

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D
Under the Securities Exchange Act of 1934
(Amendment No. _____)*

Evolution Petroleum Corporation

(Name of Issuer)

Common Stock \$0.001 par value

(Title of Class of Securities)

30049A107

(CUSIP Number)

Laird Q. Cagan
c/o Cagan McAfee Capital Partners, LLC
10600 North De Anza Boulevard, Suite 250
Cupertino, CA 95014
(408) 873-0400

with a copy to:

Lawrence Schnapp
c/o Troy & Gould PC
1801 Century Park East, 16th Floor
Los Angeles, CA 90067
(310) 789-1269

(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications)

May 26, 2004

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7(b) for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1.	Name of Reporting Person Laird Q. Cagan
	I.R.S. Identification No. of above person (entities only) Not applicable
2.	Check the Appropriate Box if a Member of a Group. (a) x (b) o
3.	SEC Use Only
4.	Source of Funds PF, OO
5.	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
6.	Citizenship or Place of Organization United States
Number of Shares Beneficially Owned by Each Reporting Person With	7. Sole Voting Power 7,135,308 shares
	8. Shared Voting Power 82,500 shares
	9. Sole Dispositive Power 7,135,308 shares
	10. Shared Dispositive Power 82,500 shares
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 7,217,808 shares (1)
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares <input checked="" type="checkbox"/>
13.	Percent of Class Represented by Amount in Row (11) 27.0%
14.	Type of Reporting Person IN

(1) Includes (i) 5,964,000 shares owned of record by Laird Q. Cagan, (ii) 500,000 shares owned of record by the KQC Trust, of which Mr. Cagan is the sole trustee, (iii) 500,000 shares owned of record by the KRC Trust, of which Mr. Cagan is the sole trustee, (iv) 171,308 shares that Mr. Cagan currently has the right to acquire pursuant to warrants, and (v) 82,500 shares out of a total of 165,000 shares that Cagan McAfee Capital Partners, LLC, an entity in which Mr. Cagan holds a 50% interest and shares voting and dispositive power, currently has the right to acquire pursuant to warrants. Excludes the remaining 82,500 shares that Cagan McAfee Capital Partners, LLC has the right to acquire pursuant to warrants and as to which Mr. Cagan disclaims beneficial ownership.

1.	Name of Reporting Person KQC Trust
	I.R.S. Identification No. of above person (entities only) Not required to be disclosed
2.	Check the Appropriate Box if a Member of a Group. (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>
3.	SEC Use Only
4.	Source of Funds OO
5.	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
6.	Citizenship or Place of Organization California
Number of Shares Beneficially Owned by Each Reporting Person With	7. Sole Voting Power 500,000 shares
	8. Shared Voting Power 0 shares
	9. Sole Dispositive Power 500,000 shares
	10. Shared Dispositive Power 0 shares
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 500,000 shares (2)
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares <input checked="" type="checkbox"/>
13.	Percent of Class Represented by Amount in Row (11) 1.9%
14.	Type of Reporting Person OO

(2) Includes 500,000 shares owned of record by the KQC Trust, of which Laird Q. Cagan is the sole trustee with the sole voting and dispositive power with respect to such shares. Excludes all other shares that are disclosed in this Schedule 13D as being owned by other persons who are parties to this Schedule 13D; the reporting person disclaims beneficial ownership of all such shares.

1.	Name of Reporting Person KRC Trust
	I.R.S. Identification No. of above person (entities only) Not required to be disclosed
2.	Check the Appropriate Box if a Member of a Group. (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>
3.	SEC Use Only
4.	Source of Funds OO
5.	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
6.	Citizenship or Place of Organization California
Number of Shares Beneficially Owned by Each Reporting Person With	7. Sole Voting Power 500,000 shares
	8. Shared Voting Power 0 shares
	9. Sole Dispositive Power 500,000 shares
	10. Shared Dispositive Power 0 shares
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 500,000 shares (2)
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares <input checked="" type="checkbox"/>
13.	Percent of Class Represented by Amount in Row (11) 1.9%
14.	Type of Reporting Person OO

(2) Includes 500,000 shares owned of record by the KRC Trust, of which Laird Q. Cagan is the sole trustee with the sole voting and dispositive power with respect to such shares. Excludes all other shares that are disclosed in this Schedule 13D as being owned by other persons who are parties to this Schedule 13D; the reporting person disclaims beneficial ownership of all such shares.

1.	Name of Reporting Person Cagan McAfee Capital Partners, LLC
	I.R.S. Identification No. of above person (entities only) Not required to be disclosed
2.	Check the Appropriate Box if a Member of a Group. (a) <input checked="" type="checkbox"/> x (b) <input type="checkbox"/> o
3.	SEC Use Only
4.	Source of Funds WC
5.	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e) <input type="checkbox"/>
6.	Citizenship or Place of Organization California
Number of Shares Beneficially Owned by Each Reporting Person With	7. Sole Voting Power 0 shares
	8. Shared Voting Power 165,000 shares
	9. Sole Dispositive Power 0 shares
	10. Shared Dispositive Power 165,000 shares
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 165,000 shares (3)
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares <input checked="" type="checkbox"/> x
13.	Percent of Class Represented by Amount in Row (11) 0.6%
14.	Type of Reporting Person PN

(3) Includes 165,000 shares that Cagan McAfee Capital Partners, LLC currently has the right to acquire pursuant to warrants. Excludes all other shares that are disclosed in this Schedule 13D as being owned by other persons who are parties to this Schedule 13D; the reporting person disclaims beneficial ownership of all such shares.

Item 1. Security and Issuer

This Schedule 13D relates to the common stock, par value \$0.001 per share, of Evolution Petroleum Corporation, a Nevada corporation ("**EPM**"), the principal executive offices of which are located at 2500 Citywest Boulevard, Suite 1300, Houston, TX 77042.

Item 2. Identity and Background

(a) Names

This Schedule 13D is filed by the following persons (collectively referred to herein as the "**Reporting Persons**" and individually as a "**Reporting Person**"):

1. Laird Q. Cagan ("**Mr. Cagan**");
2. The KQC Trust;
3. The KRC Trust; and
4. Cagan McAfee Capital Partners, LLC, a California limited liability company ("**Cagan McAfee**").

The Reporting Persons are making this single, joint filing because they may be deemed to constitute a "group" within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934. The Reporting Persons have entered into a Joint Filing Agreement dated as of July 10, 2008, a copy of which is filed as Exhibit 99.1 to this Schedule 13D, pursuant to which they have agreed to jointly file this Schedule 13D and all amendments hereto.

Mr. Cagan is the sole trustee of the KQC Trust and of the KRC Trust and has sole voting and dispositive power with respect to the shares of EPM common stock owned of record by each such trust.

Mr. Cagan owns a 50% equity interest in Cagan McAfee and shares voting and dispositive power with respect to the shares of EPM common stock that Cagan McAfee is entitled to acquire upon the exercise of warrants.

The remaining 50% equity interest in Cagan McAfee is held by Eric A. McAfee ("**Mr. McAfee**"), who shares with Mr. Cagan voting and dispositive power with respect to the shares of EPM common stock that Cagan McAfee is entitled to acquire upon the exercise of warrants.

(b) Addresses

The principal business address of each Reporting Person and of Mr. McAfee is 10600 North De Anza Boulevard, Suite 250, Cupertino, CA 95014.

(c) Principal Business and Occupations

The principal business of Cagan McAfee is that of a private equity investment firm that also provides financial and investment advisory services. The principal occupation of each of Mr. Cagan and Mr. McAfee is Managing Director of Cagan McAfee. The principal purpose of the KQC Trust and the KRC Trust is to hold assets (including shares of EPM common stock) for the benefit of Mr. Cagan's minor children.

(d) and (e) Convictions or Proceedings

During the last five years, neither any Reporting Person nor Mr. McAfee (i) has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) Citizenship and Place of Organization.

Mr. Cagan and Mr. McAfee are citizens of the United States. Cagan McAfee, the KQC Trust and the KRC Trust were each formed under the laws of the State of California.

Item 3. Source and Amount of Funds or Other Consideration

The information contained in Item 4 below, to the extent that it relates to the source of funds used in connection with the transactions described in Item 4, is incorporated by reference into this Item 3.

Item 4. Purpose of the Transaction

On May 26, 2004, a newly formed wholly owned subsidiary of Reality Interactive, Inc., a Nevada corporation ("**Reality Interactive**"), merged with and into Natural Gas Systems, Inc., a Delaware corporation ("**Delaware NGS**"). As a result of the merger described in the preceding sentence (the "**Merger**"), Delaware NGS became a wholly owned subsidiary of Reality Interactive, and Reality Interactive changed its name to Natural Gas Systems, Inc., which is referred to in this Section as "**NGS**." Upon completion of the Merger, Mr. Cagan became the Chairman of the Board of NGS.

The Merger occurred pursuant to an Agreement and Plan of Reorganization dated as of April 12, 2004 (the "**Merger Agreement**") among Reality Interactive, Reality Acquisition Corp., Global Marketing Associates, Inc., Dean H. Becker and Delaware NGS. A copy of the Merger Agreement is filed as Exhibit 99.2 to this Schedule 13D. The terms of the Merger were determined through arm's length negotiations among the parties to the Merger Agreement.

At the time of the Merger, Reality Interactive did not engage in any business operations, but its common stock was traded on the OTC Bulletin Board and Reality Interactive filed periodic reports with the Securities and Exchange Commission. A primary purpose of the Merger for the stockholders of Delaware NGS was to obtain access to a public market for their shares.

Prior to the consummation of the Merger, Mr. Cagan held shares of the common stock of Delaware NGS. On May 26, 2004, pursuant to the terms of the Merger Agreement, Mr. Cagan acquired 6,480,000 shares of NGS common stock in exchange for his shares of Delaware NGS common stock. On June 23, 2005 Mr. Cagan transferred 10,000 shares to Prima Consulting and 6,000 shares to Jim Phillips.

Cagan McAfee performs financial advisory services for NGS pursuant to an Engagement Letter dated as of September 23, 2003 (the "**Cagan McAfee Engagement Letter**"), a copy of which is filed as Exhibit 99.3 to this Schedule 13D. On May 26, 2004, NGS issued to Cagan McAfee a warrant to purchase 165,000 shares of NGS common stock at an exercise price of \$1.00 per share as consideration for services rendered by Cagan McAfee in arranging the Merger and a private placement of securities by NGS. A copy of the warrant issued to Cagan McAfee is filed as Exhibit 99.4 to this Schedule 13D. As of March 8, 2006, and within sixty days thereafter, the warrant is exercisable as to 165,000 shares of NGS common stock.

Mr. Cagan is a registered representative of Chadbourn Securities, Inc. ("**Chadbourn**"), which served as NGS' non-exclusive placement agent for private financings. Pursuant to the Addendum I to the Cagan McAfee Engagement Letter, dated May 5, 2004, and the Letter Agreement dated as of February 13, 2006 among NGS, Chadbourn and Mr. Cagan, copies of which are filed as Exhibit 99.5 and 99.6 to this Schedule 13D, Mr. Cagan is entitled to receive warrants to acquire NGS common stock in connection with his capital raising activities. Pursuant to the Addendum and the Letter Agreement, Mr. Cagan holds: (i) a currently exercisable warrant to acquire 159 shares of NGS common stock at an exercise price of \$1.50, (ii) a currently exercisable warrant 66,784 shares of common stock at an exercise price of \$1.00, (iii) a currently exercisable warrant 91,200 shares of NGS common stock at an exercise price of \$2.50 and (iv) a currently exercisable warrant 13,165 shares of NGS common stock at an exercise price of \$2.25 (from this warrant, Mr. Cagan transferred a warrant to purchase 12,000 shares of NGS common stock in February 2008). A copy of Mr. Cagan's warrants are filed as Exhibits 99.7, 99.8, 99.9, and 99.10 to this Schedule 13D.

In July 2006, NGS changed its name to Evolution Petroleum Corporation in connection with the listing of its shares on the American Stock Exchange ("**AMEX**"). It is currently traded on AMEX under the trading symbol "EPM."

Mr. Cagan sold 250,000 shares of EPM common stock in a broker's transaction on February 13, 2008 at a price of \$4.00 per share and sold 250,000 shares of EPM common stock in a broker's transaction on June 13, 2008 at a price per share of \$5.25, as previously reported on his Form 4's filed with the SEC.

Except for possible acquisitions of shares of EPM common stock on the open market or pursuant to the exercise of the warrants described in this Item 4, none of the Reporting Persons has any plans or proposals that relate to, or that would result in, any of the events described in paragraphs (a) to (j) of Item 4 of the Schedule 13D instructions.

Item 5. Interest in Securities of the Issuer

The following information is based upon a total of 26,776,234 shares of EPM common stock being beneficially owned as of October 15, 2007 as described in EPM's Proxy Statement on Schedule 14A, dated October 29, 2007.

The Reporting Persons beneficially own the following shares of EPM common stock:

(a) Mr. Cagan owns 7,217,808 shares of EPM common stock, representing 27.0% of the total outstanding shares of EPM common stock and consisting of (i) 5,964,000 shares owned of record by Mr. Cagan, (ii) 500,000 shares owned of record by the KQC Trust, of which Mr. Cagan is the sole trustee, (iii) 500,000 shares owned of record by the KRC Trust, of which Mr. Cagan is the sole trustee, (iv) 171,308 shares that Mr. Cagan currently has the right to acquire pursuant to warrants, and (v) 82,500 shares out of a total of 165,000 shares that Cagan McAfee Capital Partners, LLC, an entity in which Mr. Cagan holds a 50% interest and shares voting and dispositive power, currently has the right to acquire pursuant to warrants, but excluding the remaining 82,500 shares that Cagan McAfee Capital Partners, LLC has the right to acquire pursuant to warrants and as to which Mr. Cagan disclaims beneficial ownership.

(b) The KQC Trust owns 500,000 shares of EPM common stock, representing 1.9 % of the total outstanding shares of EPM common stock and as to which Mr. Cagan, as trustee, has sole voting and dispositive power.

(c) The KRC Trust owns 500,000 shares of EPM common stock, representing 1.9% of the total outstanding shares of EPM common stock and as to which Mr. Cagan, as trustee, has sole voting and dispositive power.

(d) Cagan McAfee owns 165,000 shares of EPM common stock, representing 0.6% of the total outstanding shares of EPM common stock and consisting entirely of shares that Cagan McAfee currently has the right to acquire pursuant to warrants. Mr. Cagan shares voting and dispositive power regarding such shares with Eric A. McAfee, who has filed separately.

The Reporting Persons may be deemed to have formed a "group" with each other for purposes of Section 13(d) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, and such "group" may be deemed to be the beneficial owner of the shares of EPM common stock that are beneficially owned by each Reporting Person who is part of such group as reported on this Schedule 13D. However, each Reporting Person disclaims beneficial ownership of all shares of EPM common stock except to the extent otherwise expressly described in this Schedule 13D.

Except for the transactions that are described in this Schedule 13D, no Reporting Person has effected any transactions in EPM common stock during the sixty days prior to the date of this Schedule 13D, and no person has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares of common stock owned by the Reporting Persons.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

The description in Item 4 above regarding the Merger Agreement and the warrants and other agreements referred to in Item 4 is incorporated herein by reference.

Item 7. Material to be Filed as Exhibits

The following documents are included as exhibits to this Schedule 13D:

- 99.1 Joint Filing Agreement dated July 10, 2008 among Laird Q. Cagan, the KQC Trust, the KRC Trust and Cagan McAfee Capital Partners, LLC.
- 99.2 Agreement and Plan of Reorganization dated as of April 12, 2004 among Reality Interactive, Inc., Reality Acquisition Corp., Global Marketing Associates, Inc., Dean H. Becker and Natural Gas Systems, Inc. (incorporated by reference to the Current Report on Form 8-K/A filed by Natural Gas Systems, Inc. with the Securities and Exchange Commission on April 27, 2004).
- 99.3 Engagement Letter dated as of September 23, 2003 between Natural Gas Systems, Inc. and Cagan McAfee Capital Partners, LLC (incorporated by reference to the Annual Report on Form 10-KSB filed by Natural Gas Systems, Inc. with the Securities and Exchange Commission on September 28, 2004).
- 99.4 Warrant dated May 26, 2004 issued by Natural Gas Systems, Inc. to Cagan McAfee Capital Partners, LLC.

- 99.5 Addendum I to the Cagan McAfee Capital Partners, LLC Engagement Agreement, dated May 5, 2004 (incorporated by reference to the Annual Report on Form 10-KSB filed by Natural Gas Systems, Inc. with the Securities and Exchange Commission on September 28, 2004).
- 99.6 Letter Agreement dated February 13, 2006 among Natural Gas Systems, Inc., Chadbourn Securities, Inc. and Laird Q. Cagan. (incorporated by reference to the Quarterly Report on Form 10-QSB filed by Natural Gas Systems, Inc. with the Securities and Exchange Commission on February 14, 2006).
- 99.7 Warrant dated May 26, 2004 issued by Natural Gas Systems, Inc. to Laird Q. Cagan.
- 99.8 Warrant dated November 30, 2004 issued by Natural Gas Systems, Inc. to Laird Q. Cagan.
- 99.9 Warrant dated May 6, 2005 issued by Natural Gas Systems, Inc. to Laird Q. Cagan.
- 99.10 Warrant dated June 22, 2006 issued by Natural Gas Systems, Inc. to Laird Q. Cagan.

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into as of May 26, 2004, between Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and Cagan McAfee Capital Partners, LLC ("Holder").

RECITALS

WHEREAS, the Company proposes to issue to Holder One Hundred Sixty-Five Thousand (165,000) warrants (the "Warrants"), each such Warrant entitling the holder thereof to purchase one share of common stock, no par value, of the Company (the "Shares" or the "Common Stock"); and

WHEREAS, the Warrants which are the subject of this Agreement will be issued by the Company to Holder as part of consideration related to a venture capital investment made by Holder in the Company.

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

AGREEMENT

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 from the date of this Agreement until 11:59 P.M. (Eastern Standard Time) on the date that is seven (7) 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 \$ 1.00 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 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, in either case on the national securities exchange on which the Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by 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 (the "Act") and has executed and delivered the Investment Representation Statement that accompanies this Agreement.

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY 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 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. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 8(a), a Warrant may only be exercised in full by payment of the entire Exercise Price in effect at the time of such exercise.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger or transfer of assets 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 automatically 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 or transfer 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.

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 purposes 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.

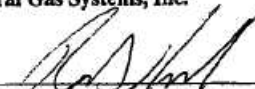
13. Severability. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

14. Governing Law and Venue. 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. Any proceeding arising under this Agreement shall be instituted in the State of Nevada.

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: 
Robert S. Herlin, President

HOLDER:
Cagan McAfee Capital Partners, LLC

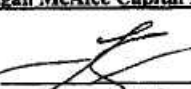
By: 
Name: LAIRD CAGAN
Tax ID: 09-2309267

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

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

Initial Number of Shares: 165,000
Exercise Price: \$1.00 per share
Date of Grant: May 26, 2004
Expiration Date: May 26, 2011

THIS CERTIFIES THAT, Cagan McAfee Capital Partners, LLC, or any person or entity to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjusted 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 conditions set forth herein and in the Warrant Agreement dated May 26, 2004. 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 exercisable, 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 represented 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 applicable 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 Warrant, 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 exercised 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. Reclassification, Reorganization, Consolidation or Merger. In the case of any reclassification of the Shares, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Shares), the Company, or such successor corporation, as the case may be, shall execute a new warrant providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each Share theretofore issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification, reorganization, consolidation or merger by a holder of Shares for each Share. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may

be practicable to the adjustments provided for in this Section 4 including, without limitation, adjustments to the Exercise Price and to the number of Shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

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 (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this 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 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 purchasable 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. **Miscellaneous.** The Company covenants 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 exercise 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 reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, 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 benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of Nevada.

Holder:
Cagan McAfee Capital Partners, LLC

By: 

Name: LAIRD CAGAN

Company:
Natural Gas Systems, a Nevada Corporation

By: 

Robert S. Herlin, President

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 representing said shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

Signed: _____

Date: _____

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : Cagan McAfee Capital Partners, LLC
COMPANY : NATURAL GAS SYSTEMS, INC.
SECURITY : COMMON STOCK
AMOUNT : 165,000
DATE : May 26, 2004

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Purchaser satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: May 26, 2004



Purchaser

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into as of May 26, 2004, between Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and Laird O. Cagan ("Holder").

RECITALS

WHEREAS, the Company proposes to issue to Holder Sixty-Six Thousand Seven Hundred Eighty-Four (66,784) warrants (the "Warrants"), each such Warrant entitling the holder thereof to purchase one share of common stock, no par value, of the Company (the "Shares" or the "Common Stock"); and

WHEREAS, the Warrants which are the subject of this Agreement will be issued by the Company to Holder as part of consideration related to a venture capital investment made by Holder in the Company.

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

AGREEMENT

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 from the date of this Agreement until 11:59 P.M. (Eastern Standard Time) on the date that is seven (7) 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 \$ 1.00 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 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, in either case on the national securities exchange on which the Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by 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 (the "Act") and has executed and delivered the Investment Representation Statement that accompanies this Agreement.

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY 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 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. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 8(a), a Warrant may only be exercised in full by payment of the entire Exercise Price in effect at the time of such exercise.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger or transfer of assets 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 automatically 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 or transfer 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.

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 purposes 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.

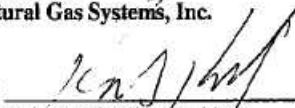
13. Severability. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

14. Governing Law and Venue. 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. Any proceeding arising under this Agreement shall be instituted in the State of Nevada.

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: 
Robert S. Herlin, President

HOLDER:

Laird O. Cagan

By: 
Name: LAIRD CAGAN
Tax ID: 58-2309267

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

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

Initial Number of Shares: 66,784
Exercise Price: \$1.00 per share
Date of Grant: May 26, 2004
Expiration Date: May 26, 2011

THIS CERTIFIES THAT, Laird O. Cagan, or any person or entity to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjusted 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 conditions set forth herein and in the Warrant Agreement dated May 26, 2004. 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 exercisable, 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 represented 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 applicable 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 Warrant, 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 exercised 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. Reclassification, Reorganization, Consolidation or Merger. In the case of any reclassification of the Shares, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Shares), the Company, or such successor corporation, as the case may be, shall execute a new warrant providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each Share theretofore issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification, reorganization, consolidation or merger by a holder of Shares for each Share. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may

be practicable to the adjustments provided for in this Section 4 including, without limitation, adjustments to the Exercise Price and to the number of Shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

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 (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this 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 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 purchasable 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. Miscellaneous. The Company covenants 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 exercise 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 reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, 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 benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of Nevada.

Holder:

Laird O. Cagan

Company:

Natural Gas Systems, a Nevada Corporation

By: 

By: 

Name: LAIRD CAGAN

Robert S. Herlin, President

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 representing said shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

Signed: _____

Date: _____

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : Laird O. Cagan
COMPANY : NATURAL GAS SYSTEMS, INC.
SECURITY : COMMON STOCK
AMOUNT : 66,784
DATE : May 26, 2004

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Purchaser satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: May 26, 2004

Purchaser

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into as of November 30, 2004, between Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and Laird O. Cagan ("Holder").

RECITALS

WHEREAS, the Company proposes to issue to Holder One Hundred Fifty-Nine (159) warrants (the "Warrants"), each such Warrant entitling the holder thereof to purchase one share of common stock, no par value, of the Company (the "Shares" or the "Common Stock"); and

WHEREAS, the Warrants which are the subject of this Agreement will be issued by the Company to Holder as part of consideration related to a venture capital investment made by Holder in the Company.

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

AGREEMENT

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 from the date of this Agreement until 11:59 P.M. (Eastern Standard Time) on the date that is seven (7) 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 \$ 1.50 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 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, in either case on the national securities exchange on which the Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by 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 (the "Act") and has executed and delivered the Investment Representation Statement that accompanies this Agreement.

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY 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 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. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 8(a), a Warrant may only be exercised in full by payment of the entire Exercise Price in effect at the time of such exercise.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger or transfer of assets 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 automatically 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 or transfer 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.

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 purposes 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.

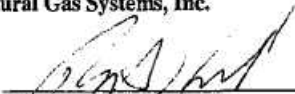
13. Severability. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

14. Governing Law and Venue. 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. Any proceeding arising under this Agreement shall be instituted in the State of Nevada.

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: 
Robert S. Herlin, President

HOLDER:

Laird O. Cagan

By: 
Name: LAIRD CAGAN
Tax ID: 58-2309267

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

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

Initial Number of Shares: 159
Exercise Price: \$1.50 per share
Date of Grant: November 30, 2004
Expiration Date: November 29, 2011

THIS CERTIFIES THAT, Laird O. Cagan, or any person or entity to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjusted 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 conditions set forth herein and in the Warrant Agreement dated November 30, 2004. 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 exercisable, 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 represented 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 applicable 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 Warrant, 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 exercised 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. Reclassification, Reorganization, Consolidation or Merger. In the case of any reclassification of the Shares, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Shares), the Company, or such successor corporation, as the case may be, shall execute a new warrant providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each Share theretofore issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification, reorganization, consolidation or merger by a holder of Shares for each Share. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may

be practicable to the adjustments provided for in this Section 4 including, without limitation, adjustments to the Exercise Price and to the number of Shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

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 (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this 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 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 purchasable 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. Miscellaneous. The Company covenants 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 exercise 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 reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, 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 benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of Nevada.

Holder:

Laird O. Cagan

Company:

Natural Gas Systems, a Nevada Corporation

By: 

Name: LAIRD CAGAN

By: 

Robert S. Herlin, President

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 representing said shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

Signed: _____

Date: _____

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : Laird O. Cagan
COMPANY : NATURAL GAS SYSTEMS, INC.
SECURITY : COMMON STOCK
AMOUNT : 159
DATE : November 30, 2004

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Purchaser satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: November 30, 2004

Purchaser

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into as of May 6, 2005, between Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and Laird O. Cagan ("Holder").

RECITALS

WHEREAS, the Company proposes to issue to Holder Ninety One Thousand Two Hundred (91,200) warrants (the "Warrants"), each such Warrant entitling the holder thereof to purchase one share of common stock, no par value, of the Company (the "Shares" or the "Common Stock"); and

WHEREAS, the Warrants which are the subject of this Agreement will be issued by the Company to Holder as part of consideration related to a venture capital investment made by Holder in the Company.

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

AGREEMENT

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 from the date of this Agreement until 11:59 P.M. (Eastern Standard Time) on the date that is seven (7) 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 \$ 2.50 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 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, in either case on the national securities exchange on which the Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by 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 (the "Act") and has executed and delivered the Investment Representation Statement that accompanies this Agreement.

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY 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 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. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 8(a), a Warrant may only be exercised in full by payment of the entire Exercise Price in effect at the time of such exercise.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger or transfer of assets 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 automatically 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 or transfer 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.

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 purposes 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.

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 and Venue. 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. Any proceeding arising under this Agreement shall be instituted in the State of Nevada.

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: _____
Robert S. Herlin, President

HOLDER:
Laird Q. Cagan

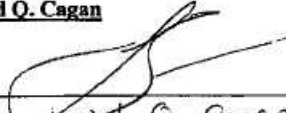
By: 
Name: Laird Q. Cagan
Tax ID: 132-52-0069

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

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

Initial Number of Shares: 91,200
Exercise Price: \$2.50 per share
Date of Grant: May 6, 2005
Expiration Date: May 6, 2012

THIS CERTIFIES THAT, Laird Q. Cagan or any person or entity to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjusted 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 conditions set forth herein and in the Warrant Agreement dated May 6, 2005. 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 exercisable, 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 represented 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 applicable 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 Warrant, 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 exercised 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. Reclassification, Reorganization, Consolidation or Merger. In the case of any reclassification of the Shares, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Shares), the Company, or such successor corporation, as the case may be, shall execute a new warrant providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each Share theretofore issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification, reorganization, consolidation or merger by a holder of Shares for each Share. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may

be practicable to the adjustments provided for in this Section 4 including, without limitation, adjustments to the Exercise Price and to the number of Shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

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 (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this 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 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 purchasable 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. Miscellaneous. The Company covenants 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 exercise 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 reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, 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 benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of Nevada.

Holder:

Laird O. Cagan

Company:

Natural Gas Systems, a Nevada Corporation

By: _____

Name: Laird O. Cagan

By: _____

Robert S. Herlin, President

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 representing said shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

Signed: _____

Date: _____

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : Laird. O. Cagan.
COMPANY : NATURAL GAS SYSTEMS, INC.
SECURITY : COMMON STOCK
AMOUNT : 91,200
DATE : May 6, 2005

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Purchaser satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: May 6, 2005

Purchaser

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into as of June 22, 2006, between Natural Gas Systems, Inc., a Nevada corporation (the "Company"), and Laird Q. Cagan ("Holder").

RECITALS

WHEREAS, the Company proposes to issue to Holder Thirteen Thousand One Hundred and Sixty Five (13,165) warrants (the "Warrants"), each such Warrant entitling the holder thereof to purchase one share of common stock, no par value, of the Company (the "Shares" or the "Common Stock"); and

WHEREAS, the Warrants which are the subject of this Agreement will be issued by the Company to Holder as part of consideration related to investment banking services performed by Holder for the Company.

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

AGREEMENT

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 from the date of this Agreement until 11:59 P.M. (Eastern Standard Time) on the date that is seven (7) 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 Two Dollars and Twenty Five Cents (\$2.25) 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 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, in either case on the national securities exchange on which the Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by 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 (the "Act") and has executed and delivered the Investment Representation Statement that accompanies this Agreement.

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY 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 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. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 8(a), a Warrant may only be exercised in full by payment of the entire Exercise Price in effect at the time of such exercise.

(b) Consolidation, Merger or Sale of the Company. If the Company is a party to a consolidation, merger or transfer of assets 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 automatically 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 or transfer 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.

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 purposes 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.

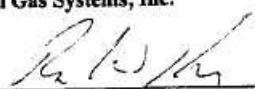
13. Severability. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

14. Governing Law and Venue. 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. Any proceeding arising under this Agreement shall be instituted in the State of Nevada.

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: 
Robert S. Herlin, President

HOLDER:


By: 
Laird Q. Cagan
Tax ID: 132-52-006

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 TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR PURSUANT TO RULE 144 OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

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

Initial Number of Shares:	13,165
Exercise Price:	\$2.25 per share
Date of Grant:	June 22, 2006
Expiration Date:	June 22, 2013

THIS CERTIFIES THAT, Laird Q. Cagan, or any person or entity to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjusted 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 conditions set forth herein and in the Warrant Agreement dated June 22, 2006. 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 exercisable, 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 represented 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 applicable 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 Warrant, 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 exercised 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. Reclassification, Reorganization, Consolidation or Merger. In the case of any reclassification of the Shares, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Shares), the Company, or such successor corporation, as the case may be, shall execute a new warrant providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each Share theretofore issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification, reorganization, consolidation or merger by a holder of Shares for each Share. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may

be practicable to the adjustments provided for in this Section 4 including, without limitation, adjustments to the Exercise Price and to the number of Shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

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 (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this 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 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 purchasable 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. Miscellaneous. The Company covenants 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 exercise 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 reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, 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 benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of Nevada.

Holder:

Company:

Natural Gas Systems, a Nevada Corporation

By:

Laird Q. Cagan

By:

Robert S. Herlin, President

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 representing said shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

Signed: _____

Date: _____

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : Laird Q. Cagan
COMPANY : NATURAL GAS SYSTEMS, INC.
SECURITY : COMMON STOCK
AMOUNT : 13,165
DATE : June 22, 2006

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Purchaser satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934, as amended); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: 6-22, 2006


Purchaser

