

and statement from Assignee in which to elect to convert Assignor's Overriding Royalty to thirty-seven and one-half percent (37.5%) working interest. If the election to convert is made, the Lease Acreage, all production therefrom, and the proceeds of the sale of same, and the wells, casing and other material and equipment situated thereon, shall be owned by the parties as follows:

Assignor	37.5%
Assignee	62.5%

and shall be operated in accordance with all of the terms and provisions of the Operating Agreement attached as Exhibit "B" to the Agreement between Assignor and F. B. Lacy, Inc. dated July 3, 1972. If the election to convert is made, the parties shall enter into an agreement (hereinafter called "Conversion Agreement") which shall release and extinguish Assignor's Overriding Royalty and convey to Assignee this fractional part of the production as a working interest, and Assignee shall in turn assign to Assignor an undivided thirty-seven and one-half percent (37.5%) working interest in the Lease Acreage, which interest shall be free and clear of all burdens and encumbrances other than those which were of record when Assignee received an assignment on said Lease Acreage. The effective date of the Conversion Agreement shall be the first day next following the day on which the recoupment of costs, as hereinabove defined, occurs regardless of when the option is exercised.

It is recognized that the Lease Acreage is subject to and comprises a part of that certain unit known as the Brushy Creek Unit which was created by the following instruments:

- (A) Gas Pooling Agreement dated May 25, 1942, a counterpart of which executed by D. G. McManus et al, is recorded in Volume 34, at page 489, Lavaca County, creating the Brushy Creek Unit, containing 2,146.47 acres.
- (B) Agreement extending Brushy Creek Unit, a counterpart of which, dated May 18, 1943, executed by Margaret A. Shows et al, is recorded in Volume 23, at page 473, DeWitt County, and in Volume 37, at page 523, Lavaca County.