or not the transaction contemplated herein is consummated. If legal action is necessary to enforce any of the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and costs incurred thereby.

10.3 Survival of Representations and Warranties. The several representations, warranties, and covenants of the parties contained herein shall survive for a period of four (4) years from the Closing Date.

10.4 Exclusive Dealings. For so long as this Agreement remains in effect, neither Sellers nor any person acting on Sellers' behalf shall, directly or indirectly, solicit or initiate any offer or negotiations with any person concerning the acquisition of the Facility and Assets by any party other than Buyer.

10.5 Brokerage. Any commission or broker's or finder's fee due any broker or agent shall be paid by the party who retained said broker or agent in connection with the transaction contemplated by this Agreement and the party incurring such fee shall indemnify and hold harmless the other party from any such fee.

10.6 Control. In the event a conflict occurs between the provisions of this Agreement and the provisions of the Act of Sale and Assignment to be executed in connection with this transaction, the terms and provisions of the Act of Sale and Assignment shall control except in case of a conflict with respect to Sellers' representations and warranties to Buyer in this Agreement, which, in such event, shall be governed by the representations and warranties contained in this Agreement.

10.7 Notices. All notices and other communications pertaining to this Agreement shall be in writing and shall be deemed duly given when delivered personally (which shall include delivery by facsimile that issues a receipt or other confirmation of delivery) to the party for whom such communication is intended, or three (3) business days after the date mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Sellers, to:

Chadco, Inc.
P. O. Box 370
Tullos, Louisiana 71479

With a mandatory copy to:

Donald R. Wilson
Gaharan & Wilson
P. O. Box 1346
Jena, Louisiana 71342-1346
Facsimile: 318-992-5110

If to Buyer, to:

Natural Gas Systems, Inc.
Two Memorial City Plaza
820 Gessner, Suite 1340
Houston, TX 77024
Attn: Robert S. Herlin
Facsimile: 713-935-0199

With a mandatory copy to:

Walter C. Dunn
The Boles Law Firm
P. O. Box 2065
Monroe, LA 71207-2065
Facsimile: 318-361-3371

Either party may change its address for notices by written notice to the other.

10.8 Waiver. Unless otherwise specifically agreed in writing to the contrary: (i) the failure of either party at any time to require performance by the other of any provision of this Agreement shall not affect such party's right thereafter to enforce the same; (ii) no waiver by either party of any default by the other shall be taken or held to be a waiver by such party of any other preceding or subsequent default; and (iii) no extension of time granted by either party for the performance of any obligation or act by the other party shall be deemed to be an extension of time for the performance of any other obligation or act hereunder.

10.9 Miscellaneous. This Agreement and the agreements referenced herein supersede and terminate any prior agreements between the parties and contain all of the terms agreed upon with respect to the subject matter hereof. This Agreement may not be altered or amended except by an instrument in writing signed by Sellers and Buyer. This Agreement may be signed in any number of counterparts with the same effect as if the signatures on each such counterpart were on the same instrument. The headings of the paragraphs of this Agreement are for convenience only and in no way modify, interpret or construe the meaning of specific provisions of the Agreement. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. This Agreement may not be assigned without the prior written consent of Sellers and Buyer except that Buyer may designate a third party to take title to the Assets. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable to the parties' successors and assigns.

10.10 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Louisiana, without regard to conflicts-of-laws principles that would require the application of any other law.

10.11 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof, or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the parties to this Agreement hereby acknowledge and agree that the court making the determination of invalidity or unenforceability shall have the power (i) to reduce the scope, duration, and/or area of the term or provision, (ii) to delete specific words or phrases, or (iii) to amend and replace any invalid or unenforceable term or provision, so that the provision as amended by said court is valid and enforceable and comes as close as is legally possible to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified after the expiration of the time within which the judgment of said court may be appealed.

10.12 Construction. The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Sections" and "Parts" refer to the corresponding Sections and Parts of this Agreement.

10.13 Time Is Of The Essence. Both Parties understand and agree that time is of the essence and, as such, will work diligently to consummate this transaction as quickly as is reasonably possible.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed individually or by their respective duly authorized officer as of the date first written above.

CHADCO, INC.

By:_____
Name: Alan Chadwick McCartney
Title: President

By:_____
Name: Alan Chadwick McCartney, Individually

By:_____
Sonya Lynn McCarty McCartney

NATURAL GAS SYSTEMS, INC.

By:_____

Name: Robert S. Herlin
Title: President

News Release

February 3, 2005

Natural Gas Systems, Inc. Announces Senior Secured Debt Financing

(Houston, Texas) NATURAL GAS SYSTEMS, INC. (OTC: NGSY) ("NGS") announced that it has completed a senior secured debt facility in the amount of up to $4.8 million from Prospect Energy Corporation (NASDAQ:PSEC) ("Prospect"). The proceeds of the funding will be used to acquire oil and gas fields in the onshore Gulf Coast region and elsewhere, to further develop its existing onshore Delhi and Tullos Urania oil and gas producing fields in central and northern Louisiana and to repay certain outstanding debt. Under the terms of the Prospect facility, once certain financial hurdles have been met, NGS will have the option to raise new senior secured debt with a third party lender. The Prospect facility would then become subordinated to that new debt.

As compensation to enter into the facility, NGS will issue to Prospect a number of warrants equal to between approximately two and five percent of the common stock of NGS, subject to the amount of the facility drawn down and attainment by NGS of certain levels of cash flow. The warrants are exercisable at $0.75 per common share.

"In the past, the NGS team has been successful in finding underdeveloped onshore oil and gas properties and improving their production output efficiencies," said John Barry, Prospect's Chairman and Chief Executive Officer. "As important, NGS's cash flow coverage and collateral coverage meet our credit standards as debt investors. We see NGS as a core relationship for us, and we expect to provide additional capital as the company continues to acquire and develop new fields."

"Developing this relationship with Prospect is an important milestone for NGS," stated Robert Herlin, President of NGS. "The funding allows us to add to our asset base in northern Louisiana and implement a development program to take advantage of the considerable resources in the Delhi and Tullos Fields. Furthermore, we are now positioned to pursue similar opportunities."

Natural Gas Systems, Inc. (www.natgas.us) acquires and develops oil and gas properties and applies both conventional and specialized technology to accelerate production and develop incremental reserves. NGS owns 100% of the working interest in the 13,636 acre Delhi Field in northeastern Louisiana that includes 8 producing wells and 34 shut-in wells and historic cumulative production of over 200 million barrels of oil since its discovery in the 1940's. Since the acquisition of the Delhi Field in 2003, NGS has significantly increased production by returning wells to operation and re-completing wells to new reservoirs, and plans to soon implement a development drilling program. NGS also owns a 100% working interest in approximately 140 producing wells and 100 shut-in wells in the Tullos Urania and adjoining fields in north central Louisiana that have produced cumulatively over 50 million barrels of oil since discovery in the 1920's. NGS plans to increase oil production through returning wells to operation and increasing water re-injection capacity.

Prospect Energy Corporation (www.prospectstreet.com) is a closed-end investment company that lends to and invests in energy-related businesses and assets. Prospect Energy's investment objective is to generate both current income and long-term capital appreciation through debt and equity investments.

Safe Harbor Statement

This press release includes certain "Forward-Looking Statements" within the meaning of section 21E of the United States Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements regarding potential results and future plans and objectives of the company, are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, those factors that are disclosed under the heading "Risk Factors" and elsewhere in our documents filed from time to time with the United States Securities and Exchange Commission and other regulatory authorities. Statements regarding production volumes, drilling and development activity, prices, future revenues and income and cash flows and other statements that are not historical facts contain predictions, estimates and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although the company believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals will be achieved and these statements will prove to be accurate. Important factors that could cause actual results to differ materially from those included in the forward-looking statements include the timing and extent of changes in commodity prices for oil and gas, the need to develop and replace reserves, environmental risks, drilling and operating risks, risks related to exploration and development, uncertainties about the estimates of reserves, competition, government regulation and the ability of the company to meet its stated business goals, as well as other factors that are disclosed as “Risk Factors” in our documents filed from time to time with the United States Securities and Exchange Commission.

For additional information contact:

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News Release

February 8, 2005

Natural Gas Systems, Inc. Announces Purchase of Producing Properties

(Houston, Texas) NATURAL GAS SYSTEMS, INC. (OTC: NGSY) ("NGS" or the "Company") announced its February 3, 2005 purchase of additional producing wells in the Tullos Urania Field in LaSalle Parish and in the Colgrade Field in Winn Parish, Louisiana from a privately owned company.

The purchase includes 100% of the working interest in 65 producing oil wells, 56 shut-in oil wells and 9 salt water injection wells with gross production of up to 70 barrels per day. The Company's external reservoir engineer has estimated remaining proved developed producing reserves to be approximately 236,000 barrels of oil. NGS expects to add substantial recoverable reserves by returning to production most, if not all, of the shut-in wells and by installation of additional water injection capacity. Based on the price paid of $812,733, before adjustments, the purchase is equivalent to a price of $3.44 per barrel of oil of proved developed reserves. The acquired leases are, in most cases, direct offsets to leases purchased by NGS in September 2004 and offer what management believes will be excellent synergies in operations and development.

Previously, in September 2004, NGS purchased approximately 125 producing wells in the same fields for $725,000, before adjustments, and the Company's external reservoir engineer assigned proved developed producing reserves of approximately 245,322 barrels of oil. That purchase price approximated $2.96 per barrel of oil of proved developed producing reserves, before adjustments. NGS expects to add substantial recoverable reserves by returning up to 45 shut-in wells to production and by adding water injection capacity.

NGS has commenced an aggressive program to restore up to 100 shut-in oil wells from the two purchases in the Tullos Urania, Colgrade and Crossroads Fields and to add salt water injection capacity designed to permit increased production rates. The program includes operational efficiencies that are expected to reduce repair and power costs. NGS is funding the latest purchase and planned development by drawing down its recently announced credit facility with Prospect Energy Corporation. Other planned development includes restoring or re-completing up to a dozen wells and drilling up to ten new wells in the Delhi Field in northeastern Louisiana.

"This purchase adds to our critical mass of producing properties in north central Louisiana and brings long-lived, predictable production," said Robert Herlin, President of NGS. "Furthermore, we believe that considerable additional reserves can be added through aggressive repair and maintenance of wells. Nearby operators also have demonstrated that increasing the amount of water disposal capacity can result in increased oil production."

Natural Gas Systems, Inc. (www.natgas.us) is a development stage company that acquires and develops oil and gas properties and applies both conventional and specialized technology to accelerate production and develop incremental reserves. NGS owns 100% of the working interest in the 13,636 acre Delhi Field in northeastern Louisiana that includes 8 producing wells and 34 shut-in wells and historic cumulative production of over 200 million barrels of oil since its discovery in the 1940's. Since the acquisition of the Delhi Field in 2003, NGS has significantly increased production by returning wells to operation and re-completing wells to new reservoirs, and plans to soon implement a development drilling program. NGS also owns a 100% working interest in approximately 140 producing wells and 100 shut-in wells in the Tullos Urania and adjoining fields in north central Louisiana that have produced cumulatively over 50 million barrels of oil since discovery in the 1920's.

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