

CONVERSION OF RESERVED OVERRIDING ROYALTY INTEREST TO WORKING INTEREST

Assignee shall be entitled to recover, out of the total proceeds derived from the sale of oil and gas produced from each well drilled and completed as a well capable of producing oil or gas in paying quantities on the Land, the total cost of drilling, completing, and equipping such well together with the cost of operating such well until the time of such recovery. The total proceeds of each such well shall be regarded as the proceeds derived from the sale of oil or gas less royalties paid, any overriding royalties reserved prior to this Assignment, and the overriding royalties reserved by Assignor in this Assignment. Recovery of such costs shall be referred to as "Payout." On or before _____ days after completion of each well, Assignee shall furnish Assignor a statement of all costs incurred in the drilling, completing, and equipping of the well. Monthly thereafter, on or before the _____ day of each month, Assignee shall furnish Assignor a statement showing (i) the amount of production sold from the well, (ii) the operating expenses incurred with respect to the well, (iii) all other obligations payable out of production, and (iv) the balance to be recovered on the Payout of such producing well, as described above. Within _____ days after the Payout of each well, Assignee shall notify Assignor by mail of the date of the Payout, and Assignor shall have an option, to be exercised on a well-by-well basis, and within _____ days of the notice provided, to elect to convert its overriding royalty interest reserved in this Assignment into an undivided _____ working interest in such well and the leases and land included in the spacing and/or proration unit assigned to the well

If Assignor elects to convert its overriding royalty interest as provided above, upon timely notifying Assignee of its election to convert the interest, the conversion shall be effective retroactive to 7:00 a.m., local time, of the first day of the month following the Payout of the well. Assignee shall, within _____ days after receiving notice of such election, assign to Assignor an undivided _____ of the working interest in such well and the pertinent leases and land. At the time of that assignment, the assigned interest in the leases and land shall be free and clear of all liens and encumbrances of every nature, and shall be free and clear of all overriding royalty or other burdens payable out of production from such well except the royalty payable under the terms of the oil and gas leases and any overriding royalties previously reserved. Should Assignor elect to convert its interest as provided above, then Assignor and Assignee shall enter into a mutually acceptable operating agreement which shall govern their joint operations of such well.

The failure or refusal by Assignor to notify Assignee of its election within the _____ day period provided above, shall be deemed an election by Assignor not to convert its overriding royalty to a working interest. Should Assignor not elect to convert its overriding royalty, then the overriding royalty interest reserved by Assignor shall continue in force and effect as to such well, and the option to correct shall terminate.

Assignor expressly reserves and is hereby granted the right at all times and from time to time to take in kind and/or separately market its share of production attributable

to its reserved overriding royalty interest or working interest (in the event Assignor elects to convert its overriding royalty interest to a working interest). Pursuant to these rights to take in kind and/or separately market its share of production, it is further understood and agreed that Assignee shall expressly except and reserve from any gas sales agreement between Assignee and the purchaser of Assignor's share of production, before, during, and after Payout, natural gas which is subject to Assignor's overriding royalty interest or subject to Assignor's working interest resulting from the conversion of Assignor's overriding royalty interest. Assignee shall give Assignor _____ days written notice of any sale it intends to make of Assignor's gas so that Assignor may exercise its right to separately market, take in kind, or consent to a sale by Assignee.

**sample
Form**