

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

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-31398

NATURAL GAS SERVICES GROUP, INC.
(Exact name of small business issuer as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

75-2811855
(I.R.S. Employer
Identification No.)

2911 SCR 1260
Midland, Texas 79706
(Address of principal executive offices)

(432) 563-3974
(Issuer's Telephone number, including area code)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ----

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding at August 4, 2004
-------	----------------------------------

Common Stock, \$.01 par value	5,961,709
-------------------------------	-----------

Transitional Small Business Disclosure Format (Check one): Yes No X
--- ----

NATURAL GAS SERVICES GROUP, INC.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Unaudited Consolidated Income Statements.....	Page 2
Unaudited Consolidated Statements of Cash Flows.....	Page 3
Notes to Unaudited Consolidated Financial Statements.....	Page 4
Item 2. Management's Discussion and Analysis or Plan of Operation.....	Page 7
- - - - -	
Item 3. Control and Procedures.....	Page 11
- - - - -	
Item 4. Submission of Matters to a Vote of Security Holders.....	Page 12
Part II - OTHER INFORMATION	
Item 1. Legal Proceedings.....	Page 12
- - - - -	
Item 5. Other Information.....	Page 12
- - - - -	
Item 6. Exhibits and Reports on Form 8-K.....	Page 13
- - - - -	
Signatures.....	Page 16

Natural Gas Services Group, Inc.
Consolidated Balance Sheet
(unaudited)
June 30, 2004

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 227,305
Accounts receivable - trade	1,310,624
Inventory	3,503,907
Prepaid expenses	154,908

Total current assets	5,196,744
Lease equipment, net	23,311,862
Other property, plant and equipment, net	3,016,092
Goodwill, net	2,589,655
Patents, net	100,199
Other assets	100,000

Total assets	\$34,314,552 =====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Current portion of long term debt and capital lease	\$ 2,742,739
Line of Credit	361,377
Accounts payable and accrued liabilities	2,023,323
Unearned Income	13,104

Total current liabilities	5,140,543
Long term debt and capital lease, less current portion	8,672,736
Subordinated notes, net	1,416,821
Deferred income tax payable	2,323,622

Total liabilities	17,553,722
SHAREHOLDERS' EQUITY	
Common stock	54,121
Paid in capital	11,334,452
Retained earnings	5,372,257

Total shareholders' equity	16,760,830

Total liabilities and shareholders' equity	\$34,314,552 =====

The accompanying notes are an integral part of the consolidated balance sheet

Natural Gas Services Group, Inc.
Consolidated Income Statements
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Revenue:				
Sales	\$ 852,255	\$ 939,838	\$ 1,742,220	\$ 1,505,110
Service and maintenance income	510,120	516,573	933,722	893,883
Leasing income	2,419,690	1,764,404	4,674,474	3,165,567
	3,782,065	3,220,815	7,350,416	5,564,560
Cost of revenue:				
Cost of sales	601,275	713,624	1,247,669	1,146,797
Cost of service and maintenance	355,605	335,928	691,855	671,229
Cost of leasing	762,051	406,867	1,330,460	767,784
	1,718,931	1,456,419	3,269,984	2,585,810
Gross Margin	2,063,134	1,764,396	4,080,432	2,978,750
Operating Cost:				
Selling expense	225,221	185,604	402,610	324,551
General and administrative expense	454,966	410,838	943,225	791,004
Depreciation and amortization	582,349	417,589	1,109,034	779,555
	1,262,536	1,014,031	2,454,869	1,895,110
Operating income	800,598	750,365	1,625,563	1,083,640
Interest expense	(193,943)	(175,706)	(374,551)	(329,789)
Other income	(7,057)	(21,760)	1,494,023	787
Income before income taxes	599,598	552,899	2,745,035	754,638
Provision for income tax	233,843	237,747	485,541	321,603
Net income	365,755	315,152	2,259,494	433,035
Preferred dividends	25,355	31,010	53,277	62,020
Net income available to common shareholders	\$ 340,400	\$ 284,142	\$ 2,206,217	\$ 371,015
Earnings per share:				
Basic	\$0.06	\$0.06	\$0.42	\$0.08
Diluted	\$0.06	\$0.06	\$0.39	\$0.07
Weighted average Shares:				
Basic	5,396,527	4,875,324	5,230,927	4,866,527
Diluted	5,611,115	5,024,774	5,598,747	5,116,332

The accompanying notes are an integral part of the consolidated income statements.

Natural Gas Services Group, Inc.
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended June 30, 2004 -----	Six Months Ended June 30, 2003 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,259,495	\$ 433,035
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,109,034	779,555
Deferred taxes	481,116	321,573
Amortization of debt issuance costs	32,478	32,478
Gain on disposal of assets	8,137	10,547
Changes in operating assets and liabilities:		
Trade and other receivables	(494,029)	(836,812)
Inventory	(949,668)	(746,248)
Prepaid expenses and other	(47,878)	92,146
Accounts payable and accrued liabilities	951,771	270,867
Deferred income	(194,111)	270,446
Other	(19,746)	(91,341)
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,136,599	536,246
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,651,754)	(4,465,223)
Acquisition of remaining interest in joint venture, net of cash acquired	--	242,753
Proceeds from sale of property and equipment	28,000	112,500
Decrease in lease receivable	--	210,512
Distribution from equity method investment	--	49,090
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(5,623,754)	(3,850,368)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from bank loans and line of credit	3,995,177	2,438,997
Repayments of long term debt and line of credit	(1,533,092)	(1,000,489)
Proceeds from exercised warrants and stock options	129,450	
		200,000
Dividends paid on preferred stock	(53,277)	(62,020)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,538,258	1,576,488
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	51,103	(1,737,634)
CASH AT BEGINNING OF PERIOD	176,202	2,713,638
	-----	-----
CASH AT END OF PERIOD	\$ 227,305	\$ 976,004
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 374,551	\$ 329,789

The accompanying notes are an integral part of the consolidated statements of cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited financial statements present the consolidated results of our company taken from our books and records. In our opinion, such information includes all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at June 30, 2004 and the results of our operations for the six month periods ended June 30, 2004 and 2003 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC) the accompanying financial statements do not include all disclosures normally required by accounting principles generally accepted in United States of America. These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2003 on file with the SEC. In our opinion, the consolidated financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the six months ended June 30, 2004 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2004.

(2) Stock-based Compensation

Statement of Financial Accounting Standards No. 123, ("SFAS 123") "Accounting for Stock-Based Compensation," encourages, but does not require, the adoption of a fair value-based method of accounting for employee stock-based compensation transactions. We have elected to apply the provisions of Accounting Principles Board Opinion No. 25 ("Opinion 25"), "Accounting for Stock Issued to Employees," and related interpretations, in accounting for our employee stock-based compensation plans. Under Opinion 25, compensation cost is measured as the excess, if any, of the quoted market price of our stock at the date of the grant above the amount an employee must pay to acquire the stock.

Had compensation costs for options granted to our employees been determined based on the fair value at the grant dates consistent with the method proscribed by SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts listed below:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	-----	-----	-----	-----
Pro forma impact of fair value method				
Income applicable to common shares, as reported	\$ 340,401	\$ 284,142	\$ 2,206,218	\$ 371,015
Pro-forma stock-based compensation costs under the fair value method, net of related tax	(10,000)	(7,683)	(20,000)	(15,365)
	-----	-----	-----	-----
Pro-forma income applicable to common shares under the fair-value method	\$ 330,401	\$ 276,459	\$ 2,186,218	\$ 355,650
Earnings per common share				
Basic earnings per share reported	\$0.06	\$0.06	\$0.42	\$0.08
Diluted earnings per share reported	\$0.06	\$0.06	\$0.39	\$0.07
Pro-forma basic earnings per share under the fair value method	\$0.06	\$0.06	\$0.42	\$0.07
Pro-forma diluted earnings per share under the fair value method	\$0.06	\$0.05	\$0.39	\$0.07

Weighted average Black-Scholes fair value

assumptions:	
Risk free rate	4.0%-5.2%
Expected life	5-10 yrs
Expected volatility	50.0%
Expected dividend yield	0.0%

(3) Merger

On January 1, 2004, we merged our subsidiaries, Rotary Gas Systems Inc, NGE Leasing Inc, and Great Lakes Compression Inc. with the parent Company, Natural Gas Services Group Inc. This had no effect on our consolidated financial position or results of operations, with the exception of a small impact on our state tax expenses.

(4) Preferred Stock Conversion

In accordance with the provisions of the Convertible Series A Preferred Stock of Natural Gas Services Group, Inc., on March 26, 2004 each share of Preferred Stock automatically converted to one share of Common Stock. The conversion occurred after the closing market price of the stock was equal to or higher than \$6.50 for 20 consecutive trading days. 315,154 Preferred shares were converted at that time. Dividends payable at the conversion date were approximately \$25,355.

(5) Common Stock Private Placement

On July 20, 2004, Natural Gas Services Group, Inc. and CBarney Investments, Ltd. entered into a Securities Purchase Agreement. Under this agreement, Natural Gas Services Group issued and sold 649,574 shares of its common stock to CBarney at \$7.69736 per share. The per share price was determined by multiplying (x) \$8.747, the average closing market price of the common stock on the American Stock Exchange for the twenty consecutive trading days ended July 15, 2004, times (y) eighty-eight percent. Natural Gas Services Group received aggregate gross proceeds of \$5,000,000.

We plan to use the net proceeds from the sale of the stock to advance the growth of our rental fleet of natural gas compressors, working capital and general corporate purposes, including possible acquisition of strategically located compressor companies.

(6) Earnings per common share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Basic earnings per share Numerator:				
Net income	\$ 365,756	\$ 315,152	\$ 2,259,4925	\$ 433,035
Less: dividends on preferred shares	(25,355)	(31,010)	(53,277)	(62,020)
Net income available to common shareholders	\$ 340,401	\$ 284,142	\$ 2,206,218	\$ 371,015

Denominator -				
Weighted average common shares outstanding	5,396,527	4,875,324	5,230,927	4,866,527
Basic earnings per share	\$ 0.06	\$ 0.06	\$ 0.42	\$ 0.08
Diluted earnings per share				
Numerator:				
Net income	\$ 365,756	\$ 315,152	\$ 2,259,495	\$ 433,035
Less: dividends on preferred shares (1)	(25,355)	(31,010)	(53,277)	(62,020)
Net income available to common shareholders	\$ 340,401	\$ 284,142	\$ 2,206,218	\$ 371,015
Denominator :				
Weighted average common shares outstanding	5,396,527	4,875,324	5,230,927	4,866,527
Dilutive effect of common stock options and warrants	214,588	149,450	367,820	249,805
	5,611,115	5,024,774	5,598,747	5,116,332
Diluted earnings per share	\$ 0.06	\$ 0.06	\$ 0.39	\$ 0.07

(1) Preferred shares were anti-dilutive for the three and six months ended June 30, 2004 and 2003

(7) Other Income

On March 15, 2004 the President and C.E.O. of our company, Mr. Wayne L. Vinson, passed away after a battle with cancer. The Company held 2 life insurance policies on him, 1 for \$1,000,000 and 1 for \$500,000, with the Company as the beneficiary. The proceeds of \$1,500,000 were recorded as other income.

Item 2. Management's Discussion and Analysis, or Plan of Operation

Overview

Our company provides products and services to the oil and gas industry and is engaged in (1) the manufacture, service, sale, and rental of natural gas compressors to enhance the productivity of oil and gas wells, and (2) the manufacture, sale and rental of flares and flare ignition systems for plant and production facilities.

Critical Accounting Policies and New Accounting Pronouncements

See our December 31, 2003 Form 10-KSB on file with the SEC for a discussion of our critical accounting policies and new accounting pronouncements. There have been no substantive changes since that time.

Liquidity and Capital Resources

We have funded our operations through public and private offerings of our common and preferred stock, subordinated debt and bank debt. Proceeds were primarily used to pay debt and to fund the manufacture and fabrication of additional units for our rental fleet of natural gas compressors.

At June 30, 2004, we had cash and cash equivalents of approximately \$227,300, working capital of \$56,200 and non-subordinated debt of \$11,415,000 of which approximately \$2,742,000 was classified as current. We had positive net cash flow from operating activities of approximately \$3,136,600 during the first six months of 2004. This was primarily from net income of \$2,259,000 plus depreciation and amortization of \$1,109,000 an increase in deferred taxes of \$481,000, an increase in accounts payable and accrued liabilities of \$952,000, offset by an increase in accounts receivable-trade of \$494,000, a decrease in deferred income of \$194,000, and an increase in inventory of \$950,000.

On November 24, 2003 we completed a new \$10 million senior credit facility with a \$7 million initial borrowing base. The credit facility is a Multiple Advance Term Promissory Note arranged by Western National Bank, Midland, Texas. The interest rate is one percent over Wall Street prime rate. Funds have been drawn under this line as of June 30, 2004 totaling \$3,615,000.

Our line of credit for \$750,000 with interest at 1% over prime for one year expired March 15, 2004 but was renewed on May 28, 2004. Funds have been drawn under the line of credit as of June 30, 2004 totaling \$361,000.

In accordance with the provisions of the Convertible Series A Preferred Stock of Natural Gas Services Group, Inc., on March 26, 2004 each share of Preferred Stock automatically converted to one share of Common Stock. The conversion occurred after the closing market price of the stock was equal to or higher than \$6.50 for 20 consecutive trading days. 315,154 Preferred shares were converted at that time. As a result the conversion we will have a reduction in expected dividend payments of approximately \$68,000 for the remainder of the year 2004.

On July 20, 2004, Natural Gas Services Group, Inc. and CBarney Investments, Ltd. entered into a Securities Purchase Agreement. Under this agreement, Natural Gas Services Group agreed to issue and sell 649,574 shares of its common stock to CBarney at \$7.69736 per share. The per share price was determined by multiplying (x) \$8.747, the average closing market price of the common stock on the American Stock Exchange for the twenty consecutive trading days ended July 15, 2004, times (y) eighty-eight percent. Natural Gas Services Group will receive aggregate gross proceeds of \$5,000,000. We plan to use the net proceeds from the sale of the stock to advance the growth of our rental fleet of natural gas compressors, working capital and general corporate purposes, including possible acquisition of strategically located compressor companies.

Results of Operations

Six Months Ended June 30, 2004, Compared to the Six Months Ended June 30, 2003.

Sales revenue from outside sources increased from \$1,505,000 to \$1,742,000, or 16% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was mainly the result of an improvement in the sale of compressors and flare units compared to the same period in 2003. Because our products are custom-built, fluctuations in revenue from outside sources is not unusual.

Service and maintenance revenue increased from \$894,000 to \$934,000, or 4% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003.

Leasing revenue increased from \$3,166,000 to \$4,674,000, or 48% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was the result of additional units added to our rental fleet and leased to third parties. The company ended the period with 488 compressor packages in its rental fleet, up from 399 units at December 31, 2003 and 354 units at June 30, 2003.

The gross margin percentage increased from 54% for the six months ended June 30, 2003, to 56% for the same period ended June 30, 2004. This improvement resulted mainly from the relative increase in leasing revenue as a percentage of the total revenue. Our rental fleet carries a gross margin averaging 70%, and increases in rented units improves our gross margin.

Selling, general and administrative expense increased from \$1,116,000 to \$1,346,000 or 21% for the six months ended June 30, 2004, as compared to the same period ended June 30, 2003. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties and legal expenses related to an internal investigation concerning an employee matter that was settled in April 2004.

Depreciation and amortization expense increased 42% from \$780,000 to \$1,109,000 for the six months ended June 30, 2004, compared to the same period ended June 30, 2003. This increase was the result of 134 new gas compressor rental units being added to rental equipment from June 30, 2003 to June 30, 2004.

Other income and expense increased approximately \$1,493,000 for the six months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was due mainly from the receipt of \$1,500,000 in life insurance payable on Mr. Wayne L. Vinson, our former President and C.E.O. His death on March 15, 2004 left the company as the beneficiary of two life insurance policies, one for \$1,000,000, and one for \$500,000.

Interest expense increased 14% for the six months ended June 30, 2004 compared to the same period ended June 30, 2003, mainly due to the increased loan balances on vehicles and rental equipment.

Provision for income tax increased \$164,000 or 51%, primarily due to the increase in net taxable income. The income from the life insurance proceeds described above is not subject to federal income tax.

Three Months Ended June 30, 2004, Compared to the Three Months Ended June 30, 2003.

Sales revenue from outside sources decreased from \$940,000 to \$852,000, or 9% for the three months ended June 30, 2004 compared to the same period ended June 30, 2003. This decrease was mainly the result of a reduction in the sales of compressor units and parts. Because our products are custom-built, fluctuations in compressor unit revenue from outside sources is not unusual. The reduction in parts sales is the result of a change in our discount status with a major supplier in Northern Michigan. We expect this to be a temporary situation.

Service and maintenance revenue decreased from \$517,000 to \$510,000, or 1% for the three months ended June 30, 2004 compared to the same period ended June 30, 2003. This revenue source is subject to seasonable change and we expect this to increase in the third quarter of 2004.

Leasing revenue increased from \$1,764,000 to \$2,420,000, or 37% for the three months ended June 30, 2004 compared to the same period ended June 30, 2003. This increase was the result of additional units added to our rental unit fleet and leased to third parties. The company added 44 gas compressors to its rental fleet in the quarter ended June 30, 2004.

The gross margin percentage remained stable at 55% for the three months ended June 30, 2003 and also for the same period ended June 30, 2004. Although we expect our margins to increase as our rental revenue increases because our rental fleet carries a gross margin averaging 70%, changes in the product mix during the quarter help to average out the gross margin company wide.

Selling, general and administrative expense increased from \$596,000 to \$680,000 or 14% for the three months ended June 30, 2004, as compared to the same period ended June 30, 2003. This was mainly the result of the increase in commissions from additional leasing contracts on gas compressors to third parties and an increase in sales and administration salary expense.

Depreciation and amortization expense increased 39% from \$418,000 to \$582,000 for the three months ended June 30, 2004, compared to the same period ended June 30, 2003. This increase was the result of 44 new gas compressor rental units being added to rental equipment during the three months ended June 30, 2004.

There was a slight increase in interest expense for the three months ended June 30, 2004 compared to the same period ended June 30, 2003, was mainly due to the increase in loan balances for rental equipment.

Provision for income tax decreased \$4,000, or 2%, primarily due from a change in our effective tax rate. The effective tax rate changed because of a reduction in our state taxes as a result the merger of our subsidiaries effective January 1, 2004.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in timely alerting them to the material information relating to us that are required to be included in our periodic filings with the SEC.

(b) Changes in internal controls.

There were no changes made in our internal controls during the period covered by this report that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting. In addition, to our knowledge there were no changes, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

NATURAL GAS SERVICES GROUP, INC.

Item 1. Legal Proceedings

From time to time, we are a party to ordinary routine litigation incidental to our business. We are not currently a party to any pending litigation, and we are not aware of any threatened litigation.

Item 4. Submission of Matters to a Vote of Security Holders

On June 15, 2004, we held our Annual Meeting of Shareholders. At the Annual Meeting of Shareholders, Richard L. Yadon was elected for a term expiring at the Annual Meeting of Shareholders to be held in 2007 and Wallace C. Sparkman and William F. Hughes, Jr. were elected for a term expiring at the Annual Meeting of Shareholders to be held in 2006. The terms of Charles G. Curtis, Wallace O. Sellers and Gene A. Strasheim as directors continued after the Annual Meeting of Shareholders until the Annual Meetings of Shareholders to be held in 2005.

Voting for Richard L. Yadon

For:	5,120,796	Withheld:	9,420	Abstentions:	0
----		-----		-----	

Voting for Wallace C. Sparkman

For:	5,120,796	Withheld:	9,420	Abstentions:	0
----		-----		-----	

Voting for William F. Hughes, Jr.

For:	5,124,696	Withheld:	5,520	Abstentions:	0
----		-----		-----	

Item 5. Other Information

The Nominating Committee of our Board of Directors will consider a candidate for director proposed by a stockholder. A candidate must be highly qualified in terms of business experience and be both willing and expressly interested in serving on the Board. A stockholder wishing to propose a candidate for the Committee's consideration should forward the candidate's name and information about the candidate's qualifications to Natural Gas Services Group, Inc., Nominating Committee, 2911 South County Road 1260, Midland, Texas 79706,

Attn.: Charles G. Curtis, Chairman. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employer's names and description of the employer's business, educational background and any other biographical information that would assist the Committee in determining the qualifications of the individual. The Committee will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement is released to shareholders in connection with the prior year's annual meeting for nomination at that annual meeting. The Committee will consider nominations received beyond that date at the annual meeting subsequent to the next annual meeting.

The Committee evaluates nominees for directors recommended by stockholders in the same manner in which it evaluates other nominees for directors. Minimum qualifications include the factors discussed above.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc.(2)
3.1	Articles of incorporation.(3)
3.2	Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999.(3)
3.3	Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001.(3)
3.4	Amendment to articles of incorporation dated June 18, 2003, and filed on June 19, 2003.(3)
3.5	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging NGE Leasing, Inc into Natural Gas Services Group, Inc.(6)
3.6	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Rotary Gas Systems, Inc. into Natural Gas Services Group, Inc.(6)
3.7	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Great Lakes Compression, Inc. into Natural Gas Services Group, Inc.(6)
3.8	Bylaws.(3)
4.1	Form of warrant certificate.(3)
4.2	Form of warrant agent agreement.(3)
4.3	Form of lock-up agreement.(3)
4.4	Form of representative's option for the purchase of common stock.(3)
4.5	Form of representative's option for the purchase of warrants.(3)
10.1	1998 Stock Option Plan.(3)

Exhibit No. -----	Description -----
10.2	Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
10.3	Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc.(3)
10.4	Form of Series A 10% Subordinated Notes due December 31, 2006.(3)
10.5	Form of Five-Year Warrants to Purchase Common Stock.(3)
10.6	Warrants issued to Berry-Shino Securities, Inc.(3)
10.7	Warrants issued to Neidiger, Tucker, Bruner, Inc.(3)
10.8	Form of warrant issued in March 2001 for guaranteeing debt.(3)
10.9	Form of warrant issued in April 2002 for guaranteeing debt.(3)
10.10	Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(1)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
10.11	Articles of Organization of Hy-Bon Rotary Compression, L.L.C. dated April 17, 2000 and filed on April 20, 2001.(3)
10.12	Regulations of Hy-Bon Rotary Compression, L.L.C.(3)
10.13	First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank(4)
10.14	Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus(5)
10.15	Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson(5)
10.16	Termination of Employment Agreement Letter relating to the Employment Agreement of Earl R. Wait(5)
10.17	Lease Agreement dated June 1, 2003 with Steven J. & Katherina L. Winer(6)
10.18	Lease Agreement dated June 19, 2003 with Wise Commercial Properties(6)
10.19	Lease Agreement dated April 1, 2004 with the City of Midland (1)
10.20	Second Amended and Restated Loan Agreement, dated November 3, 2003, between Natural Gas Services Group, Inc. and Western National Bank (1)
10.21	Securities Purchase Agreement between the Registrant and CBarney Investments (7)
31.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)

Exhibit No. -----	Description -----
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)

(1)	Filed herewith.
(2)	Exhibit 2.1 is incorporated by reference to Exhibit 2.1 filed as an exhibit to our Current Report on Form 8-K dated February 28, 2003
(3)	Exhibits 3.1 through 3.4 and 3.8 through 10.12 are incorporated by reference to the exhibits filed as exhibits to our Registration Statement No. 333-88314
(4)	Exhibit 10.13 is incorporated by reference to our Current Report on Form 8-K filed on April 14, 2003
(5)	Exhibits 10.14, 10.15 and 10.16 are incorporated by reference to exhibits 10.25, 10.26 and 10.27 to our Annual Report on Form 10-KSB for the year ended December 31, 2002
(6)	Exhibits 3.5, 3.6, 10.17, and 10.18 are incorporated by reference to the same exhibits filed with our Annual Report on Form 10-KSB for the year ended December 31, 2003.
(7)	Exhibit 10.21 is incorporated by reference to the same Exhibit 4.1 to our Current Report on Form 8-K dated July 27, 2004.
(b)	<p>Reports on Form 8-K</p> <p>On April 4, 2004, under Item 5 of Form 8-K, we announced the automatic conversion of our outstanding 10% Convertible Series A Preferred Stock into 315,154 shares of our common stock.</p>

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wallace Sparkman

Wallace Sparkman
President and Chief Executive
Officer

By: /s/ Earl R. Wait

Earl R. Wait
Chief Financial Officer
And Treasurer

August 11, 2004

INDEX TO EXHIBITS:

Exhibit No. -----	Description -----
2.1	Purchase and Sale Agreement by and between Hy-Bon Engineering Company, Inc. and NGE Leasing, Inc.(2)
3.1	Articles of incorporation.(3)
3.2	Amendment to articles of incorporation dated March 31, 1999, and filed on May 25, 1999.(3)
3.3	Amendment to articles of incorporation dated July 25, 2001, and filed on July 30, 2001.(3)
3.4	Amendment to articles of incorporation dated June 18, 2003, and filed on June 19, 2003.(3)
3.5	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging NGE Leasing, Inc into Natural Gas Services Group, Inc.(6)
3.6	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Rotary Gas Systems, Inc. into Natural Gas Services Group, Inc.(6)
3.7	Articles of Merger filed on December 30, 2003 to be effective January 1, 2004 merging Great Lakes Compression, Inc. into Natural Gas Services Group, Inc.(6)
3.8	Bylaws.(3)
4.1	Form of warrant certificate.(3)
4.2	Form of warrant agent agreement.(3)
4.3	Form of lock-up agreement.(3)
4.4	Form of representative's option for the purchase of common stock.(3)
4.5	Form of representative's option for the purchase of warrants.(3)
10.1	1998 Stock Option Plan.(3)
10.2	Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
10.3	Amendment to Guaranty Agreement between Natural Gas Services Group, Inc. and Dominion Michigan Production Services, Inc.(3)
10.4	Form of Series A 10% Subordinated Notes due December 31, 2006.(3)
10.5	Form of Five-Year Warrants to Purchase Common Stock.(3)
10.6	Warrants issued to Berry-Shino Securities, Inc.(3)
10.7	Warrants issued to Neidiger, Tucker, Bruner, Inc.(3)
10.8	Form of warrant issued in March 2001 for guaranteeing debt.(3)
10.9	Form of warrant issued in April 2002 for guaranteeing debt.(3)

Exhibit No. -----	Description -----
10.10	Exhibits 3(c)(1), 3(c)(2), 3(c)(3), 3(1)(4), 13(d)(1), 13(d)(2) and 13(d)(3) to Asset Purchase Agreement between Natural Gas Acquisition Corporation and Great Lakes Compression, Inc. dated January 1, 2001.(3)
10.11	Articles of Organization of Hy-Bon Rotary Compression, L.L.C. dated April 17, 2000 and filed on April 20, 2001.(3)
10.12	Regulations of Hy-Bon Rotary Compression, L.L.C.(3)
10.13	First Amended and Restated Loan Agreement between Natural Gas Services Group, Inc. and Western National Bank(4)
10.14	Termination of Employment Agreement Letter relating to the Employment Agreement of Alan Kurus(5)
10.15	Termination of Employment Agreement Letter relating to the Employment Agreement of Wayne Vinson(5)
10.16	Termination of Employment Agreement Letter relating to the Employment Agreement of Earl R. Wait(5)
10.17	Lease Agreement dated June 1, 2003 with Steven J. & Katherina L. Winer(6)
10.18	Lease Agreement dated June 19, 2003 with Wise Commercial Properties(6)
10.19	Lease Agreement dated April 1, 2004 with the City of Midland (1)
10.20	Second Amended and Restated Loan Agreement, dated November 3, 2003, between Natural Gas Services Group, Inc. and Western National Bank (1)
10.21	Securities Purchase Agreement between the Registrant and CBarney Investments (7)
31.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002. (1)

-
- (1) Filed herewith.
 - (2) Exhibit 2.1 is incorporated by reference to Exhibit 2.1 filed as an exhibit to our Current Report on Form 8-K dated February 28, 2003
 - (3) Exhibits 3.1 through 3.4 and 3.8 through 10.12 are incorporated by reference to the exhibits filed as exhibits to our Registration Statement No. 333-88314
 - (4) Exhibit 10.13 is incorporated by reference to our Current Report on Form 8-K filed on April 14, 2003
 - (5) Exhibits 10.14, 10.15 and 10.16 are incorporated by reference to exhibits 10.25, 10.26 and 10.27 to our Annual Report on Form 10-KSB for the year ended December 31, 2002
 - (6) Exhibits 3.5, 3.6, 10.17, and 10.18 are incorporated by reference to the same exhibits filed with our Annual Report on Form 10-KSB for the year ended December 31, 2003.
 - (7) Exhibit 10.21 is incorporated by reference to the same Exhibit 4.1 to our Current Report on Form 8-K dated July 27, 2004.

MIDLAND INTERNATIONAL AIRPORT
LEASE AGREEMENT

STATE OF TEXAS ss.
 ss.
COUNTY OF MIDLAND ss.

THIS LEASE AGREEMENT, made and effective this 1 st day of March 2004, by and between the CITY OF MIDLAND, TEXAS, a municipal corporation, (hereinafter referred to as "City"), and NATURAL GAS SERVICES GROUP, INC., a corporation organized and existing under and by virtue of the laws of the State of Texas (hereinafter referred to as "Lessee");

WHEREAS, the City of Midland owns and operates the Midland International Airport, referred to hereafter as "Airport"; and

WHEREAS, Lessee desires to lease certain City-owned land at the Airport upon terms and conditions as set forth herein:

ARTICLE I. GRANT OF LEASE

1.01 CONVEYANCE OF LEASED PREMISES

City hereby leases to Lessee and Lessee does hereby accept and lease a tract of land at the Airport as shown on the drawing marked as Exhibit "A" (the "Leased Premises") which is attached hereto and made a part hereof for all legal purposes.

1.02 ACCEPTANCE OF LEASED PREMISES

Lessee agrees to accept the Leased Premises in the condition they are in at the commencement of the term hereof, including all defects therein, whether concealed or otherwise, and which are known or unknown to the City, and does hereby release and forever discharge the City from any and all damages of every kind and nature that may be in any way occasioned thereby.

LESSEE AGREES AND ACKNOWLEDGES THE LESSEE IS LEASING THE LEASED PREMISES "AS IS" WITH ANY AND ALL LATENT AND PATENT DEFECTS AND THAT THERE IS NO WARRANTY, EXPRESS OR IMPLIED BEING MADE BY THE CITY OF MIDLAND, TEXAS THAT THE PREMISES ARE FIT FOR A PARTICULAR PURPOSE. THE LESSEE ACKNOWLEDGES THAT LESSEE IS NOT RELYING UPON ANY REPRESENTATION MADE BY THE CITY OF MIDLAND WITH RESPECT TO THE CONDITION OF THE _PREMISES, BUT IS RELYING UPON LESSEE'S EXAMINATION OF THE PREMISES. LESSEE ALSO RECOGNIZES THAT THE LESSEE IS AGREEING TO LEASE THE

PREMISES "AS IS" THAT LESSEE AGREES TO MAKE LESSEE'S OWN APPRAISAL OF THE PREMISES AND TO ACCEPT THE RISK THAT LESSEE MAY BE WRONG. THE CITY OF MIDLAND GIVES NO ASSURANCES EXPRESS OR IMPLIED CONCERNING THE VALUE OR CONDITION OF THE PREMISES LEASED. IN NO EVENT SHALL THE LESSEE HAVE A RIGHT TO RECOVER CONSEQUENTIAL DAMAGES. THEREFORE THE LESSEE WILL TAKE THE LEASED PREMISES UNDER THE EXPRESS UNDERSTANDING THE LEASED PREMISES ARE ACCEPTED "AS IS" AND WITH ALL FAULTS EXCLUDING EXPRESS OR IMPLIED WARRANTIES.

ARTICLE II. TERM OF AGREEMENT

2.01 LEASE TERM

The term of this Lease (also sometimes referred to as "the Lease Term") shall commence on March 1, 2004, and terminate on February 28, 2009, unless extended or sooner terminated under the provisions hereof.

2.02 HOLDOVER BY LESSEE

If Lessee holds over or remains in possession of the Leased Premises after the termination of this Lease in the absence of a new lease agreement between the City and Lessee, such continuation beyond the date of termination, or the collection or acceptance of rent, fees and/or charges by the City, shall not be construed as a renewal or extension of this Lease, but shall be construed solely as creating a tenancy from month-to-month and not for any other term whatsoever. During the term of such tenancy from month-to-month, Lessee shall pay to City the fees and charges herein reserved, and each party shall be bound by and comply with all the relevant terms and provision of this Lease. The City may terminate said tenancy from month-to-month by giving Lessee thirty (30) days written notice thereof.

2.03 OPTION FOR EXTENSION OF LEASE TERM

This Lease may be automatically extended for one additional five-year term upon City's receipt of a written notification of Lessee's intent to exercise this option. In order to effectively extend the term of this Lease, such written notification must be received by City no later than September 1, 2008.

ARTICLE III. RENT AND DEPOSIT

3.01 AMOUNT OF RENT AND DEPOSIT

Lessee agrees to pay rent to the City for the use of the Leased Premises in the following amounts:

\$850.00, or the equivalent of two months rent, as a security deposit. Said security deposit shall be returned to Lessee, without interest, within 60 days after termination of this Lease and Lessee's completion of all obligations under this Lease. The City may use the Deposit to pay for any of Lessee's obligations under the Lease.

\$5,100.00 for the twelve months of the Lease Term, payable in monthly installments of \$425.00. Each monthly installment shall be due and payable in advance on or before the first (1st) day of each month during said term of the Lease.

Annual Consumer Price Index Adjustment. It is agreed and understood that provision must be made herein for an adjustment of rentals annually. Therefore, as of March 1, 2004, it is agreed and understood that the Minimum Annual rental shall be \$5,100.00. Thereafter, as of March 1, 2005 the Minimum Annual rent shall be increased only in the same proportion or percentage by which the cost of living has been increased as reflected by the Consumer Price Index for All Items, as maintained by the United States Government's Department of Labor, Bureau of Labor Statistics for the Dallas/Fort Worth SMA; such increase being measured by comparison with such cost-of-living indices at the end of the immediately preceding 12-month period of this lease, as compared with the indices at the commencement of the immediately preceding 12-month period of this lease. In no event shall the yearly payment due be less than \$5,100.00.

3.02 DELIVERY OF RENT

All rent payments shall be made to the Department of Airports, ATTN: Director of Airports, P. O. Box 60305, Midland, Texas 79711, or to such other location as specified in writing by the City from time to time, no later than the date such payment is due, unless such due date falls on a Saturday, Sunday, or City holiday, in which case such rent shall be due on the first City business day following the date such payment is due.

3.03 LATE RENT CHARGE

Lessee agrees that in the event rent payments are not received by the City on or before the 15' day of the month for which such rent is due, amounts due and unpaid shall accrue interest at an annual rate of 12% or the maximum legal rate whichever is lower. Payments due the City shall be received by the City only on normal business days of Monday through Friday. Payment by Lessee and acceptance by City of a delinquent charge shall not be construed as a waiver or forfeiture of any other rights or remedies of the City contained elsewhere in this Lease, or as provided by law. For the purposes of this Section, the date payments are received by the City shall be the U.S. Postal Service cancellation date on the envelope transmitting the payment, or the date such payment is received by an authorized representative of the City if the payment is hand delivered. In the event of a dispute as to the amount to be paid, the City may accept without prejudice the sum tendered and, if a deficiency is determined, the foregoing delinquency charge shall apply only to such deficiency. The City may waive, for good cause, any delinquency charge upon written application of Lessee.

ARTICLE IV. MAINTENANCE, REPAIR AND RESTORATION OF
LEASED PREMISES

4.01 MAINTENANCE OF LEASED PREMISES

Lessee shall, at Lessee's sole expense, keep the Leased Premises and all improvements of any kind, which may be existing at the commencement of the Lease Term or erected, installed, or made thereon by Lessee after commencement of the Lease Term, not required herein to be maintained by City in good repair, condition and appearance. This section shall not apply in case of damage or destruction by fire or other casualty, in which event the City shall be obligated to repair as provided in Section 4.02. Subject to Section 4.03 below, Lessee shall keep mowed and in a slightly condition all landscaping and grass areas within the Leased Premises. City shall be the sole judge of the quality of Lessee's maintenance; provided, however, City shall not unreasonably withhold acceptance of said repairs or maintenance. Upon written notice by City to Lessee, Lessee shall be required to perform such reasonable maintenance under this Section 4.01 as City considers necessary. If such maintenance is not undertaken by Lessee within ten (10) days after receipt of written notice, City shall have the right to enter on the Leased Premises and perform the necessary maintenance, the cost of which shall be borne by Lessee.

4.02 DAMAGE TO LEASED PREMISES

A. SUBSTANTIAL DAMAGE OR TOTAL DESTRUCTION

If the Leased Premises or any building or buildings located on the Leased Premises are destroyed or substantially damaged by fire or any other cause, the Lessor or Lessee shall have the right to terminate this agreement effective as of the date of such damage, without liability to either party.

B. PARTIAL DAMAGE (USABLE)

In the event that any part of the building or buildings on the Leased Premises are partially damaged by fire or other cause so as to require repair, but remain usable for the purposes permitted by this Agreement, then City may repair any such damage without cost to Lessee. Lessee shall remain obligated to pay rent and comply with all other provisions of this Agreement. The decision on whether to repair and the amount and extent of the repairs are in the sole discretion of City.

4.03 TRASH AND WASTE REMOVAL

On or before the date that is 30 days after the effective date of this Lease, the City agrees to cause to be removed from the Leased Premises, at its own expense, all waste, garbage and rubbish, and agrees to mow the Leased Premises so that the grass within the Leased Premises is in a slightly condition. >From and after the date the City satisfies the requirements set forth in the preceding sentence, Lessee agrees to cause to be removed from the Leased

Premises, at its own expense, all waste, garbage and rubbish, and agrees not to deposit same on the Leased Premises except temporarily in waste or garbage containers provided by Lessee at Lessee's expense. Lessee further agrees that Lessee will store all parts, supplies, and other materials on the interior of buildings located on the Leased Premises, provided, however, that any parts or supplies which must be kept outside because of volatility of the supply item or the size of the part will be kept out of view of the public traveling on public rights of way or other surrounding tenants by installation of fencing or other means of screening approved by the Director of Airports.

4.04 FENCES - - - - -

Lessee may remove the existing fencing between Lessee's property and the Leased Premises during the term of this Lease, provided however, that all fencing so removed shall be replaced by Lessee no later than 30 days following the termination of this Lease. Lessee's failure to replace all fencing within the time allowed shall result in the forfeiture of Lessee's security deposit to the City.

ARTICLE V. NO SUBLEASING OR ASSIGNMENT

Lessee shall at no time sublease or assign, or attempt to sublease or assign any portion of this Lease or the Leased Premises, and any such sublease or assignment is void at inception.

ARTICLE VI. INDEMNIFICATION

LESSEE WILL INDEMNIFY AND HOLD HARMLESS AND DEFEND CITY AND ALL OF CITY'S OFFICERS, AGENTS AND EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL SUITS, ACTIONS, CLAIMS, DAMAGES, PERSONAL INJURIES, ACCIDENTAL DEATH, LOSSES, PROPERTY DAMAGE AND EXPENSES OF ANY CHARACTER WHATSOEVER, INCLUDING ATTORNEY'S FEES BROUGHT FOR OR ON ACCOUNT OF ANY INJURIES OR DAMAGES RECEIVED OR SUSTAINED BY ANY PERSON OR PERSONS OR PROPERTY, ON ACCOUNT OF ANY NEGLIGENT ACT OF LESSEE ITS AGENTS OR EMPLOYEES, OR ANY SUBCONTRACTOR, arising out of the operations conducted on the Leased Premises, and Lessee will be required to pay any judgment with costs which arises out of operations conducted on the Leased Premises and is obtained against City or any of its officers, agents or employees, including attorney's fees.

LESSEE SHALL INDEMNIFY AND HOLD HARMLESS AND DEFEND CITY AND ALL OF CITY'S OFFICERS, AGENTS AND EMPLOYEES, SUCCESSORS AND ASSIGNS FROM ALL SUITS ACTIONS CLAIMS DAMAGES PERSONAL INJURIES, ACCIDENTAL DEATH, PROPERTY DAMAGE, LOSSES, AND EXPENSE OF ANY CHARACTER WHATSOEVER INCLUDING ATTORNEY'S FEES, BROUGHT FOR OR ON ACCOUNT OF ANY INJURIES OR DAMAGES RECEIVED OR SUSTAINED BY ANY PERSON OR PERSONS OR PROPERTY, ON ACCOUNT OF ANY NEGLIGENT ACT OF CITY CITY'S OFFICERS AGENTS AND EMPLOYEES WHETHER SUCH NEGLIGENT ACT WAS THE SOLE PROXIMATE CAUSE OF THE INJURY OR DAMAGE OR A PROXIMATE CAUSE JOINTLY AND CONCURRENTLY WITH LESSEE

OR LESSEE'S EMPLOYEES, AGENTS OR SUBCONTRACTORS NEGLIGENCE ARISING OUT OF THE OPERATIONS CONDUCTED ON THE LEASED PREMISES AND LESSEE WILL BE REQUIRED TO PAY ANY JUDGMENT WITH COSTS WHICH ARISES OUT OF OPERATIONS CONDUCTED ON THE LEASED PREMISES AND IS OBTAINED AGAINST CITY OR ANY OF ITS OFFICERS AGENTS OR EMPLOYEES, INCLUDING ATTORNEY'S FEES.

Lessee agrees to be responsible for the Worker's Compensation insurance on its employees. If any direct claim for Worker's Compensation benefits is asserted against City by any of said employees or, in the event of death, by their personal representative(s) then upon written notice from City, Lessee shall undertake to defend City against such claim(s) and shall indemnify and hold City harmless from and against any such claim(s) to the extent of all benefits, costs of litigation, disbursements and attorney's fees incurred in connection therewith.

ARTICLE VII. INSURANCE

7.01 COVERAGE REQUIRED

Lessee shall procure and maintain, in full force and effect during the term of this Lease and any extension thereof, at its sole expense, an insurance policy or policies in the amount of not less than FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) combined single limit General Liability bodily injury and property damage.

The policy or an endorsement thereto shall name the City as an additional insured, and shall further provide a broad form of contractual liability protection to include this Lease between the City and Lessee. Lessee shall require its insurance carriers, with respect to all insurance policies, including Worker's Compensation, to WAIVE ALL RIGHTS OF SUBROGATION IN FAVOR OF THE CITY. In addition, said policy shall provide that it will not be canceled or materially altered unless a thirty (30) day written notice of cancellation, material change or non-renewal has been served upon the City. In the event such policy of insurance is canceled, Lessee shall, prior to the effective date of such cancellation, procure other insurance in the amounts and in accordance with conditions set forth herein.

7.02 CERTIFICATE OF INSURANCE

Prior to the execution of this Lease and for so long as this Lease is in effect, Lessee shall provide the City a current certificate of insurance executed by the insurance carrier issuing said policy certifying that said insurance is in full force and effect, that all operations of Lessee are covered by such policy, that subrogation is waived as to the City, and that City is named as an additional insured.

7.03 INSURANCE NOT LIMITATION ON INDEMNITY

The amount or amounts of all required policies shall not be deemed a limitation of the Lessee's agreement to indemnify and hold harmless the City, its officers and employees in the event Lessee or City, its officers or employees shall become liable in an amount in excess of the amount or amounts of such policies.

7.04 CITY'S RIGHT TO PURCHASE INSURANCE

In the event such insurance as required by Section 7.01 above, shall lapse, the City reserves the right to obtain such insurance at Lessee's expense. Upon demand from City, Lessee shall reimburse City for the full amount of the premium paid on Lessee's behalf or, at City's option, such amounts shall be added as amounts due City as rent pursuant to Section 3.01.

ARTICLE VIII. SIGNS

All signs shall be constructed and erected in accordance with the standards approved by the Director of Airports. Prior to installation, construction or placing of any such signs or advertising matter on the Leased Premises, the Lessee shall submit to the Director of Airports for his approval in writing, such drawings, sketches, design dimensions and type, number and character of the sign or advertising matter as necessary to obtain such approval. Lessee shall remove all signs at its own expense at the end of the Lease and repair any and all damage at Lessee's own expense.

Lessee may not install or erect any sign on or about the premises without first obtaining City's written approval. Lessee must, at its sole expense, remove any signs that it installed or erected on or about the premises and repair any damage done to the premises or the building in which the signs are located. This removal and repair must be completed no later than the lease-termination date. If the sign or signs are not removed, the signs become the property of City without City owing any compensation to Lessee.

ARTICLE IX. DEFAULT AND REMEDIES

9.01 EVENTS OF DEFAULT

The following events shall constitute events of default of Lessee pursuant to this Lease Agreement:

- A. The failure of Lessee to pay at the time and place due any installment of rent or any other payment due to City by Lessee pursuant to this Lease;
- B. The abandonment of the Leased Premises by Lessee;
- C. The violation by Lessee of any other covenant, term or provision in this Lease binding upon Lessee and the failure of Lessee to remedy such violation within a period of thirty (30) days after written notice thereof by City to Lessee;

- D. Failure of a trustee in bankruptcy to affirm this Lease within thirty (30) days after the filing of any voluntary petition by or against Lessee, or by or against any then owner of Lessee's estate and interest in this Lease, under any provision of the United States Bankruptcy Code or any other similar law;
- E. Any assignment by Lessee for the benefit of creditors; or
- F. Any appointment of a receiver of the assets of Lessee.

9.02 REMEDIES

Upon the occurrence of any event of uncured default by Lessee, except a default relating to the filing of bankruptcy, City shall have the right, at its sole option, to terminate this Lease at any time by giving thirty (30) days written notice to Lessee of City's election to so terminate. Such termination shall be effective upon the expiration of thirty (30) days from the date such notice of such termination is given to Lessee. Upon such termination, City shall have the right immediately to reenter and repossess the Leased Premises. Upon such termination, the rent for the entire stated term of this Lease, and all other indebtedness, if any, payable under the provisions hereof by Lessee to City, shall be and become immediately due and payable without notice to Lessee or anyone else, and without regard to whether possession of the Leased Premises shall have been surrendered to or taken by City, and Lessee agrees to pay the same to City at once, together with payment of all loss or damage which City shall have suffered by reason of such event or default. In the event the default arises from the filing of bankruptcy by Lessee, or the filing of an involuntary petition of bankruptcy by Lessee's creditors, City shall have the right to terminate this Lease by providing not less than thirty (30) days notice to the bankruptcy trustee or the trustee in possession if said trustee has failed to ratify this Lease within 45 days after filing of said bankruptcy petition.

9.03 REMEDIES NOT EXCLUSIVE

The remedies to which City may resort hereunder are cumulative and are not intended to be exclusive of any other remedies or means of a redress to which City may lawfully be entitled at any time. City may invoke any remedy allowed at law or in equity as if specific remedies were not provided for herein.

9.04 NO WAIVER OF BREACH

City's failure or delay in declaring the existence of an event of default by Lessee shall not be construed as a waiver thereof, nor shall it be construed so as to waive or to lessen the right of the City to insist upon the performance by Lessee of any term, covenant or condition hereof, or to exercise any rights given it on account of any such event of default. A waiver of any particular event of default shall not be deemed to be a waiver of the same, similar or any other subsequent event of default.

9.05 EXPEDITIOUS ACTION

Notwithstanding any provision as to notice in this Lease herein contained, if in City's reasonable judgment the continuance of any event of default by Lessee for the full period of the notice to cure the event of default will jeopardize the operation of the Airport or the rights of the City or the other Airport tenants, City may, without notice, elect to perform those acts in respect to which Lessee is in default. Lessee shall reimburse City for any reasonable and necessary costs incurred by the City or, at City's option, City may add such amounts as additional rents due hereunder.

9.06 UTILITIES

Lessee shall be solely responsible for the payment of all electric, telephone, water, refuse, natural gas and other public utility services used on the Leased Premises. Lessee and City agree that included within the rent to be paid by Lessee under this Lease is a \$30.00/month charge for the water services to be provided to the Leased Premises. Lessee's payment of the rent owed hereunder shall satisfy Lessee's obligation to pay for the water services to be provided to the Leased Premises.

ARTICLE X. MISCELLANEOUS PROVISIONS

10.01 INSPECTION AND ACCESS BY CITY

City may enter upon the Leased Premises at any reasonable time for any purpose necessary, incidental to or connected with the performance of its obligations hereunder, or in the exercise of its governmental functions, for fire protection or security purposes, or for inspecting or maintaining the Leased Premises, or doing any and all things City is obligated to do, or which may be deemed necessary or desirable for the proper conduct and operation of the Airport.

10.02 RELATIONSHIP OF PARTIES

It is mutually understood and agreed that nothing in this Lease is intended or shall be construed as in any way making the Lessee an agent of the City, the relationship at all times being that of landlord and tenant.

10.03 DEVELOPMENT OF THE AIRPORT

Future development, changes, alterations, modifications or improvements to the Airport shall be at the sole discretion of the City.

10.04 SUBORDINATION TO FEDERAL AGREEMENTS

This Lease shall be subordinate to the provisions and requirements of any existing or future agreement between the City and the United States, relative to the development, operation or maintenance of the Airport.

10.05 CHANGES

City reserves the right to make, at any time, such changes in or to the Airport and the fixtures and equipment thereof, as it may deem necessary, provided that it does not impair Lessee's use of the Leased Premises. Lessee agrees to allow the City to make such changes and to require no compensation or to seek to attach any liability to the City for those changes, even if the City is negligent therein.

10.06 INABILITY TO PERFORM

If, by reason of (a) strike, (b) work stoppage, (c) governmental preemption in connection with a national emergency, (d) any rule, order or regulation of any governmental agency, (e) conditions of supply or demand which are affected by war or other national, state or municipal emergency, or (f) other cause beyond the control of City, whether or not similar to any of the causes listed in clauses (a) through (f) above, City shall after a reasonable time be unable to fulfill its obligations under this Lease, including but not limited to delivery of possession of the Leased Premises, or shall be unable to supply any service which City is obligated to supply to Lessee or to the Leased Premises, this Lease and Lessee's obligation to pay rent hereunder shall abate, provided that City shall not be liable to Lessee or to anyone else for damages for or on account of any failure of City to perform because of any such liability.

10.07 RULES AND REGULATIONS

- A. Airport Security Rules and Regulations: Lessee, its directors, officers, employees, and contractors shall comply with all federal and local Airport Security regulations adopted by the City or the Department of Airports as such rules and regulations exist or may hereafter be amended.
- B. 14 C.F.R. Part 77 Requirements: Lessee agrees to comply with the notification and review requirements set forth in Part 77 of the Federal Aviation Regulations [14 CFR Part 77] in the event any future structure, antenna or building is planned for the Leased Premises, or in the event of any planned modification of any present or future building, antenna or structure located on the Leased Premises.
- C. Control of Structures: No structure, object or tree on the Leased Premises shall at its highest point exceed 30 feet in the air. City reserves the right to enter upon the Leased Premises and to remove any offending structure or object and cut the offending tree at Lessee's expense.

D. Aerial Approaches: City reserves the right to take any action it considers necessary to protect the aerial approaches of the Airport against obstruction together with the right to prevent Lessee from erecting or permitting to be erected any building or other structure on or adjacent to the Airport which, in the opinion of the City, would limit the usefulness of the Airport or constitute a hazard to aircraft.

E. Right of Overflight: There is hereby reserved to the City, for the use and benefit of the public, a right of flight for the passage of aircraft above the surface of the Leased Premises, together with the right to cause in said airspace such noise as may be inherent in the operation of aircraft, now known or hereafter used for navigation of or flight in the air, using said airspace for landing at, taking off from or operating on the Airport.

10.08 ENTIRE AGREEMENT

- - - - -

This Lease evidences the entire Lease between City and Lessee, and no representation of, or understanding or agreement had between, the parties or agents or other, except as set forth herein, shall be binding on the parties hereto.

10.09 NOTICES

- - - - -

Any notice or other communication required or permitted to be given, rendered or made by either party to the other, pursuant to this Lease or pursuant to any applicable law or requirement of public authority, shall be in writing (whether or not so stated elsewhere in this Lease) and shall be deemed to have been properly given, rendered or made, if and when sent by Certified Mail, Return Receipt Requested, addressed to the Director of Airports of the City of Midland at his office at P. O. Box 60305, Midland, Texas 79711 and to the Lessee at the Leased Premises. Either City or Lessee may, by notice as aforesaid designate a different address or addresses for notices or other communications.

10.10 SURRENDER

- - - - -

On the termination of this Lease, or upon any reentry by City into the Leased Premises, Lessee shall quit and surrender the Leased Premises to City in good order, condition and repair except for ordinary wear and tear and such damage or destruction as City is required to repair or restore under this Lease, and the Lessee shall remove all of Lessee's property therefrom except as otherwise expressly provided in this Lease. Lessee's obligations to observe or perform this covenant shall survive the expiration or other termination of this lease.

10.11 QUIET ENJOYMENT

City covenants and agrees with Lessee that upon Lessee's paying the rent reserved in this Lease and observing and performing all the terms, covenants and conditions of this Lease on Lessee's part to be observed and performed, Lessee may peaceably and quietly enjoy the Leased Premises, subject to the terms and conditions of this Lease.

10.12 AFFIRMATIVE ACTION PROGRAM

The Lessee assures that it will undertake an affirmative action program to the extent required of Lessee by 14 CFR Part 152, Subpart E, to ensure that no person shall on the grounds of race, creed, color, national origin, or sex be excluded from participating in any employment activities covered in 14 CFR Part 152, Subpart E. The Lessee assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this subpart. The Lessee assures that it will require that its covered suborganizations provide assurances to the City, and they similarly will undertake affirmation action programs and that they will require assurances from their sub organizations, to the extent the same is required of such parties by 14 CFR Part 152, Part E, to the same effect.

10.13 NONDISCRIMINATION

The Lessee, for itself, its personal representatives, successors in interest, and assigns, as a part of the consideration hereof, does hereby covenant and agree as a covenant running with the land that: (a) no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination in the use of the facilities; (b) that in the construction of any improvements on, over, or under such land and the furnishing of services thereon, no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination; and (c) that the Lessee shall use the Leased Premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as those Regulations may be amended. In the event of breach of any of the above nondiscrimination covenants, City shall have the right to terminate this Lease and to reenter and repossess the land and the facilities thereon, and hold the same as if this Lease had never been made or issued. This provision shall not be effective until the procedures of Title 49, Code of Federal Regulations, Part 21 are followed and completed including exercise or expiration of appeal rights.

10.14 TAXES AND ASSESSMENTS

Lessee will pay before delinquency of any and all taxes, license fees, occupational taxes or assessments, special or general, lawfully levied on account of Lessee's occupancy, and upon Lessee's fixtures, equipment and personal property in and on the Leased Premises.

10.15 ATTORNEY FEES

BY EXECUTING THIS LEASE AGREEMENT, LESSEE AGREES TO WAIVE AND DOES HEREBY WAIVE ANY CLAIM IT HAS OR MAY HAVE AGAINST THE CITY OF MIDLAND, TEXAS, REGARDING THE AWARD OF ATTORNEY' S FEES, WHICH ARE IN ANY WAY RELATED TO THE LEASE AGREEMENT, OR THE CONSTRUCTION, INTERPRETATION OR BREACH OF THE LEASE AGREEMENT. THE LESSEE SPECIFICALLY AGREES THAT IF THE LESSEE BRINGS OR COMMENCES ANY LEGAL ACTION OR PROCEEDING RELATED TO THIS LEASE AGREEMENT, THE CONSTRUCTION, INTERPRETATION, VALIDITY OR BREACH OF THIS LEASE AGREEMENT, INCLUDING BUT NOT LIMITED TO ANY ACTION PURSUANT TO THE PROVISIONS OF THE TEXAS UNIFORM DECLARATORY JUDGMENTS ACT (TEXAS CIVIL PRACTICE AND REMEDIES CODE SECTION 37.001, ET. SEQ., AS AMENDED), THE LESSEE AGREES TO WAIVE AND RELINQUISH ANY AND ALL RIGHTS TO THE RECOVERY OF ATTORNEY'S FEES TO WHICH THE LESSEE MIGHT OTHERWISE BE ENTITLED.

The Lessee agrees that this is the intentional relinquishment of a presently existing known right. The Lessee acknowledges that it understands all terms and conditions of the Lease Agreement.

By execution of the Lease Agreement, the Lessee hereby represents and warrants to the City of Midland, Texas the Lessee has read and understood the Lease Agreement.

This section shall not be construed as a waiver of sovereign immunity.

10.16 GOVERNING LAW AND VENUE

This Lease shall be governed by and construed in accordance with the laws of the State of Texas. All performance and payment made pursuant to this Lease Agreement shall be deemed to have occurred in Midland County, Texas. Exclusive venue for any claims, suits or any other action arising from or connected in any way to this Lease Agreement or the performance of this Lease Agreement shall be in Midland County, Texas.

10.17 SEVERABILITY

If any provision of this Lease is invalid or unenforceable, this Lease shall be considered severable as to such provision, and the remainder of this Lease shall remain valid and binding as though such invalid or unenforceable provision were not included herein.

10.18 CAPTIONS

Section headings are inserted herein only as a matter of convenience and for reference, and in no way defines, limits or describes the scope or intent to any provision herein.

10.19 AMENDMENTS, MODIFICATIONS, ALTERATIONS

No amendment, modification, or alteration of the terms of this Lease shall be binding unless it is in writing, dated subsequent to the date of this Lease, and duly executed by the parties to this Lease.

10.20 CUMULATIVE RIGHTS AND REMEDIES

The rights and remedies provided by this Lease Agreement are cumulative, and the use of any one right or remedy by either party shall not preclude or waive its rights to use any or all other remedies. The rights and remedies provided in this Lease are given in addition to any other rights the parties may have by law, statute, ordinance, or otherwise.

10.21 TERMINATION AT WILL

The City may terminate this Agreement at will for no or any reason upon giving three-hundred sixty five (365) days written notice to Lessee. The parties to this Lease understand and agree that it is in City's sole discretion to cancel the Lease during the term of the Lease without penalty to City. The Lessee has no expectation and has received no guarantees that this Lease will not be terminated. The parties have bargained for the flexibility of terminating this Lease upon tender of the requisite notice at any time during the term of this Lease.

10.22 SOVEREIGN IMMUNITY

By executing this Lease the City is not waiving its right of sovereign immunity. The City is retaining its immunity from suit. The City is not granting consent to be sued by legislative resolution or action.

THERE IS NO WAIVER OF SOVEREIGN IMMUNITY.

10.23 THIRD-PARTY BENEFICIARY

There is no third party beneficiary to this Lease. No person or entity who is not a party to this Lease shall have any third party beneficiary or other rights hereunder.

10.24 RELEASE

Lessee hereby releases, acquits and forever discharges City, its employees and officers, from any and all demands, claims or causes of action of any kind whatsoever which Lessee has or might have in the future, including but not limited to BREACH OF CONTRACT, QUANTUM MERUIT, CLAIMS UNDER THE DUE PROCESS AND TAKINGS CLAUSES OF THE TEXAS AND UNITED STATES CONSTITUTIONS, TORT CLAIMS, OR CITY'S NEGLIGENCE.

IN WITNESS WHEREOF, the parties hereto have caused this Lease Agreement to be effective the 1st day of March, 2004.

CITY OF MIDLAND, TEXAS

By: /s/Michael J. Canon

Michael J. Canon, Mayor

ATTEST:

/s/Kaylah McCord

Kaylah McCord, City Secretary

APPROVED AS TO FORM:

/s/Keith Stretcher

Keith Stretcher, City Attorney

NATURAL GAS SERVICES GROUP, INC.

By: /s/Wallace C. Sparkman

SECOND AMENDED AND RESTATED LOAN AGREEMENT

between

NATURAL GAS SERVICES GROUP, INC.

and

WESTERN NATIONAL BANK

Dated as of November 3, 2003

=====

SECOND AMENDED AND RESTATED LOAN AGREEMENT

This Second Amended and Restated Loan Agreement, dated as of November 3, 2003, is made and entered into by and among Natural Gas Services Group, Inc., a Colorado corporation (the "Borrower"), and Rotary Gas Systems, Inc., a Texas corporation, NGE Leasing, Inc., a Texas corporation, and Great Lakes Compression, Inc., a Colorado corporation (collectively, the "Guarantors"), and Western National Bank, a national banking association (the "Lender").

Recitals

WHEREAS, the Borrower and the Lender are parties to that certain First Amended and Restated Loan Agreement, dated as of March 26, 2003 (said First Amended and Restated Loan Agreement, the "Prior Loan Agreement");

WHEREAS, pursuant to the Prior Loan Agreement, the Borrower is now indebted to the Lender as evidenced by (i) that certain Revolving Line of Credit Promissory Note, dated March 26, 2003, in the original principal amount of \$750,000.00, (ii) that certain Line B Term Promissory Note, dated March 26, 2003, in the original principal amount of \$2,150,000.00, (iii) that certain Consolidated Term Promissory Note, dated April 3, 2002, in the original principal amount of \$2,146,660.93, (iv) that certain Multiple Advance Term Promissory Note, dated April 3, 2002, in the original principal amount of \$1,853,340.00, and (v) that certain Line A Term Promissory Note, dated September 30, 2002, in the original principal amount of \$3,500,000.00.

WHEREAS, the Borrower has requested that the Lender (i) make additional loans to the Borrower; (ii) renew, extend, rearrange and consolidate into a single term loan all of the Borrower's indebtedness evidenced by the Line A Term Promissory Note, the Line B Term Promissory Note, the Consolidated Term Promissory Note and the Multiple Advance Term Promissory Note; and (iii) maintain and continue the Borrower's revolving line of credit facility pursuant to the Revolving Line of Credit Promissory Note and this Second Amended and Restated Loan Agreement; and

WHEREAS, the Bank is agreeable to the Borrower's requests but only upon and subject to the terms and provisions which are hereinafter specified.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

ARTICLE I
Definitions

1.1 Defined Terms. In addition to the terms defined in the preamble and elsewhere in this Agreement, the following terms shall have the following meanings:

"Advance" means any loan disbursement to or on behalf of Borrower under any of the Loan Papers, including, without limitation, all amounts initially advanced under the Notes and all Subsequent Advances.

"Advance Note" means the Advancing Line of Credit Promissory Note described in Section 2.1(b) hereof, as the same may be renewed, extended, increased or otherwise modified from time to time.

"Affiliate" means, as to any person, (a) any other person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such person or (b) any person who is a director, officer or partner (i) of such person, (ii) of any Subsidiary of such person or (iii) of any person described in the preceding clause (a). For purposes of this definition, "control" of a person means the power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of directors of such person or (ii) direct or cause the direction of the management and policies of such person whether by contract or otherwise.

"Agreement" means this Second Amended and Restated Loan Agreement, as amended, restated, supplemented or otherwise modified from time to time.

"Bank Liens" means Liens in favor of the Lender, securing all or any portion of the Obligations, including, but not limited to, Rights in any Collateral created in favor of the Lender, whether by mortgage, pledge, hypothecation, assignment, transfer or other granting or creation of Liens. "Borrowing Base" means at any date the amount set forth in line M in the Borrowing Base Report, as determined pursuant to and in accordance with Section 2.3 and Exhibit D of this Agreement at such date.

"Borrowing Base Report" shall have the meaning given to such term as set forth in Section 2.3(b) of this Agreement.

"Business Day" means every day on which Lender is open for banking business.

"Change of Control" means the occurrence after the date of this Agreement of any circumstance or event in which (i) a person shall cause or bring about (through solicitation of proxies or otherwise) the removal or resignation of a majority of the members of the Board of Directors of the Borrower serving in such capacity on the date of this Agreement or a person causes or brings about (through solicitation of proxies or otherwise) an increase in the size of the existing Board of Directors of the Borrower such that the existing members of the Board of Directors thereafter represent a minority of the total number of persons comprising the entire Board; or (ii) a person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of any class of stock of the Borrower having thirty percent (30%) or more of the total number of votes that may be cast for the election of directors of the Borrower.

"Collateral" means any and all property, tangible or intangible, now existing or hereafter acquired, mortgaged, pledged, assigned or otherwise encumbered by the Borrower, the Subsidiaries or any other person to or for the benefit of the Lender pursuant to any of the Loan Papers now or hereafter executed and delivered by the Borrower or any of its Subsidiaries or any other person to secure the payment and performance of the Notes and obligations of the Borrower hereunder or under any of the other Loan Papers, as any such Loan Paper may be amended, supplemented or otherwise modified from time to time.

"Consolidated Cash Flow" means, with respect to any period of calculation thereof, the sum of (i) the consolidated pre-tax net income (or loss), less actual taxes paid, from continuing operations of the Borrower and its Subsidiaries during such period (excluding extraordinary income but including extraordinary expenses), plus (ii) depreciation, depletion, amortization and interest expenses deducted in determining consolidated net income (or loss) of the Borrower and its Subsidiaries during such period, all determined on a consolidated basis.

"Consolidated Current Ratio" means the ratio of (i) the sum of the current assets of the Borrower and its Subsidiaries to (ii) the sum of the current liabilities (excluding current maturities of long-term debt) of the Borrower and its Subsidiaries, all determined on a consolidated basis.

"Consolidated Debt" means at a particular date the total Debt of the Borrower and its Subsidiaries, determined on a consolidated basis.

"Consolidated Fixed Charges" means, with respect to any period of calculation thereof, the sum of (a) the aggregate principal amount of all Debt

of the Borrower and its Subsidiaries paid or due and payable during such period plus (b) all interest, including, without limitation, imputed interest in connection with Financing Leases, paid or accrued by the Borrower and its Subsidiaries during such period; provided, however, that any principal amount of Debt and any interest payable in one fiscal period and paid in another shall not be twice included in Consolidated Fixed Charges.

"Consolidated Intangible Assets" means those assets of the Borrower and its Subsidiaries, determined on a consolidated basis, that would be classified as intangible assets in accordance with generally accepted accounting principles, but in any event including, without limitation, (i) deferred assets, other than prepaid insurance and prepaid taxes; (ii) patents, copyrights, trademarks, tradenames, franchises, goodwill, experimental expenses and other similar assets which would be classified as intangible assets on a balance sheet of such person, prepared in accordance with generally accepted accounting principles; (iii) unamortized debt discount and expense, and unamortized organization and reorganization expense; and (iv) assets located, and notes and receivables due from obligors domiciled, outside of the United States.

"Consolidated Tangible Net Worth" means at a particular date (i) the sum of (a) all amounts which would be included under stockholders' equity, on a consolidated balance sheet of the Borrower and its Subsidiaries and (b) the outstanding principal amount of the Subordinated Notes, less (ii) the sum of the aggregate book value of Consolidated Intangible Assets, all determined on a consolidated basis.

"Consolidated Term Promissory Note" means that certain Consolidated Term Promissory Note, dated April 3, 2002, made, executed and delivered by the Borrower pursuant to the Prior Loan Agreement and in the original principal amount of \$2,146,660.93.

"Contractual Obligation" means, as to any person, any provision of any security issued by such person or of any agreement, instrument or other undertaking to which such person is a party or by which it or any of its property is bound.

"Debt" means, for the Borrower and any Subsidiary, at any particular date, and without duplication, the sum at such date of (i) all indebtedness of such person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices) for which such person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which such person otherwise assures a creditor against loss;

(ii) all obligations of such person under leases which shall have been, or should have been, in accordance with generally accepted accounting principles, recorded as capital leases in respect of which such person is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such person otherwise assures a creditor against loss, (iii) unfunded vested benefits under each ERISA Plan; (iv) all indebtedness and other liabilities secured by any Lien on any property owned by such person even though such person has not assumed or otherwise become liable for payment thereof; (v) all obligations of such person in respect of letters of credit, acceptances or similar obligations issued or created for the account of such person; and (vi) indebtedness of such person evidenced by a bond, debenture, note or similar instrument, excluding, however, the Subordinated Notes.

"Environmental Complaint" means any complaint, request for information, summons, order, demand, citation, notice or other written communication from any person or Governmental Authority with respect to the existence or alleged existence of a violation of any Requirement of Law or liability resulting from any air emission, water discharge, noise emission, asbestos, Hazardous Substance or any other environmental, health or safety matter at, upon, under or within any of the property owned, operated or used by the Borrower or any of its Subsidiaries.

"ERISA Plan" shall have the meaning given to such term as set forth in Section 4.15 of this Agreement.

"Event of Default" shall have the meaning given to such term as set forth in Section 7.1 of this Agreement.

"Financing Lease" means any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with generally accepted accounting principles to be capitalized on a balance sheet of the lessee.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Substance" shall have the meaning given to such term as set forth in Section 4.20 of this Agreement.

"Highest Lawful Rate" means the maximum rate of interest (or, if the context so requires, an amount calculated at such rate) which Lender is allowed to contract for, charge, take, reserve or receive under applicable law after taking into account, to the extent required by applicable law, any and all relevant payments or charges under the Loan Papers.

"Lien" means any interest in property securing an obligation owed to, or a claim by, a person other than the owner of the property, whether such interest is based on the common law, statute or contract, including, but not limited to, a lien or security interest arising from any mortgage, encumbrance, pledge, hypothecation, assignment, deposit arrangement, or preference, priority or other security agreement (including, without limitation, any conditional sale or other title retention agreement or trust receipt or a lease, consignment or bailment for security purposes). The term "Lien" shall also include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting property.

"Line A Term Promissory Note" means that certain Term Promissory Note, dated September 30, 2002, made, executed and delivered by the Borrower pursuant to the Prior Loan Agreement and in the original principal amount of \$3,500,000.00.

"Line B Term Promissory Note" means that certain Line B Term Promissory Note, dated March 26, 2003, made, executed and delivered by the Borrower pursuant to the Prior Loan Agreement and in the original principal amount of \$2,150,000.00.

"Loan Papers" means (i) this Agreement, (ii) the Notes and (iii) any and all notes, mortgages, deeds of trust, security agreements, pledge agreements, financing statements, guaranties, and other agreements, documents, certificates, letters and instruments ever delivered or executed pursuant to, or in connection with, this Agreement, whether existing on the date hereof or thereafter created, as any of the same may hereafter be amended, supplemented, extended or restated.

"Material Adverse Effect" means any set of circumstances or events which (i) has, will or could reasonably be expected to have any material adverse effect upon the validity or enforceability of this Agreement or any of the other Loan Papers or the Rights or remedies of the Lender hereunder or thereunder; (ii) is or could reasonably be expected to be material and adverse to the financial condition, business, operations, property or prospects of the Borrower or any of its Subsidiaries; (iii) will or could reasonably be expected to impair the ability of the Borrower or any of its Subsidiaries to perform its respective obligations under the terms and conditions of any of the Loan Papers to which it is a party; or (iv) will or could reasonably be expected to cause an Event of Default.

"Material Agreement" of any person means any material written or oral agreement, contract, commitment, arrangement or understanding to which such person is a party, by which such person is directly or, to such person's

knowledge, indirectly bound, or to which any asset of such person may be subject, which is not cancelable by such person upon 30 days or less notice without liability for further payment other than nominal penalties, excluding, however, such agreements, contracts, commitments, arrangements or understandings pursuant to which the subject matter thereof does not exceed \$50,000.00 in the aggregate.

"Multiple Advance Term Promissory Note" means that certain Multiple Advance Term Promissory Note, dated April 3, 2002, made, executed and delivered by the Borrower pursuant to the Prior Loan Agreement and in the original principal amount of \$1,853,340.00.

"Note" or "Notes" means the individual or collective reference, as the context may require, to the Advance Note, Revolving Line of Credit Promissory Note and the Term Promissory Note.

"Obligations" means the unpaid principal of and interest on the Notes and all other present and future indebtedness, obligations and liabilities of the Borrower and any of its Subsidiaries to the Lender, and all renewals, rearrangements and extensions thereof, or any part thereof, now or hereafter owed to Lender by the Borrower or any of its Subsidiaries, whether arising from, by virtue of, or pursuant to any Loan Paper, or otherwise, together with all interest accruing thereon and all costs, expenses and attorneys' fees incurred in the enforcement or collection thereof, and whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several or were, prior to acquisition thereof by Lender, owed to some other person.

"Prime Rate" means that variable rate of interest per annum published in the Money Rates section of The Wall Street Journal as its "prime rate". If the Money Rates section of The Wall Street Journal does not have a rate designated by it as its "prime rate," then the "Prime Rate" shall be deemed to be the variable rate of interest per annum which is the general reference rate designated by the Lender as its "reference rate", "base rate" or other similar rate and which is comparable to the "Prime Rate" as described above. The Prime Rate is used by Lender as a general reference rate of interest, taking into account such factors as Lender may deem appropriate, it being understood that it is not necessarily the lowest or best rate actually charged to any customer and that Lender may make various commercial or other loans at rates of interest having no relationship to such rate.

"Relevant Environmental Law" means any and all foreign, federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health, wildlife or the environment, as now or may at any time hereafter be in effect.

"Requirement of Law" means, as to any person, the certificate and articles of incorporation and bylaws, articles of organization, regulations or other organizational or governing documents of such person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

"Revolving Line of Credit Promissory Note" means the Revolving Line of Credit Promissory Note, dated March 26, 2003, in the original principal amount of \$750,000.00, made by Borrower payable to the order of Lender, bearing interest as provided therein and maturing on March 15, 2004, as the same may be renewed, extended, increased or otherwise modified from time to time.

"Rights" means rights, remedies, powers, privileges and benefits.

"Subsequent Advance" means any disbursement to or on behalf of Borrower after the initial Advance under the Advance Note or the Revolving Line of Credit Promissory Note pursuant to the provisions of Section 2.1 and Section 2.2 hereof.

"Subordinated Notes" means the Series A 10% Subordinated Notes due December 31, 2006 in the aggregate outstanding principal amount of \$1,539,260.62 outstanding on the date of this Agreement, issued by NGE Leasing, Inc., a Subsidiary of the Borrower.

"Subsidiary" means, as to the Borrower or any other designated person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors, managers or other governing body of such corporation, partnership, limited liability company or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries, or both, by the Borrower or such other designated person.

"Term Promissory Note" means the Term Promissory Note described in Section 2.1(a) hereof, as the same may be renewed, extended, increased or otherwise modified from time to time.

1.2 Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement or any other Loan Paper, such determination, consolidation or computation shall be made in accordance with generally accepted accounting principles consistently applied, except where such principles are inconsistent with the requirements or definitions of this Agreement.

1.3 Directly or Indirectly. When any provision in this Agreement refers to action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable where the action in question is taken directly or indirectly.

1.4 Plural and Singular Forms. The definitions given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

1.5 References. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

ARTICLE II
Amount and Terms of Loans; Subordination

2.1 The Loans. Subject to and upon the terms and conditions and relying on the representations and warranties contained in this Agreement, Lender agrees to make loans to the Borrower as follows:

(a) Term Loan - Contemporaneously with the execution and delivery hereof, the Borrower shall execute and deliver to the Lender the promissory note in the form of Exhibit A hereto in the original principal amount of \$7,521,109.00, in renewal, extension, rearrangement and consolidation of the Borrower's indebtedness to Lender evidenced by the Line A Term Promissory Note, Line B Term Promissory Note, Consolidated Term Promissory Note and the Multiple Advance Term Promissory Note. The Term Promissory Note shall mature on the date stated therein and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Term Promissory Note. Principal and interest on the Term Promissory Note shall be payable in the manner and on the dates specified therein.

(b) Advance Type Term Loans. Contemporaneously with the execution and delivery hereof, the Borrower shall execute and deliver to the Lender the promissory note in the form of Exhibit B hereto in the original principal amount of \$10,000,000.00. Subject to and upon the terms and conditions of this Agreement and the Advance Note, the Borrower may, at any time and from time to time during the period commencing on the date of the Advance Note and ending at the close of business on November 3, 2004, request one or more Advances and borrow (without the ability to reborrow amounts paid under the Advance Note) under the Advance Note; provided, however, and notwithstanding the face amount of the Advance Note, without the prior written consent of Lender in its sole discretion the cumulative aggregate principal amount of all Advances under the Advance Note shall never exceed the lesser of (i) \$7,000,000.00 or (ii) the amount available for Advance under the Advance Note and Revolving Line of Credit Promissory Note as determined in accordance with and set forth in line 0 in the Borrowing Base Report. The Advance Note shall mature as provided therein and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Advance Note. Principal and interest on the Advance Note shall be payable in the manner and on the dates specified therein. The Advance Note, including the loans evidenced thereby, is a multiple advance term loan facility and shall not be construed as a revolving line of credit as reborrowings are not permitted.

(c) Revolving Loans. Pursuant to the Prior Loan Agreement, the Borrower executed and delivered to the Lender the Revolving Line of Credit Promissory Note, the outstanding principal balance of which is \$350,000.00 on the date of this Agreement. All amounts outstanding under the Revolving Line of Credit Promissory Note on the date of this Agreement shall be deemed to be Advances made under and pursuant to this Agreement, and the Revolving Line of Credit Promissory Note is and shall remain in full force and effect in accordance with the terms thereof, subject in all respects to the terms of this Agreement and the other Loan Papers. Subject to and upon the terms and conditions of this Agreement and the Revolving Line of Credit Promissory Note, the Borrower may request one or more Advances and borrow, prepay and reborrow at any time and from time to time under the Revolving Line of Credit Promissory Note; provided, however, the aggregate principal amount of all Advances

outstanding at any one time under the Revolving Line of Credit Promissory Note shall never exceed the lesser of (i) \$750,000.00 or (ii) the amount available for Advance under the Revolving Line of Credit Promissory Note as determined in accordance with and as set forth in line Q in the Borrowing Base Report. The Revolving Line of Credit Promissory Note shall mature on the date stated therein and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Revolving Line of Credit Promissory Note. Principal and interest on the Revolving Line of Credit Promissory Note shall be payable in the manner and on the dates specified therein.

2.2 Procedure For Borrowings. (a) At the time of the initial Advance under the Advance Note or the Revolving Line of Credit Promissory Note, as the case may be, the conditions set forth in Section 3.1 of this Agreement shall have been satisfied and, with respect to each Subsequent Advance under the Advance Note or the Revolving Line of Credit Promissory Note, the conditions set forth in Section 3.2 hereof shall have been satisfied at the time of each such Subsequent Advance. At the time of each request for a Subsequent Advance under the Advance Note or the Revolving Line of Credit Promissory Note, the Borrower shall simultaneously furnish to the Lender a written notice of borrowing (dated as of the date of the request for such Subsequent Advance and otherwise being in substantially the form attached hereto as Exhibit C) confirming (i) the Note under which the Subsequent Advance has been requested, (ii) the amount of the requested Subsequent Advance and (iii) the absence of any Event of Default at the date of such request. Each request for a Subsequent Advance under the Advance Note or the Revolving Line of Credit Promissory Note must be in the minimum amount of \$50,000.00 or the unadvanced portion of the Note under which the Subsequent Advance has been requested, whichever is less. Assuming the satisfaction of the conditions set forth in this Section 2.2, requests for Subsequent Advances under the Advance Note or the Revolving Line of Credit Promissory Note will be funded on the same Business Day that Lender receives Borrower's request for each such Subsequent Advance; provided that Borrower's request is received by the Lender prior to 12:00 noon on the date of any such request.

(b) The Lender shall maintain in accordance with its usual practice one or more accounts or other records evidencing the Obligations of the Borrower to the Lender resulting from each loan made by the Lender from time to time under the Notes, including the amounts of principal and interest payable and paid to the Lender from time to time under this Agreement and each respective Note. The entries made in such accounts or records of the Lender shall be prima facie evidence of the existence and amounts of the Obligations of the Borrower and its Subsidiaries therein recorded; provided, however, that the failure of the Lender to maintain any such accounts or records, or any error therein, shall not in any manner affect the absolute and unconditional obligation of the Borrower to repay (with applicable interest) all loans made to the Borrower in accordance with the terms of this Agreement and the Notes.

2.3 Borrowing Base. The Borrowing Base shall be determined as follows:

(a) Initial Borrowing Base. The initial Borrowing Base shall be \$14,654,940 during the period from the date hereof to the date on which the Borrower receives notice of the first redetermination of the Borrowing Base by the Lender pursuant to Section 2.3(b) and thereafter the amount of the Borrowing Base shall be the Borrowing Base most recently determined pursuant to Section 2.3(b).

(b) Redeterminations of the Borrowing Base. (i) No later than 45 days after the end of each month, the Borrower shall, at its own expense, furnish to the Bank a borrowing base report (the "Borrowing Base Report") in the form attached hereto as Exhibit D, which shall be dated as of the end of each such month.

(ii) Within 15 days after it receives each Borrowing Base Report, the Lender may in its sole discretion, but shall not be obligated to, redetermine the Borrowing Base, and shall notify the Borrower of the new Borrowing Base, if any; provided, however, if the Lender does not so notify the Borrower of a new Borrowing Base within such 15-day period, then the Borrowing Base set forth in the Borrowing Base Report furnished to the Lender by the Borrower pursuant to Section 2.3(b)(i) shall be deemed to be the redetermined Borrowing Base until a new Borrowing Base is redetermined by the Lender and notice of such new Borrowing Base is given by the Lender to the Borrower. Each redetermination of the Borrowing Base shall be made by the Lender in the exercise of its sole discretion in accordance with the then current standards and practices of the Lender for similar loans, taking into account such factors as the Lender may deem appropriate, including, without limitation, the nature and extent of the Borrower's interest in the accounts and leases receivable and

inventory upon which the Borrowing Base is then redetermined. The Lender may in its sole discretion discount the value of any property included in the redetermination of the Borrowing Base as set forth in a Borrowing Base Report by the same factors utilized by it in discounting the value of comparable borrowing base assets in comparable transactions for comparable borrowers.

(iii) Each delivery by the Borrower to the Lender of a Borrowing Base Report shall be deemed to constitute a representation and warranty by the Borrower to the Lender that the Borrower and its Subsidiaries have good and marketable title to the Collateral owned by each of them and described therein, and that such Collateral is not subject to any Lien other than Bank Liens and Liens permitted by Section 6.8.

2.4 Optional and Mandatory Prepayments. (a) The Borrower may at any time and from time to time prepay any one or all of the Notes, in whole or in part, without premium or penalty, upon prior or simultaneous irrevocable notice to the Lender, specifying the Note to be prepaid, the date and the amount of prepayment. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein. Partial prepayments shall be in an aggregate principal amount of \$20,000.00 or a whole multiple thereof, or shall equal the aggregate outstanding balance of the Note being prepaid.

(b) If the aggregate unpaid principal amount of all Notes shall at any time exceed the Borrowing Base at such time, the Lender shall so notify the Borrower, and the Borrower shall, within fifteen Business Days after such notification, first prepay the principal of the Revolving Line of Credit Promissory Note in an aggregate amount at least equal to such excess, together with accrued interest on the amount prepaid to the date of such prepayment and, to the extent such excess is not eliminated by the prepayment of the Revolving Line of Credit Promissory Note, the Borrower shall next prepay the principal of the Advance Note and Term Promissory Note, in that order, in an aggregate amount equal to the remaining unpaid excess amount.

2.5 Payment Procedure. Each payment or prepayment on the Notes must be made at the principal office of Lender in funds which are or will be available for immediate use by Lender on or before 12:00 noon Midland, Texas time on the day such payment is due or such prepayment is made. In any case where a payment of principal of, or interest on, the Notes is due on a day which is not a Business Day, the Borrower shall be entitled to delay such payment until the next succeeding Business Day, but interest shall continue to accrue until the payment is in fact made.

2.6 Order of Application. Except as otherwise provided in the Loan Papers, all payments and prepayments on the Obligations, including proceeds from the exercise of any Rights of Lender under the Loan Papers, shall be applied to the Obligations in the following order: (i) first, to reasonable expenses for which Lender shall not have been reimbursed under the Loan Papers and then to all amounts to which Lender is entitled to indemnification under the Loan Papers; (ii) to the accrued interest on the Note being paid or prepaid; (iii) to the principal of the Note being paid or prepaid and, with regard to the Advance Note and the Term Promissory Note, applied upon installments of most remote maturity; and (iv) to the remaining Obligations.

2.7 Commitment and Arrangement Fee; Borrowing Base Determination Fee. The Borrower agrees to pay to Lender a nonrefundable commitment and arrangement fee in the amount of \$35,000.00.

2.8 Subordination of Subordinated Notes. Subject to Section 6.15 hereof, the indebtedness of NGE Leasing, Inc. evidenced by the Subordinated Notes and any guarantee thereof by the Borrower and any and all renewals, extensions, refundings and modifications (but not increases) thereto are hereby subordinated and subject in right of payment and in all other respects to the prior payment in full of (a) all Debt of the Borrower and any Subsidiary to the Lender, (b) any other indebtedness, liability or obligation, contingent or otherwise, of Borrower or any Subsidiary or Guarantor to Lender, and any guaranty, endorsement or other contingent obligation in respect thereof, whether outstanding on the date hereof or hereafter created, incurred or assumed, and (c) modifications, renewals, extensions, increases, rearrangements and refundings of any such indebtedness, liabilities or obligations owed to the Lender.

ARTICLE III
Conditions Precedent

3.1 Conditions to Initial Advance. The obligation of Lender to renew and extend the Borrower's Debt to Lender pursuant to the Term Promissory Note and to make the initial Advance under the Advance Note and the Revolving Line of Credit Promissory Note is subject to the satisfaction and fulfillment of each of the following conditions precedent which shall have occurred on or before the date hereof, or simultaneously with the closing of the transactions contemplated by this Agreement, unless compliance therewith shall have been waived in writing by Lender:

(a) There shall have been duly executed, where appropriate, and delivered by the Borrower (and/or any other requisite party thereto) the following:

(1) this Agreement;

(2) the Notes;

(3) Stock Pledge Agreements covering the capital stock of NGE Leasing, Inc., Rotary Gas Systems, Inc. and Great Lakes Compression, Inc., in each case being in substantially the form attached hereto as Exhibit E;

(4) the Security Agreement in substantially the form attached hereto as Exhibit F;

(5) a certificate of account status (good standing) and a certificate of existence for Borrower in the jurisdiction under the laws of which Borrower is organized and in each jurisdiction wherein Borrower's operations, transaction of business or ownership of property make qualification as a foreign corporation necessary;

(6) an Officer's Certificate in substantially the form attached hereto as Exhibit G, which shall contain the names and signatures of the officers of the Borrower authorized to execute Loan Papers and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (A) a copy of resolutions duly adopted by the Board of Directors of the Borrower and in full force and effect at the time this Agreement is entered into, covering the matters described in subparagraph (d) below of this Section 3.1, (B) a copy of the charter documents of Borrower and all amendments thereto, certified by the appropriate official of Borrower's state of organization, and (C) a copy of the bylaws of Borrower, and certifying as to such other matters as Lender may reasonably require; and

(7) such other documents or instruments as Lender may reasonably require.

(b) There shall have been executed, where appropriate, and delivered by the Guarantors (and/or any other requisite party thereto) the following, all of which shall be in form and substance satisfactory to Lender and its counsel:

(1) Guaranty Agreements in substantially the form attached hereto as Exhibit H;

(2) Security Agreements in substantially the form attached hereto as Exhibit I;

(3) a certificate of account status (good standing) and a certificate of existence for each Subsidiary in the jurisdiction under the laws of which each Subsidiary is organized and in each jurisdiction wherein its operations, transaction of business or ownership of property made qualification as a foreign entity necessary;

(4) an Officer's Certificate of each Guarantor in substantially the form attached hereto as Exhibit J, which shall contain the names and signatures of the officers of each Guarantor authorized to execute Loan Papers and which shall certify to the truth, correctness and completeness of the following exhibits attached thereto: (A) a copy of resolutions duly adopted by the Board of Directors of such Guarantor and in full force and effect at the time this Agreement is entered into, covering the matters described in subparagraph (e) below of this Section 3.1, (B) a copy of the charter or other organizational documents of each such Guarantor and all amendments thereto, certified by the appropriate official of such Guarantor's state of organization, and (C) a copy of the bylaws of each such Guarantor, and certifying as to such other matters as Lender may reasonably require; and

(5) such other documents or instruments as Lender may reasonably require.

(c) All requirements of notice to perfect each Bank Lien shall have been accomplished or arrangements made therefor to the satisfaction of Lender and its counsel;

(d) The Borrower shall have approved the execution, delivery and performance of the Loan Papers to which it is a party by resolutions satisfactory to Lender and its counsel, authorizing (i) the execution, delivery and performance of this Agreement, the Notes and the other Loan Papers to which

the Borrower is a party, (ii) the borrowings contemplated hereunder and (iii) the granting by it of the pledge and security interests pursuant to the Loan Papers to which the Borrower is a party and appropriate certificates as to such actions, showing the parties authorized to execute the Loan Papers and all items required herein, shall have been delivered to the Lender;

(e) The respective boards of directors of each Guarantor shall have approved the execution, delivery and performance of the Loan Papers to which it is a party by resolutions satisfactory to Lender and its counsel, authorizing (i) the execution, delivery and performance of the Loan Papers to which it is a party, (ii) acknowledging the benefits and consideration to such Guarantor from the borrowings contemplated hereunder and (iii) authorizing the granting by it of the pledge and security interests pursuant to the Loan Papers to which it is a party and appropriate certificates as to such actions, showing the parties authorized to execute such Loan papers and all items required herein, shall have been delivered to Lender;

(f) There shall exist no Event of Default hereunder, nor shall any events or circumstances have occurred, and not theretofore been cured, which with notice or lapse of time or both, would constitute an Event of Default hereunder;

(g) The representations and warranties of the Borrower contained in Article IV shall be true and correct in all material respects;

(h) No suit, action or other proceeding by a third party or a Governmental Authority shall be pending or threatened which relates to this Agreement or the transactions contemplated hereby; and

(i) The Lender shall have received the commitment and arrangement fee required by Section 2.7 hereof.

3.2 Conditions to Subsequent Advances. The obligation of the Lender to make any Subsequent Advance under the Advance Note and the Revolving Line of Credit Promissory Note requested to be made by the Borrower on any date is subject to the satisfaction of the following conditions precedent:

(a) Each of the representations and warranties made by the Borrower in or pursuant to the Loan Papers shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Event of Default shall have occurred and be continuing on such date or after giving effect to the Subsequent Advance requested to be made on such date.

(c) Notwithstanding Section 2.4(b), after giving effect to the Advances under the Revolving Line of Credit Promissory Note requested by Borrower to be made on any date, the aggregate principal amount of the Revolving Line of Credit Promissory Note then outstanding shall not exceed the lesser of (i) \$750,000.00 or (ii) the Borrowing Base then in effect.

(d) After giving effect to the Advances under the Advance Note requested by Borrower to be made on any date, the cumulative aggregate principal amount of all Advances under the Advance Note shall not exceed \$7,000,000.00.

(e) Each request for an Advance under the Advance Note shall have been received by Lender prior to November 3, 2004.

(f) No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority shall be pending or, to the knowledge of the Borrower, threatened by or against the Borrower or the Lender with respect to this Agreement or any of the other Loan Papers or the transactions contemplated by this Agreement or any of the other Loan Papers.

(g) The Lender shall have received all Borrowing Base Reports required to be delivered by Borrower pursuant to Section 2.3(b)(i).

Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date thereof that the conditions contained in this Section 3.2 have been satisfied.

3.3 Corporate Proceedings and Documents. In addition to the conditions precedent set forth in Section 3.1 and Section 3.2, all corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement and the other Loan Papers shall be satisfactory in form, substance and date to the Lender, and Lender shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

ARTICLE IV
Representations and Warranties

As a material inducement to Lender to enter into this Agreement, the Borrower hereby represents and warrants to the Lender that:

4.1 Organization, Existence and Good Standing; Compliance With Law. The Borrower and each of its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of its state of organization, (b) is duly qualified, in good standing and authorized to do business in each jurisdiction where the character of its operations, transaction of business or ownership of property makes such qualification necessary, except where the absence of qualification, good standing or authorization would not have a Material Adverse Effect and (c) is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.2 Authorization. Each of the Borrower and its Subsidiaries has the corporate power and authority, and the legal right, to make, deliver and perform the Loan Papers to which it is a party and, in the case of the Borrower, to borrow hereunder, and in the case of the Subsidiaries, to guarantee the obligations of the Borrower hereunder, and each of the Borrower and its Subsidiaries has taken all necessary corporate action to authorize the borrowings and other transactions on the terms and conditions of each Loan Paper to which it is a party, the grant of the Bank Liens on the Collateral pursuant to the Loan Papers to which it is a party and the execution, delivery and performance of the Loan Papers to which it is a party.

4.3 Enforceable Obligations. This Agreement and each of the other Loan Papers to which the Borrower or any of its Subsidiaries is a party have been duly executed and delivered on behalf of the Borrower or its Subsidiaries, as the case may be. This Agreement constitutes and the other Loan Papers to which the Borrower or any of its Subsidiaries is a party, when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower and any of its Subsidiaries, as the case may be, enforceable against the Borrower and any of its Subsidiaries, as the case may be, in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, fraudulent transfer or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

4.4 No Conflicts or Consents. The execution, delivery and performance of this Agreement, the Notes and the other Loan Papers, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties, assets or revenues pursuant to any such Requirement of Law or Contractual Obligation, except as contemplated by the Loan Papers. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes or the other Loan Papers.

4.5 Financial Statements. The unaudited consolidated financial statements of Natural Gas Services Group, Inc. and Rotary Gas Systems, Inc., NGE Leasing, Inc. and Great Lakes Compression, Inc. for the eight-month period ended August 31, 2003, which have been delivered to Lender, are complete and correct as they relate to the Borrower and its Subsidiaries, have been prepared in accordance with generally accepted accounting principles, consistently applied, and present fairly the unaudited consolidated financial condition and results of operations of the Borrower and its Subsidiaries, as of the dates and for the periods stated (subject only to normal year-end adjustments with respect to such unaudited interim statements). During the period from August 31, 2003 to and including the date hereof, no change has occurred in the condition, financial or otherwise, of the Borrower and its consolidated Subsidiaries, taken as a whole, which could reasonably be expected to result in a Material Adverse Effect, and there has been no sale, transfer or other disposition by the Borrower or any of its Subsidiaries since August 31, 2003 of any material part of its business or property and no purchase or other acquisition of any business or property material in relation to the consolidated condition, financial or otherwise, of the Borrower and its Subsidiaries.

4.6 Other Obligations. As of the date hereof, neither Borrower nor any Subsidiary has any outstanding Debt or other material liabilities, direct or indirect, absolute or contingent, which is, in the aggregate, material to the Borrower and its Subsidiaries and not shown in the financial statements referred to in Section 4.5 hereof. Borrower is not aware of any fact, circumstance, act, condition or development which will have or which threatens to have any Material Adverse Effect.

4.7 Investments, Advances and Guaranties. At the date of this Agreement, Borrower has not made investments in, advances to or guaranties of

the obligations of any person, except as reflected in the financial statements referred to in Section 4.5 hereof.

4.8 Litigation. There is no litigation, legal, administrative or arbitral proceeding, investigation or other action of any nature pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower which involves the possibility of any judgment or liability not fully covered by indemnity agreements or insurance, and which would have a Material Adverse Effect.

4.9 No Burdensome Restrictions. No unusual or unduly burdensome restriction, restraint or hazard exists under or by reason of any Contractual Obligation or, to the best of Borrower's knowledge, any Requirement of Law.

4.10 Taxes. All tax returns required to be filed by the Borrower and its Subsidiaries with all Governmental Authorities have been filed, and all taxes, assessments, fees and other governmental charges imposed upon Borrower and its Subsidiaries or upon any of their respective property, income or franchises which are due and payable, have been paid (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles have been provided on the consolidated financial statements of the Borrower); and no tax Lien has been filed and, to the knowledge of Borrower, no claim is being asserted with respect to any such tax, fee or other charge.

4.11 Purpose of Loan. The proceeds of the loans made pursuant to Section 2.1 and evidenced by the Notes have been or will be used by the Borrower for the following purposes:

(a) with respect to loans made pursuant to and evidenced by the Revolving Line of Credit Promissory Note, for general working capital purposes;

(b) with respect to loans made pursuant to and evidenced by the Term Promissory Note, in renewal, extension, rearrangement and consolidation of the (i) Line A Term Promissory Note, (ii) Line B Term Promissory Note, (iii) Consolidated Term Promissory Note and the (iv) Multiple Advance Term promissory Note; and

(c) with respect to loans made pursuant to and evidenced by the Advance Note, for the construction of natural gas compressors.

4.12 Title to Properties; Liens. Each of the Borrower and its Subsidiaries have good record and defensible title to, or a valid leasehold interest in, all its real property, and good title to all its other properties and, except for Liens of the type permitted under Section 6.8 of this Agreement, there are no Liens on any properties or assets of the Borrower or any of its Subsidiaries.

4.13 Insurance. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance in at least such amounts and against at least such risks (but including in any event public liability) as are usually insured against in the same general area by companies engaged in the same or a similar business and such insurance is otherwise in compliance with the Loan Papers.

4.14 No Default. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect, other than defaults which could not have a Material Adverse Effect. No Event of Default has occurred and is continuing.

4.15 ERISA Plans. Borrower does not have any plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA Plan").

4.16 Principal Business Office and Location of Records. The Borrower's principal place of business and chief executive offices are located at 2911 S. CR 1260, Midland, Texas 79706, and the records of the Borrower and each of its Subsidiaries concerning its ownership of assets, business and operations are located at such address.

4.17 Licenses, Permits and Franchises, etc. The Borrower and each of its Subsidiaries owns, or is licensed to use, all permits, know-how, processes, technology, franchises, patents, patent rights, trade names, trademarks, trademark rights and copyrights which are necessary or required for the ownership or operation of its properties and the conduct of its business. Borrower is not aware of any fact or condition that might cause any of such rights not to be renewed in due course.

4.18 Subsidiaries. The following constitute all the Subsidiaries of the Borrower at the date hereof:

NGE Leasing, Inc.
Rotary Gas Systems, Inc.
Great Lakes Compression, Inc.

Each such Subsidiary is wholly owned by the Borrower.

4.19 No Material Omissions or Misstatements. No information, exhibit or report furnished to Lender by the Borrower in connection with the negotiation of this Agreement contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading. Without limiting the generality of the foregoing, there are no material facts relating to the Loan Papers, the Collateral or the financial condition, assets, liabilities, results of operations or business of the Borrower or any of its Subsidiaries which could, collectively or individually, have a Material Adverse Effect and which have not been disclosed in writing to Lender as an exhibit to this Agreement or in the financial statements of the Borrower referred to in Section 4.5 of this Agreement.

4.20 Environmental Matters.

(a) No Environmental Complaint has been issued or filed, no penalty has been assessed and, to the knowledge of Borrower, no investigation or review is pending or threatened by any Governmental Authority or other person (i) with respect to any alleged violation of any law, ordinance, rule, regulation or order of any Governmental Authority in connection with the property, operations or conduct of the business of the Borrower or any of its Subsidiaries, or (ii) with respect to any alleged failure to have any permit, certificate, license, approval, requisition or authorization required in connection with the property, operations or conduct of the business of the Borrower or any of its Subsidiaries or (iii) with respect to any generation, treatment, storage, recycling, transportation or disposal or release, all as defined in 42 USC ss. 9601(22) ("Release") (other than Releases in compliance with Relevant Environmental Laws or permits issued thereunder), of any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, solid waste, contaminants, polychlorinated biphenyls, paint containing lead, urea, formaldehyde, foam insulation, and discharge of sewage or effluent, whether or not regulated under federal, state or local environmental statutes, ordinances, rules, regulations or orders ("Hazardous Substance") generated by the operations or business, or located at any property, of the Borrower or any of its Subsidiaries.

(b) Except in substantial compliance with Relevant Environmental Laws and permits issued thereunder (i) neither the Borrower nor its Subsidiaries, nor the businesses conducted by the Borrower and its Subsidiaries, have placed, held, located or disposed of any Hazardous Substance on, under or at any property now or previously owned or leased by the Borrower or any of its Subsidiaries, and none of such properties has been used (by the Borrower or any of its Subsidiaries) as a dump site or storage (whether permanent or temporary) site for any Hazardous Substance; (ii) no polychlorinated biphenyls, urea or formaldehyde is or has been present at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (iii) no asbestos is or has been present at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (iv) there are no underground storage tanks which have been used to store or have contained any Hazardous Substance, active or abandoned, at any property now or previously owned or leased by the Borrower or any of its Subsidiaries; (v) no Hazardous Substance has been released at, on or under any property previously owned or leased by the Borrower or any of its Subsidiaries; and (vi) no Hazardous Substance has been released or is present, in a reportable or threshold quantity, where such a quantity has been established by statute, ordinance, rule, regulation or order, at, on or under any property now or previously owned by the Borrower or any of its Subsidiaries.

(c) The Borrower and its Subsidiaries have not transported or arranged for the transportation (directly or indirectly) of any Hazardous Substance to any location which is listed or proposed for listing under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"), the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS") or on any similar state list or which is the subject of federal, state or local enforcement actions or other investigations.

(d) There are no environmental Liens on any property owned or leased by the Borrower or any of its Subsidiaries, and no actions by any Governmental Authority have been taken or are in the process of being taken which could subject any of such properties to such Liens.

(e) Prior to the date hereof, the Borrower has provided to Lender all environmental investigations, studies, audits, tests, reviews or other analyses conducted by or which are in the possession of the Borrower or any of its Subsidiaries in relation to any property or facility now or previously owned or leased by the Borrower or any of its Subsidiaries.

4.21 Investment Company Act. Neither the Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

4.22 Public Utility Holding Company Act. The Borrower is not a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.23 Federal Regulations. No part of the proceeds of any loan will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation G or Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. If requested by the Bank, the Borrower will furnish to the Bank a statement to the foregoing effect in conformity with the requirements of FR Form G-1 or FR Form U-1 referred to in said Regulation G or Regulation U, as the case may be.

4.24 Casualties: Taking of Properties. Since the dates of the financial statements of the Borrower and its Subsidiaries delivered to the Lender as described in Section 4.5, neither the business nor the assets or properties of the Borrower or any Subsidiary have been affected (to the extent it is reasonably likely to cause a Material Adverse Effect), as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of property or cancellation of contracts, permits or concessions by and domestic or foreign government or any agency thereof, riot, activities of armed forces or acts of God or of any public enemy.

4.25 Not A Utility. Neither the Borrower nor any of its Subsidiaries is an entity engaged in the State of Texas in the (i) generation, transmission or distribution and sale of electric power; (ii) transportation, distribution and sale through a local distribution system of natural or other gas for domestic, commercial, industrial or other use; (iii) provision of telephone or telegraph service to others; (iv) production, transmission or distribution and sale of steam or water; (v) operation of a railroad; or (vii) provision of sewer service to others.

ARTICLE V
Affirmative Covenants

As a material inducement to Lender to enter into this Agreement, the Borrower hereby covenants and agrees that from the date hereof until payment in full of the Obligations, the Borrower shall and shall cause each of its Subsidiaries to:

5.1 Financial Statements and Other Information. Promptly furnish to Lender copies of (i) such information regarding its business and affairs and financial condition as Lender may reasonably request, and (ii) without request, the following:

(a) as soon as available, but in any event not later than 90 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related audited consolidated statements of income and changes in cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Hein + Associates LLP or other independent certified public accounting firm of recognized standing acceptable to the Lender;

(b) as soon as available, but in any event not later than 45 days after the end of each month, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such month and the related unaudited consolidated statements of income and changes in cash flows of the Borrower and its consolidated Subsidiaries for such month and for the period from the beginning of the most recent fiscal year to the end of such month, certified by the chief financial officer of the Borrower (subject to normal year-end audit adjustments);

(c) as soon as available, but in any event not later than 45 days after the end of each month, calculations of the Consolidated Current Ratio, Consolidated Tangible Net Worth, Debt Service Ratio and Consolidated Debt to Consolidated Tangible Net Worth Ratio of the Borrower for the periods required as set forth in Section 6.1 of this Agreement;

(d) as soon as available, but in any event not later than 45 days after the end of each month, a list of all accounts payable and accounts receivable of the Borrower and its consolidated Subsidiaries, and an aging of such accounts on the basis of 30-60-90 and over 90 days from date of invoice;

(e) promptly upon their becoming available, but in any event not later than five days after the same are sent, copies of all financial statements, reports, notices and proxy statements sent or made available generally by the Borrower to its shareholders, of all regular and periodic reports and all private placement memorandums and all registration statements and prospectuses, if any, filed by the Borrower with any securities exchange or with the Securities and Exchange Commission; and all press releases and other statements made available generally by the Borrower to the public concerning material developments in the business of the Borrower;

(f) immediately after becoming aware of the existence of, or any material change in the status of, any Environmental Complaint or any litigation which could have a Material Adverse Effect if determined adversely against the Borrower or any of its Subsidiaries, a written communication to Lender of such matter;

(g) immediately upon becoming aware of an Event of Default or the existence of any condition or event which constitutes, or with notice or lapse of time, or both, would constitute an Event of Default, a verbal notification to Lender specifying the nature and period of existence thereof and what action the Borrower is taking or proposes to take with respect thereto and, immediately thereafter, a written confirmation to Lender of such matters;

(h) immediately after becoming aware that any person has given notice or taken any action with respect to a claimed default under any indenture, mortgage, deed of trust, promissory note, loan agreement, note agreement, joint venture agreement or any other Material Agreement or other undertaking to which the Borrower or any Subsidiary is a party, a verbal notification to Lender specifying the notice given or action taken by such person and the nature of the claimed default and what action the Borrower is taking or proposes to take with respect thereto and, immediately thereafter, a written communication to Lender of such matters;

(i) within 45 days after the end of each month, the Borrowing Base Report required by Section 2.3(b)(i) of this Agreement;

(j) within 45 days after the end of each month, a compliance certificate in the form attached hereto as Exhibit K, which shall be signed by the chief executive officer or principal financial officer of the Borrower;

(k) as soon as available, but in any event not later than 45 days after the end of each calendar quarter, a report, in detail reasonably satisfactory to Lender, (i) setting forth, by owner, the unit number, serial number or other identifying number of each gas compressor owned by the Borrower and its Subsidiaries, (ii) stating whether or not each compressor identified in the report has been leased or rented to any person and, if so, a brief description of the lease, including, without limitation, the date of the lease and the name of the lessee, (iii) describing the specific location of each gas compressor, (iv) attaching copies of any compressor lease or rental agreement entered into during the prior month and (v) including such other information as Lender shall reasonably require.

5.2 Taxes; Other Claims. Pay and discharge all taxes, assessments and governmental charges or levies imposed upon the Borrower and its Subsidiaries, or upon or in respect of all or any part of the income, property or business of the Borrower and its Subsidiaries, all trade accounts payable in accordance with usual and customary business terms, and all claims for work, labor or materials, which, if unpaid, might become a Lien or charge upon any or all of the property of the Borrower or any of its Subsidiaries; provided, however, the Borrower and its Subsidiaries shall not be required to pay any such tax, assessment, charge, levy, account payable or claim if (i) the validity, applicability or amount thereof is currently being contested in good faith by appropriate actions or proceedings diligently conducted which will prevent the forfeiture or sale of any property of the Borrower and its Subsidiaries or any material interference with the use thereof by the Borrower or its Subsidiaries, and (ii) the Borrower shall have set aside on its consolidated financial statements reserves therefor deemed adequate under generally accepted accounting principles.

5.3 Compliance and Maintenance. (i) Maintain its corporate existence, rights and franchises; (ii) observe and comply with all Requirements of Law, including, without limitation, Relevant Environmental Laws; and (iii) maintain the Collateral and all other equipment, properties and assets (and any properties, equipment and assets leased by or consigned to it or held under title retention or conditional sales contracts) in good and workable condition at all times and make all repairs, replacements, additions, betterments and improvements to its properties, equipment and assets as are needful and proper so that the business carried on in connection therewith may be conducted properly and efficiently at all times.

5.4 Maintenance of Insurance. Maintain with financially sound and reputable insurers, insurance with respect to its properties and business against such liabilities, casualties, risks and contingencies and in such types and amounts as is customarily carried by companies engaged in the same or similar businesses and similarly situated. From time to time, upon request by Lender, the Borrower will furnish Lender with copies of certificates, binders and policies necessary to give Lender reasonable assurance of the existence of such coverage. Borrower agrees to promptly notify Lender of any termination or other material change in Borrower's insurance coverage and, if requested by Lender, to provide Lender with all information about the renewal of each policy at least 15 days prior to the expiration thereof. In the case of any fire, accident or other casualty causing loss or damage to any property of Borrower, the proceeds of such policies in excess of \$50,000.00 shall, at Borrower's option, be used to (i) replace the lost or damaged property with similar property having a value at least equivalent to the lost or damaged property, or (ii) prepay the Existing Notes to the extent of such proceeds.

5.5 Reimbursement of Fees and Expenses. Pay all reasonable fees and expenses incurred by Lender and its designated representatives in connection with this Agreement, all renewals hereof, the other Loan Papers or other transactions pursuant hereto or to the other Loan Papers, whether the services provided hereunder or thereunder are provided directly by Lender or by a third party selected by Lender, as well as all costs of filing and recordation, all reasonable legal and accounting fees, all costs associated with enforcing any of Lender's Rights under the Loan Papers, including, without limitation, costs of repossessing, storing, transporting, preserving and insuring any Collateral that Borrower or any of its Subsidiaries may pledge to Lender, all court costs associated with enforcing or defending Lender's Rights against the Borrower, its Subsidiaries or any third party challenging said Rights and any other cost or expense incurred by Lender or its designated representatives in connection herewith or with the other Loan Papers, together with interest at a rate per annum 2% above the Prime Rate on each such amount commencing on the date notice of such expenditure is given to the Borrower by Lender until the date it is repaid to Lender.

5.6 Indemnification. Indemnify, save and hold harmless the Lender and its Affiliates, directors, officers, agents, attorneys and employees (collectively, the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any person (other than the Borrower) if the claim, demand, action or cause of action directly or indirectly relates to a claim, demand, action or cause of

action that such person asserts or may assert against the Borrower, any Affiliate of the Borrower or any officer, director or shareholder of the Borrower; (b) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any person (other than the Borrower) if the claim, demand, action or cause of action arises out of or relates to the loans made by Lender to the Borrower under the Notes and this Agreement, the use or contemplated use of proceeds of such loans or the relationship of the Borrower and the Lender under this Agreement; (c) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in clauses (a) or (b) above; and (d) any and all liabilities, losses, costs or expenses (including reasonable attorneys' fees and disbursements) that any Indemnitee suffers or incurs as a result of any of the foregoing; provided, that no Indemnitee shall be entitled to indemnification for any liability, loss, cost or expense caused by its own gross negligence or willful misconduct. If any claim, demand, action or cause of action is asserted against any Indemnitee and such Indemnitee intends to claim indemnification from the Borrower under this Section 5.6, such Indemnitee shall promptly notify the Borrower, but the failure to so promptly notify the Borrower shall not affect the obligations of the Borrower under this Section 5.6 unless such failure materially prejudices the Borrower's right to participate, or the Borrower's rights, if any, in the contest of such claim, demand, action or cause of action, as hereinafter provided. Each Indemnitee may, and if requested by the Borrower in writing shall, in good faith contest the validity, applicability and amount of such claim, demand, action or cause of action with counsel selected by such Indemnitee and reasonably acceptable to the Borrower, and shall permit the Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which the Borrower may be liable for payment of indemnity hereunder shall give the Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain the Borrower's prior written consent, which consent shall not be unreasonably withheld. In connection with any claim, demand, action or cause of action covered by this Section 5.6 against more than one Indemnitee, all such Indemnitees shall be represented by the same legal counsel selected by the Indemnitees and reasonably acceptable to the Borrower; provided, that if such legal counsel determines in good faith and advises the Borrower in writing that representing all such Indemnitees would or could result in a conflict of interest under legal requirements or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to all such Indemnitees, then to the extent reasonably necessary

to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to the Borrower. Any obligation or liability of the Borrower to any Indemnitee under this Section 5.6 shall survive the expiration or termination of this Agreement and the repayment of the Loans and the payment of all other Obligations owing to the Lender for the statute of limitations period applicable to such claim or contest.

5.7 Further Assurances. Use its best efforts to cure any defects in the execution and delivery of any of the Loan Papers to which it is a party and in any other instrument or document referred to or mentioned herein, and immediately execute and deliver to Lender, upon Lender's request, all such other and further instruments as may be required or desired by Lender from time to time in compliance with or accomplishment of the covenants and agreements of the Borrower made herein and in the other Loan Papers.

5.8 Inspection and Visitation. Permit any officer, employee, agent or representative of Lender to visit and inspect any of the properties and assets of the Borrower and its Subsidiaries, examine all of its books, records and accounts, and take copies and extracts therefrom, all at such reasonable times and during normal business hours as Lender may request and, further, the Borrower shall allow and does hereby grant Lender the right to contact any employees, associates, Affiliates, officers, accountants and auditors of Borrower and its Subsidiaries as Lender may desire, and upon the occurrence and during the continuance of an Event of Default, Lender shall have the right to contact the customers of Borrower and its Subsidiaries.

5.9 Compliance With Laws. Comply with all Requirements of Law, the violation of which could have a Material Adverse Effect.

5.10 Accounts and Records. Keep books of record and account in which full, true and correct entries will be made of all dealings or transactions in relation to its business and activities, in accordance with generally accepted accounting principles consistently applied, except only for changes in accounting principles or practices with which the Borrower's independent public accountants concur.

5.11 Environmental Complaints. Promptly give notice to Lender (a) of any Environmental Complaint affecting the Borrower or any of its Subsidiaries, any property owned, operated or used by the Borrower or any of its Subsidiaries, or any part thereof or the operations of the Borrower or any of its

Subsidiaries, or any other person on or in connection with such property or any part thereof (including receipt by the Borrower or any of its Subsidiaries of any notice of (i) the happening of any event involving the use, spill, release, leak, seepage, discharge or clean-up of any Hazardous Substance or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, or any other environmental, health or safety matter affecting the Borrower or any of its Subsidiaries from any person or entity (including without limitation the United States Environmental Protection Agency)), and (b) of any notice from any person of (i) any violation or alleged violation of any Relevant Environmental Law relating to any such property or any part thereof or any activity at any time conducted on any such property, (ii) the occurrence of any release, spill or discharge in a quantity that is reportable under any Relevant Environmental Law or (iii) the commencement of any clean-up pursuant to or in accordance with any Relevant Environmental Law of any Hazardous Substance on or about any such property or any part thereof.

ARTICLE VI
Negative Covenants

As a material inducement to Lender to enter into this Agreement, the Borrower covenants and agrees that from the date hereof until payment in full of the Obligations, the Borrower shall not, and (except with respect to Section 6.1) shall not permit any of its Subsidiaries to, directly or indirectly:

6.1 Financial Covenants.

(a) Consolidated Current Ratio. Permit the Consolidated Current Ratio, as defined herein and calculated pursuant to Exhibit L hereto, to be less than 2.0 to 1.0 as of November 30, 2003 and as of the end of each month after November 30, 2003.

(b) Consolidated Tangible Net Worth. Permit the Consolidated Tangible Net Worth, as defined herein and calculated pursuant to Exhibit M hereto, to be less than \$10,750,000.00 as of November 30, 2003 and December 31, 2003; less than \$10,900,000.00 as of January 31, 2004 and as of the end of each month thereafter through and including December 31, 2004; or less than \$12,200,000.00 as of January 31, 2005 and as of the end of each month thereafter.

(c) Debt Service Ratio. Permit the ratio of (i) Consolidated Cash Flow to (ii) Consolidated Fixed Charges, as such terms are defined herein and as calculated pursuant to Exhibit N hereto, to be less than 1.25 to 1.00 as of the end of each fiscal quarter of the Borrower.

(d) Consolidated Debt to Consolidated Tangible Net Worth Ratio. Permit the ratio of (i) Consolidated Debt to (ii) Consolidated Tangible Net Worth, as such terms are defined herein and calculated pursuant to Exhibit O hereof, to be more than 1.60 to 1.00 as of November 30, 2003 and as of the end of each month thereafter through and including December 31, 2004, or more than 1.50 to 1.00 as of January 31, 2005 and as of the end of each month after January 31, 2005.

6.2 Debt. Create, assume, incur or have outstanding any Debt, except:

(a) Debt of the Borrower and its Subsidiaries to the Lender;

(b) Debt existing on the date of this Agreement which is set forth in the financial statements referred to in Section 4.5 of this Agreement, but not any increases thereof;

(c) obligations for the payment of rent or hire of property under leases or lease agreements which would not cause the aggregate amount of all payments made by the Borrower and its Subsidiaries pursuant to such leases or lease agreements to exceed \$200,000.00 in the aggregate during any calendar year; and

(d) additional Debt of the Borrower and its Subsidiaries not to exceed \$100,000.00 in the aggregate principal amount at any one time outstanding.

6.3 ERISA Compliance. (a) Engage in any "prohibited transaction" as such term is defined in Section 4975 of the Internal Revenue Code of 1986, as amended;

(b) incur any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA; or

(c) terminate any such plan in a manner which could result in the imposition of a Lien on the property of Borrower or any Subsidiary pursuant to Section 4068 of ERISA.

6.4 Amendment of Organizational Documents. Amend or otherwise modify its articles of incorporation, regulations, articles of organization or otherwise change its corporate or limited liability company structure in any manner, except as required by Section 5.12 hereof.

6.5 Fiscal Year. Permit its fiscal year to end on a day other than the last day of December of each year.

6.6 Nature of Business. Make any significant or substantial change in the nature of its business as being conducted on the date of this Agreement.

6.7 Disposition of Collateral. Sell, transfer, lease, exchange, alienate or otherwise dispose of (whether in one transaction or in a series of transactions) all or any part of the Collateral, except as permitted by Section 6.12.

6.8 Liens. Create, incur, assume or permit to exist any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, or agree to do any of the foregoing, except:

(a) Bank Liens;

(b) Liens to secure payments of workmen's compensation, unemployment insurance, old age pensions or other social security;

(c) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business;

(d) Liens for taxes, assessments or other governmental charges or levies which are not delinquent or which are in good faith being contested by appropriate proceedings; provided, however, this exception shall not allow any Lien imposed by the U.S. Government for failure to pay income, payroll, FICA or similar taxes, other than any such Lien where (i) the validity, applicability or amount thereof is being contested in good faith by appropriate proceedings which will prevent the forfeiture or sale of any property of the Borrower or any Subsidiary or any material interference with the use thereof by the Borrower or any Subsidiary, and (ii) the Borrower shall have set aside on its books reserves appropriate within generally accepted accounting principles with respect thereto;

(e) vendors', operators', materialmen's, mechanics', carriers', workmen's, repairmen's or other like Liens arising by operation of

law in the ordinary course of business and securing obligations less than 90 days from the date of invoice, and on which no suit to foreclose has been filed, or which are in good faith being contested by appropriate proceedings;

(f) Liens created by or resulting from any litigation or legal proceeding which is being contested in good faith by appropriate proceedings; and

(g) Liens permitted by the other Loan Papers.

6.9 Dividends, Redemptions and Other Payments. Declare or pay any dividends (except dividends payable solely in its own capital stock) on, or redeem, retire, purchase or otherwise acquire for value, any shares of any class of its respective shares of capital stock, now or hereafter outstanding, or return any capital to its shareholders, or make any other distribution in respect thereof, whether in cash or property or in obligations of the Borrower or any Subsidiary, except that: (a) Borrower's Subsidiaries may declare, pay or make dividends or distributions to Borrower and (b) Borrower may declare and pay cash dividends on its outstanding shares of 10% Convertible Series A Preferred Stock, \$.01 par value per share, if: (i) there is not in existence, at the time of the dividend payment to be made, an "Event of Default" as defined in Section 7.1 of this Agreement; and (ii) the dividend payment to be made would not cause or result in the occurrence of an Event of Default.

6.10 Limitation on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of (whether in one transaction or in a series of related transactions), all or substantially all of its property, business or assets (whether now owned or hereafter acquired), or make any material change in its present method of conducting business, except as required by Section 5.12 hereof.

6.11 Transactions with Affiliates. Enter into any transaction (including, but not limited to, the sale or exchange of property or the rendering of services) with any of its Affiliates, other than in the ordinary course of business and upon terms no less favorable than could be obtained in an arm's-length transaction with a person that was not an Affiliate.

6.12 Disposition of Assets. Sell, convey, transfer, lease, exchange, alienate or otherwise dispose of any of its respective property or assets, except, to the extent not otherwise prohibited under the other Loan Papers:

(a) equipment which is worthless or obsolete or which is replaced by equipment of equal suitability and value; and

(b) inventory and equipment which is sold or leased in the ordinary course of business.

6.13 Limitation on Negative Pledge Clauses. Enter into with any person any agreement, other than (a) this Agreement and (b) the other Loan Papers, which prohibits or limits the ability of the Borrower or any of its Subsidiaries to create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired.

6.14 Terms of Other Agreements. Become a party to any agreement (or any amendment, supplement, extension or other modification thereto or thereof) which, in any manner (i) violates, conflicts with or creates a breach of any of the terms or provisions of this Agreement or any of the other Loan Papers, (ii) provides for the granting or conveyance to any person other than Lender of Liens on or affecting the Collateral, or (iii) restricts the Borrower's or any of its Subsidiaries (a) rights of ownership, possession or operation of all or any part of the Collateral or (b) rights or ability to direct the use or disposition of all or any part of the Collateral or (c) which requires the consent of any person (other than Lender) to use or dispose of any of the Collateral for any purpose or to act or refrain from acting with respect thereto.

6.15 Subordinated Notes. Make any payment of principal or interest on the Subordinated Notes, unless:

(i) there is not in existence, at the time of the principal or interest payment to be made, an "Event of Default" as defined in Section 7.1 of this Agreement; and

(ii) the principal or interest payment to be made would not cause or result in the occurrence of an Event of Default as defined in Section 7.1 of this Agreement.

6.16 Amendment of Compressor Leases. Amend or otherwise modify in any material respect any lease or rental agreement covering any of the Borrower's or Subsidiaries' gas compressors; provided, however, it shall not be a violation of this Section 6.16 if upon expiration of a lease or rental agreement by its own terms Borrower enters into a new lease or rental agreement with the same lessee.

6.17 Use of Loan Proceeds. Use the proceeds of any Advance for any purpose other than as described in Section 4.11 hereof.

ARTICLE VII
Default and Remedies

7.1 Events of Default. If any one or more of the following shall occur and shall not have been remedied in the period, if any, provided for, an "Event of Default" shall be deemed to have occurred hereunder and with respect to all of the Obligations, unless waived in writing by Lender:

(a) default shall be made in the payment when due of any installment of principal or interest on the Notes or any other Obligations;

(b) any representation or warranty made by the Borrower herein or in any of the other Loan Papers or in any certificate, document or financial or other statement furnished to Lender under or in connection with this Agreement or any other Loan Paper shall be or shall prove to have been incorrect or untrue or misleading in any material respect on or as of the date made or deemed made and shall continue unremedied for a period of 30 days after the earlier of (i) the Borrower becoming aware of such default or (ii) the Lender giving notice thereof to the Borrower;

(c) default shall be made by the Borrower or any Subsidiary in the due performance or observance of any covenant, condition or agreement contained in any of the Loan Papers to which it is a party and such default shall continue unremedied for a period of 30 days after the earlier of (i) Borrower becoming aware of such default or (ii) the Lender giving notice thereof to the Borrower;

(d) Borrower or any Subsidiary shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of itself or of all or a substantial part of its assets; (ii) be unable, or admit in writing its inability, or fail to confirm its ability (when requested to do so by Lender) to pay its debts as they become due; (iii) make a general assignment for the benefit of creditors; (iv) be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy; (v) file a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency law; (vi) file an answer admitting the material

allegations of, or consent to, or default in answering, a petition filed against it in any bankruptcy, reorganization or insolvency proceedings; or (vii) take any action for the purpose of effecting any of the foregoing;

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction approving a petition seeking reorganization of the Borrower or any of its Subsidiaries or appointing a receiver, trustee or liquidator of the Borrower or any of its Subsidiaries or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed in effect for any period of 30 consecutive days;

(f) the failure of the Borrower or any of its Subsidiaries to have discharged within a period of 30 days after the commencement thereof any attachment, sequestration or similar proceeding against any of its properties or assets having a value of \$100,000.00 or more;

(g) any acceleration, notice of default, default, filing of suit or notice of breach by any lender, lessor, creditor or other party to any Material Agreement to which the Borrower or any of its Subsidiaries is a party, or to which its properties or assets are subject;

(h) the occurrence of a Material Adverse Effect with respect to Borrower or any of its Subsidiaries;

(i) the occurrence of a Change of Control;

(j) final judgment or judgments shall be entered against the Borrower or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance or not otherwise covered by indemnity agreements acceptable to Lender in its sole discretion) of \$100,000.00 or more, and such judgment or judgments shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof; or

(k) if, at any time, the then existing President of the Borrower or the then existing Chief Executive Officer (if there shall be one) of the Borrower ceases, for any reason, to hold such office and a replacement for such officer acceptable to Lender is not appointed within 120 days thereafter.

7.2 Remedies.

(a) Upon the occurrence of any Event of Default described in Section 7.1(d) or Section 7.1(e) hereof, the lending obligations (including the obligations to make Advances under Section 2.1 hereof), if any, of Lender hereunder shall immediately terminate, and the entire principal amount of all Obligations then outstanding together with interest then accrued and unpaid thereon shall become immediately due and payable, all without demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of intention to accelerate maturity or notice of acceleration of maturity, or any other notice of default of any kind, all of which are hereby expressly waived by the Borrower.

(b) Upon the occurrence and at any time during the continuance of any other Event of Default specified in Section 7.1 hereof, Lender may, by written notice to the Borrower, (i) declare the entire principal amount of all Obligations then outstanding, together with interest then accrued and unpaid thereon, to be immediately due and payable without demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of intention to accelerate maturity or notice of acceleration of maturity, or any other notice of default of any kind, all of which are hereby expressly waived by the Borrower, and (ii) terminate the lending obligations, if any, of Lender hereunder unless and until Lender shall reinstate same in writing.

7.3 Right of Setoff. Upon the occurrence and during the continuance of any Event of Default, or if the Borrower becomes insolvent, however evidenced, Lender is hereby authorized at any time and from time to time, without prior notice to Borrower (any such notice being expressly waived by the Borrower), to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by Lender to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not Lender shall have made any demand under this Agreement or the Notes and although such Obligations may be unmatured. Lender agrees promptly to notify Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of Lender under this Section 7.3 are in addition to other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

7.4 Delegation of Duties and Rights. Lender may perform any of its duties or exercise any of its Rights under the Loan Papers by or through its officers, directors, employees, attorneys, agents or other representatives.

7.5 Lender Not in Control. None of the covenants or other provisions contained in this Agreement or the other Loan Papers shall, or shall be deemed to, give Lender the Right to exercise control over the affairs or management of the Borrower.

7.6 Waivers by Lender. The acceptance by Lender at any time and from time to time of part payment on the Obligations shall not be deemed to be a waiver of any Event of Default then existing. No waiver by Lender of any Event of Default shall be deemed to be a waiver of any other then-existing or subsequent Event of Default. No delay or omission by Lender in exercising any Right under this Agreement or any of the other Loan Papers shall impair such Right or be construed as a waiver thereof or any acquiescence therein.

7.7 Cumulative Rights. All Rights available to Lender under this Agreement and the other Loan Papers are cumulative of, and in addition to, all other Rights available to Lender at law or in equity. The exercise or partial exercise of any such Right shall not preclude the exercise of any other Right under the Loan Papers or otherwise.

7.8 Expenditures by Lender. All court costs, reasonable attorneys' fees, other costs of collection, and other sums spent by Lender pursuant to the exercise of any Right provided herein shall be payable to Lender on demand, shall become part of the Obligations, and shall bear interest at a rate per annum 2% above the Prime Rate on each such amount commencing on the date notice of such claims, judgments, costs, charges or attorneys' fees is given to Borrower by Lender until the date paid by Borrower.

ARTICLE VIII
Miscellaneous

8.1 Survival of Representations and Warranties. All representations and warranties of the Borrower made herein, in the other Loan Papers to which it is a party and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

8.2 Communications. Unless specifically otherwise provided, whenever any Loan Paper requires or permits any consent, approval, notice, request, or demand from one party to another, such communication must be in writing (which may be by cable, telex, telecopy, fax or other similar means of remote facsimile

transmission) to be effective and shall be deemed to have been given on the day actually delivered or, if mailed, on the third day (or if such third day is not a Business Day, then on the next succeeding Business Day) after it is enclosed in an envelope, addressed to the party to be notified at the address stated below, properly stamped, sealed, and deposited in the appropriate official postal service. Until changed by notice pursuant hereto, the address of each party for purposes of this Agreement is as follows:

BORROWER:

Natural Gas Services Group, Inc.
2911 S. CR 1260
Midland, Texas 79706
Attn. Earl Wait
Facsimile Number for Notice: (432) 563-5567

or

LENDER:

Western National Bank
500 W. Wall, Suite 100
Midland, Texas 79701
Attn: Scott A. Lovett
Facsimile Number for Notice: (432) 570-9567

8.3 Binding on Successors. All covenants and agreements herein contained by or on behalf of the Borrower shall bind the Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns; provided, however, that Borrower may not assign its Rights or obligations hereunder without the prior written consent of Lender. If the Lender sells participations in or assigns the Notes or other Obligations owing to the Lender to other lenders (which the Lender may undertake to do in its sole discretion), each of such other lenders shall have the rights to setoff against such Obligations and similar rights or Liens to the same extent as may be available to the Lender.

8.4 Governing Law. THIS AGREEMENT AND THE OTHER LOAN PAPERS SHALL BE DEEMED TO BE CONTRACTS MADE UNDER, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF TEXAS; PROVIDED, HOWEVER, THAT THE RIGHTS PROVIDED IN ANY LOAN PAPER WITH REFERENCE TO PROPERTIES COVERED THEREBY

THAT ARE SITUATED IN OTHER STATES MAY BE GOVERNED BY THE LAWS OF SUCH OTHER STATES, AND PROVIDED, FURTHER, THAT THE LAWS PERTAINING TO THE ALLOWABLE RATES OF INTEREST MAY, FROM TIME TO TIME, BE GOVERNED BY THE LAWS OF THE UNITED STATES OF AMERICA.

8.5 Usury Savings Clause. It is the intention of the parties hereto that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions hereof), then, in that event, notwithstanding anything to the contrary in the Notes, this Agreement or any other Loan Paper or other agreement entered into in connection with or as security for the Notes, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under the Notes, this Agreement or any other Loan Paper or agreement entered into in connection with or as security for the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligations to Lender (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of the Notes is accelerated by reason of an Event of Default under this Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in the Notes, this Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligations (or, to the extent that the principal amount of such Obligations shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Texas Finance Code Section 303.002 is relevant to Lender for the purposes of determining the Highest Lawful Rate, the applicable rate ceiling under such provisions shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law. Notwithstanding

anything to the contrary contained herein or in any of the other Loan Papers, it is not the intention of the Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

8.6 Severability. If one or more of the provisions contained herein or in the Notes or any of the other Loan Papers shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, the Notes or any of the other Loan Papers.

8.7 Non-Waiver. No Advance hereunder shall constitute a waiver of the representations, warranties, conditions or agreements of Borrower or of any of the conditions of Lender's obligations to make further Advances. If Borrower is unable to satisfy any such representation, warranty, condition or agreement, no such Advance shall have the effect of precluding Lender from thereafter declaring such inability to be an Event of Default as hereinabove provided.

8.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

8.9 Amendments and Waivers. Neither this Agreement, the Notes nor any of the other Loan Papers may be amended or waived orally, but only by an instrument in writing signed by Borrower and Lender (and/or any other person which is a party to the Loan Paper being amended or waived).

8.10 Terms and Headings. Terms used herein but not defined shall have the meanings accorded them under generally accepted accounting principles, or the Texas Uniform Commercial Code, as appropriate. All headings used herein are for convenience and reference purposes only and shall not affect the substance of this Agreement.

8.11 Conflicts. If there is ever a conflict between any of the terms, conditions, representations, warranties or covenants contained in this Agreement and the terms, conditions, representations, warranties or covenants in any of the other Loan Papers executed by the Borrower, the provisions of this Agreement shall govern and control; provided, however, the fact that any term, condition, representation, warranty or covenant contained in such other Loan Paper is not contained herein shall not be, or be deemed to be, a conflict.

8.12 Environmental Indemnity. Borrower hereby agrees to defend, indemnify, pay and hold Lender and its officers, directors, employees and agents (each, an "Indemnatee") harmless from and against, and shall reimburse each Indemnatee for, any and all loss, claim, liability, damages, injunctive relief, penalty, judgment, suit, obligation, injury to persons, property or natural resources, cost, expense or disbursement of any kind or nature whatsoever including, without limitation, attorneys' fees and costs attributable to any action or cause of action (whether or not each Indemnatee shall be designated a party thereto), arising, directly or indirectly, in whole or in part, out of the release or presence, or alleged release or alleged presence, or any Hazardous Substance, at, on, or under, surrounding or in connection with any of the real property owned or leased by Borrower ("Premises"), or any portion thereof, whether foreseeable or unforeseeable, regardless of the source of such release and regardless of when such release occurred or such presence is discovered. The foregoing indemnity includes, without limitation, all cost in law or in equity of removal, remediation of any kind and disposal of any such Hazardous Substance, all costs of determining whether the Premises are in compliance, and causing the Premises to be in compliance, with all Requirements of Law relating to Hazardous Substances, all costs associated with claims for damages to persons, property or natural resources, and each Indemnatee's consultants' fees (including attorneys' fees and costs) and court costs. The obligations of Borrower under this indemnity shall survive the repayment of the Notes and shall be independent of the obligations of Borrower to the Indemnitees in connection with the Notes. The rights of each Indemnatee under this indemnity shall be in addition to any other rights and remedies of such Indemnatee under any guaranty or any document or instrument now or hereafter executed in connection with this Agreement, the Notes, the Loan Papers or at law or in equity.

8.13 Renewal, Extension or Rearrangement. All provisions of this Agreement and any of the other Loan Papers relating to the Notes or any other Obligations shall apply with equal force and effect to each and all promissory notes hereafter executed which in whole or in part represent a renewal, extension for any period, increase or rearrangement of any part of the Obligations originally represented by the Notes or any part of such other Obligations.

8.14 Direct Benefit. The loans hereunder and any additional loans are for the direct benefit of each of the Borrower and its Subsidiaries and the loans hereunder will be used by them for general working capital purposes. The Borrower and its Subsidiaries are engaged as an integrated group in the manufacturing, leasing and financing of industrial equipment and systems for the

oil and gas industry and other industries, and any benefits to the Borrower or any of its Subsidiaries are a benefit to all of them, both directly or indirectly, inasmuch as the successful operation and condition of the Borrower and its Subsidiaries is dependent upon the continued successful performance of the functions of the integrated group as a whole.

8.15 Waivers. No course of dealing on the part of the Lender, its officers, employees, consultants or agents, nor any failure or delay by the Lender with respect to exercising any right, power or privilege of the Lender under this Agreement, the Notes or any other Loan paper shall operate as a waiver thereof, except as otherwise provided in Section 8.9 hereof.

8.16 Cumulative Rights. Rights and remedies of the Lender under this Agreement, the Notes and the other Loan Papers shall be cumulative, and the exercise or partial exercise of any such right or remedy shall not preclude the exercise of any other right or remedy.

8.17 Governmental Regulation. Anything contained herein to the contrary notwithstanding, the Lender shall not be obligated to extend credit to the Borrower in an amount in violation of any limitation or prohibition provided by any applicable statute or regulation.

8.18 Exhibits. The exhibits, annexes and schedules attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits, annexes and schedules and the provisions of this Agreement, the provisions of this Agreement shall prevail. All capitalized terms used in such exhibits, annexes and schedules, but not defined therein, shall have the same meanings as given to such terms in this Agreement.

THIS AGREEMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

EXECUTED EFFECTIVE as of the date first above written.

BORROWER:

NATURAL GAS SERVICES GROUP, INC.

By: /s/ Wayne L. Vinson

Wayne L. Vinson, President

GUARANTORS:

ROTARY GAS SYSTEMS, INC.

By: /s/ Wayne L. Vinson

Wayne L. Vinson, President

NGE LEASING, INC.

By: /s/ Wallace C. Sparkman

Wallace C. Sparkman, President

GREAT LAKES COMPRESSION, INC.

By: /s/ Ronald D. Bingham

Ronald D. Bingham, President

LENDER:

WESTERN NATIONAL BANK

By: /s/ Scott A. Lovett

Scott A. Lovett, Executive
Vice President

Certification of Chief Executive Officer Under
Section 302 of the Sarbanes-Oxley Act of 2002

I, Wallace C. Sparkman, Chief Executive Officer of Natural Gas Services Group, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Natural Gas Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely effect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 11, 2004

Signature: /s/ Wallace C. Sparkman

Wallace C. Sparkman
Chief Executive Officer

Title:

Certification of Chief Financial Officer Under
Section 302 of the Sarbanes-Oxley Act of 2002

I, Earl R. Wait, Chief Financial Officer of Natural Gas Services Group, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Natural Gas Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely effect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 11, 2004

Signature: /s/ Earl R. Wait

Earl R. Wait

Title: Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. ss.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Gas Services Group, Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wallace C. Sparkman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Wallace C. Sparkman

Wallace C. Sparkman
Chief Executive Officer

August 11, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. ss.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Gas Services Group, Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Earl R. Wait, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Earl R. Wait

Earl R. Wait
Chief Financial Officer

August 11, 2004