AA-13455

# OIL AND GAS LEASE

**THIS AGREEMENT, made and entered into this 27th day of February, 2008, by and between**

**Hammer Resources, Inc..**

**P.O. Box 65**

**Norris, Tennessee 37828** **Phone: 865-494-7713 winter 520-384-3105**

**hereinafter called the Lessor, and ATLAS AMERICA, LLC, of Westpointe Corporate Center One, 1550 Coraopolis Heights Road, P.O. Box 611, Moon Township, PA 15108 hereinafter called the Lessee, WITNESSETH:**

**1. That the Lessor, for and in consideration of one dollar ($1.00) and other valuable consideration in hand paid by the Lessee, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, does hereby lease and let exclusively unto the Lessee, for the purpose of drilling, operation for, producing, and removing of oil and gas and all the constituents thereof, and of injecting air, gas, brine, and other substances from any source and into any subsurface strata, other than potable water strata and workable coal strata, (including but not limited to the right to inject any wells on the leasehold property and to otherwise conduct all such secondary or tertiary operations as may be required in the opinion of the Lessee), and to transport by pipelines or otherwise across and through said lands oil, gas and their constituents from the subject and which right to transport gas across the leasehold premises shall survive the term of this lease for so long as the transportation of such gas may be desired by the Lessee, and of placing of tanks, equipment, roads, and structures thereon to procure and operate for the said products, together with the right to enter into and upon the leased premises at all times for the aforesaid purposes, being all that certain tract of land situated in Oneida District, Scott_County, State of Tennessee, and further identified as Tax Map 065, Parcel # 009.00, and bounded substantially as follows:**

| | |
|---|---|
| **North by lands of:** | **J. Randolph Miller and others** |
| **East by lands of:** | **Hope Resources and others** |
| **South by lands of:** | **Larry Loudermilk Jr. and others** |
| **West by lands of:** | **Hope resources and others** |

**being all the property owned by Lessor or to which the Lessor may have any rights in said Section/Lot/District or adjoining Sections/Lots/Districts, containing Five Hundred Thirty Five (535) acres, more or less, and being the property described in Deed Book 198, Page 274 of the Scott County Register of Deeds.**

**2. This lease shall continue in force and the rights granted hereunder be quietly enjoyed by the Lessee for a term of Three (3) years and so much longer thereafter as oil or gas or their constituents are produced or are capable of being produced on the premises in paying quantities, in the judgment of the Lessee, or as the premises shall be operated by Lessee in the search for oil or gas and as provided in Paragraph Seven (7) following.**

**3. This lease, however, shall become null and void and all rights of either party hereunder shall cease and terminate unless, within three months from the date hereof, a well shall be commenced on the premises, or unless the Lessee shall thereafter pay a delay rental of Ten Dollars ($10.00) per acre each year, payments to be made quarterly until the commencement of a well. A well shall be deemed commenced when drilling has been commenced.**

**4. In consideration of the premises the Lessee covenants and agrees:**

**a) To deliver to the credit of the Lessor in tanks or pipelines, as royalty, free of cost, the equal one-eighth (1/8) part of all oil produced and saved from the premises, or at Lessee's option to pay Lessor the market price for such one-eighth (1/8) royalty oil at the published rate for oil of like grade and gravity prevailing on the date such oil is run into such tanks or pipelines.**

**b) To pay to the Lessor, as royalty for the gas marketed and used off the premises and produced from each well drilled thereon, the sum of one-eighth (1/8) of the price paid to Lessee per thousand cubic feet of such gas so marketed and used, measured in accordance with Boyle's Law for the measurement of gas at varying pressures, on the basis of 10 ounces above 14.73 pounds atmospheric pressure, at a standard base temperature of 60° Fahrenheit and stipulated flowing temperature of 60° Fahrenheit, without allowance for temperature and barometric variations less any charges for transportation or compression paid by Lessee to deliver the gas for sale. Payment of royalty for gas marketed during any calendar month to be on or about the 30th day after receipt of such funds by the Lessee.**

**c) Lessee to deduct from payments in a) and b) above from receipts of proceeds by Lessee, Lessor's pro-rata share of any tax imposed by any government body.**

**d) In the event Lessee does not sell the gas to others, Lessor shall be paid on the basis of the lowest field market price paid by any public utility in the state at the well head for gas of like kind and quality, and on the same basis that such utility would pay for such gas, including any escalation in prices that such utility would pay for such gas as if a contract for the sale of same has been entered into at the time of initial production.**

**5. All money due under this lease shall be paid or tendered to the Lessor by check made payable to the order of and mailed to Hammer Resources, Inc at P.O. Box 65, Norris, Tennessee 37828, and the said named person shall continue as Lessor's agent to receive any and all sums payable under this lease regardless of changes in ownership in the premises, or in the oil or gas or their constituents, or in the rentals or royalties accruing hereunder until delivery to the Lessee of notice of change of ownership as hereinafter provided.**

**6. The Lessor may, at Lessor's sole risk and cost, lay a pipeline to any one gas well on the premises, and take gas produced from said well for domestic use in one dwelling house on the leased premises, at Lessor's own risk, subject to the use and the right of abandonment of the well by the Lessee, and subject to any curtailments or shut-in by any purchaser of the gas. The first 200,000 cubic feet of gas taken each year shall be free of cost, but all gas in excess of 200,000 cubic feet of gas taken each year shall be paid for at the last published rates of the gas utility in the town or areas**

nearest to the leased premises or the field market rate, whichever is higher. This privilege is upon the condition precedent that Lessor shall be bound by the reasonable rules and regulation of the Lessee, relating to the use of the free gas and as described fully in Lessee's Application for Delivery of Reserved Gas. Lessor shall lay and maintain the pipeline and furnish regulators and other necessary equipment at Lessor's expense. Lessor shall also, at the request of Lessee, install a meter to measure said gas, and Lessor shall maintain the said pipeline, regulators, and equipment in good repair and free of all gas leaks and operate the same so as not to cause waste or unnecessary leaks of gas. If the Lessor shall take excess gas as aforesaid in any year and fail to pay for the same, the Lessee may deduct payment for such excess gas from any rentals or royalties accruing to the Lessor hereunder. Lessor acknowledges that he has been advised as to the risks inherent in the taking of gas in this manner, and Lessor agrees to assume all such risks whether same be caused by Lessor's lines or equipment, or whether same be caused by Lessee's equipment or well operation; and Lessor agrees to hold Lessee and the well operator and all parties in interest in any well on the leasehold premises harmless from any claims of any nature whatsoever which may rise by the usage of gas from any such well by Lessor, his heirs, executors, administrators, and assigns. Lessor further agrees that upon the sale or transfer of the leasehold premises wherein someone other than the Lessor is entitled to take the gas under this Paragraph 6, that the gas supply will be terminated by Lessee until the Buyer of the property executes an agreement regarding the usage of the gas in the same form as the within agreement. In the absence of such an agreement free gas shall terminate, the within right of free gas not being assignable without the consent of the Lessee.

7. In the event a well drilled hereunder is a dry hole and is plugged according to law, this lease shall become null and void and all rights of either party hereunder shall cease and terminate, unless within twelve (12) months from the date of completion of the plugging of such well, the Lessee shall commence another well, or unless the Lessee after the termination of said twelve (12) month period resumes the payment of delay rental as hereinabove provided.

8. In the event a well drilled hereunder is a producing well and the Lessee is unable to market the production therefrom, or should production cease from a producing well drilled on the premises, or should the Lessee desire to shut in producing wells, the Lessee agrees to pay the Lessor, commencing on the date one year from the completion of such producing well or the cessation of production, or the shutting in of producing wells, an advance royalty in the amount and under the terms hereinabove provided for delay rental until production is marketed and sold off the premises or such well is plugged and abandoned according to law. In the event no delay rentals are stated, the advance royalty payable hereunder shall be made on the basis of one dollar ($1.00) per acre per year.

9. The consideration, land rentals or royalties paid and to be paid, as herein provided, are and will be accepted by the Lessor as adequate and full consideration for all the rights herein granted to the Lessee, and the further right of drilling or not drilling on the leased premises, whether to offset producing wells on adjacent or adjoining lands or otherwise, as the Lessee may elect.

10. The Lessor hereby grants in the Lessee the right at any time to consolidate the leased premises or any part thereof or strata therein with other lands to form an oil and gas development unit or units of not more than 640 acres, or such larger unit as my be required by state law or regulation for the purpose of drilling a well thereon, but the Lessee shall in no event be required to drill more than one well on any such unit or units. Any well drilled on said development unit or units whether or not located on the leased premises, shall nevertheless be deemed to located upon the leased premises within the meaning and for the provisions and covenants of this lease to the same effect as if all the lands comprising said unit or units were described in and subject to this lease; provided; however, that only the owner of the lands on which such well is located may take gas for use in one dwelling house on such owner's lands in accordance with the provisions, and provided further that the Lessor agrees to accept, in lieu of the one-eighth (1/8) oil and gas royalty hereinbefore provided, that proportion of such one-eighth (1/8) royalty which the acreage consolidated bears to the total number of acres comprising said development unit or units. The Lessee shall effect such consolidations by executing a declaration of consolidation with the same formality as this oil and gas lease setting forth the leases or portions thereof consolidated, the royalty distribution and recording the same in the recorder's office at the courthouse in the county in which the leased premises are located and by mailing a copy thereof to the Lessor at the address hereinabove provided for such use shall be payable to the owners of the parcels of land comprising said unit or units in the proportion that the acreage of each parcel bears to the entire acreage consolidated. Lessee shall have the right to amend, alter, or correct any such consolidation at any time in the same manner as herein provided.

11. In case the Lessor owns a less interest in the above described premises than the entire and undivided fee simple therein, then the royalties and rentals herein provided for shall be paid to the Lessor only in the proportion which such interest bears to the whole and undivided fee. If said land is owned by two or more parties, or the ownership of any interest therein should hereinafter be transferred by sale, devise, or operation of law, said land, nevertheless, may be held, developed and operated as an entirety, and the rentals and royalties shall be divided among and paid to such several owners in the proportion that the acreage owned by each such owner bears to the entire leased acreage.

12. No change of ownership in the leased premises or in the rentals or royalties hereunder shall be binding on the Lessee until after notice to the Lessee by delivery of notice in writing duly signed by the parties to the instrument of conveyance or assignment and delivery of a duly certified copy thereof to the Lessee.

13. the Lessee shall have the right to assign and transfer the within lease in whole or in part, and Lessor waives notice of any assignment or transfer of the within lease. Failure of payment of rental or royalty on any part of this lease shall not void this lease as to any other part. Lessor agrees that when and if the within lease is assigned, the Lessee herein shall have no further obligations hereunder. The Lessor further grants to the Lessee, for the protection of the Lessee's interest hereunder, the right to pay and satisfy any claim or lien against the Lessor's interest in the premises as herein leased and thereupon to become subrogated to the rights of such claimant or lien holder, and the right to direct payment of all rentals and royalties to apply on the payment of any existing liens on the premises.

14. The Lessee shall bury, when so requested by the Lessor, all pipelines used to conduct oil or gas to, on through and off the premises and pay all damages to growing crops caused by operations under this lease. Lessee agrees to restore the premises in accordance with state laws. No well shall be drilled within 200 feet of any existing barn or dwelling.

15. The Lessee shall have the privilege of using sufficient oil, gas, and water for operating on the premises and the right at any time during or after the expiration of this lease to remove all pipe, well casing, machinery, equipment or fixtures placed on the premises. The Lessee shall have the right to surrender this lease or any portion thereof by written notice to the Lessor describing the portion which it elects to surrender, or by retaining the lease to the Lessor with the endorsement of surrender thereof, or by recording the surrender or partial surrender of this lease, any of which shall be a full and legal surrender of this lease as to all of the premises indicated on said surrender, and the land rental hereinbefore set forth shall be reduced in proportion to the acreage surrendered.

16. In the event the Lessee is unable to perform any of the acts to be performed by the Lessee by reason of force majeure, including but not limited to acts of God, strikes, riots, and governmental restrictions including but not limited to restrictions on the use of roads, this lease shall nevertheless remain in full force and effect until the Lessee can perform said act or acts and in no event shall the within lease expire for a period of 90 (ninety) days after the termination of any force majeure.

17. In the event Lessor considers that Lessee has not complied with any of its obligations hereunder, either express or implied, Lessor shall notify Lessee in writing setting out specifically in what respects Lessee has breached this contract. Lessee shall then have 30 (thirty) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said lease for any cause, and no such action shall be brought until the lapse of 30 (thirty) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any part of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder.

18. In consideration of the acceptance of this lease by the Lessee, the Lessor agrees for himself and his heirs, successors, and assigns, that no other lease for the minerals covered by this lease shall be granted by the Lessor during the term of this lease or any extension or renewal thereof granted to the Lessee herein.

19. All covenants and conditions between the parties hereto shall extend to their heirs, personal representatives, successors and assigns. It is mutually agreed that this instrument contains and expresses all of the agreements and understandings of the parties in regard to the subject matter thereof, and no implied covenant, agreement or obligation shall be read into this agreement or imposed upon the parties or either of them. Lessor further agrees to sign such additional documents as may be reasonably requested by Lessee to perfect Lessee's title to the oil and gas leased herein and such other documents relating to the sale of production as may be required by Lessee or others.

20. See Exhibit "A" attached here to and made a part for additional term as and conditions to this Lease.

IN WITNESS WHEREOF the Lessors have hereunto set their hands.

Signed and acknowledged in the presence of:

______________________________ Hammer Resources, Inc.

Witness: Lessor: Donald Hammer, Pres.

______________________________ ______________________________

Witness: Lessor:

## INDIVIDUAL ACKNOWLEDGMENT

State/Commonwealth of: Tenn

County of: ____________

Before me a Notary Public in and for said county and state personally appeared the above named:

______________________________________________

who acknowledged to me that ________ did execute the foregoing instrument and that the same is ________ free act and deed for the purpose therein set forth.

In Testimony Whereof, I have hereunto set my hand and affixed my official seal at ____________ this ________ day of 2008.

______________________________

Notary Public

Expiration Date

*Hammer Resources Lease.wps*

## CORPORATION ACKNOWLEDGMENT

State/Commonwealth of: ARIZONA

County of: Cochise

Before me a Notary Public in and for said county and state personally appeared: Donald A. Hammer the President of Hammer - Resources, Inc., the above named corporation, who acknowledged to me that they did execute the foregoing instrument for and on behalf of said corporation, pursuant to authority so to do duly conferred on them by the Board of Directors of said corporation and that the same is the free act and deed of said corporation and of themselves as such officers, for the uses and purposes therein set forth.

In Testimony Whereof, I have hereunto set my hand and affixed my official seal at ~~24th~~ Willcox this 24th day of March, 2008.

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF ARIZONA
COCHISE COUNTY
ANGELINA RAMIREZ
COMMISSION # 140649
MY COMM. EXPIRES SEPTEMBER 30, 2010

Angelina Ramirez
Notary Public

This instrument was prepared by:

Atlas America, Inc.
1550 Coraopolis Road, PO Box 611, Moon Twp., PA 15108

*Hammer Resources Lease.wps*

**Exhibit "A"**
**Oil and Gas Lease**

The owner request that all operators for the purpose of ingress and egress of this property contact the owner to let him know when they will be on the property and where they plan to be at on the property.

If Lessee fails to drill one well within the primary term the Lease, this Lease will expire and Lessee will immediately execute a release of oil and gas lease and deliver the release to Lessor. Should Lessee drill a well within the primary term hereof, Lessee agrees to develop thereafter, a minimum of one (1) additional well each lease year until the property is fully developed, based on Lessee earning eighty (80) acres for each well drilled. The acreage earned around each well shall be hereinafter referred to as "earned acreage".

If during any year in the secondary term of this Lease, Lessee drills more than the minimum one (1) well, the additional wells (more than 1well in any given lease year) shall be cumulative towards meeting the minimum drilling requirements for future lease years. Each lease year shall commence with the calendar date that matches the execution date hereof and shall end 365 days later.

Should Lessee fail to maintain the development schedule as described above, Lessee, at Lessor's request, will release all acreage except the earned acreage immediately surrounding each well drilled. If Lessee releases any portion of the lease at any time, Lessee will continue to have use of any access roads built for access to accommodate the drilling, operation and maintenance of any wells drilled, whether or not the access road falls within the earned acreage immediately surrounding the well. Additionally, Lessee will have the rights of ingress and egress to maintain its pipelines and all other facilities associated with the developed lands.

Lessor will retain all existing producing wells, nonproducing wells, existing pipelines and continue to use or sell gas and oil on a daily business.

Pipelines which are buried shall be marked at the surface with route markers and a tracer wire shall be buried along side any plastic gathering line to mark its accurate location underground.

Lessee shall pay for damages caused by its operations to marketable timber on said land.

All structures created by Lessee on the Lessor's property shall be removed and the site restored to a sanitary condition upon termination of this Lease. All trash brought on site by Lessee or any of its agents shall be removed.

The Lessor shall not be liable to the Lessee for any damages sustained by Lessee arising out of failure of the Lessor to make available the oil and gas resources or access described herein because of its destruction, either wholly or in part, by acts of God or of the public enemy, fire, wind, epidemics, disease, or insect infestation and there shall be no obligations for Lessor to supply or for Lessee to accept and pay for other oil and gas resources or access in lieu of that destroyed or damaged.

Liability: Lessee understands and agrees that hazardous conditions including, but not limited to high walls, pits, abandoned wells and poor quality exist on the property. Lessee specifically and distinctly assumes all risk of and shall save the Lessor harmless from all liability for any personal injury, loss of life, or property damages suffered or sustained by Lessee, its agents, employees, or invites resulting from or in any way connected with Lessee's operations hereunder; with the condition or use of the premises; or any means of ingress thereto or egress there from. Lessee specifically and distinctly assumes all risk of and shall save the Lessor harmless for all liability for any violation of any health or environmental regulation from resulting from Lessee's activities including but not limited to soil erosion, surface or ground water contamination, air pollution and fish or wildlife regulations.
Lessee shall produce any wells on the property in good faith and shall not deliberately maintain minimal production simply for the purpose of maintaining the lease. If any wells capable of production are shut-in for more than two (2) consecutive years for any reason this lease shall terminate unless both parties agree to continue the lease.

Signed for Identification:

HRT, [signature], Pres.

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STATE OF TENNESSEE, SCOTT COUNTY

Received May 27, 2008 at 9:22 A.M.
and recorded in Misc. Book 165 Page 579
and entered in Note Book 0 Page 216
State Tax $ — Fee — Recording Fee $ 25.00
Data Fee 2.00 Total $ 27.00 Receipt No. 24248

Porter B. Rector Jr.
By: m.m, D.R. Register