

COATES ENERGY TRUST

ENERGY PLAZA II, SUITE 510

8610 N. NEW BRAUNFELS

SAN ANTONIO, TEXAS 78217

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FAX (210) 820-0160

P. O. BOX 171717

August 5, 1999

VIA FACSIMILE (915) 687-1307 & U.S. MAIL

Glen E. Farmer
415 West Wall, Suite 705
Midland, Texas 79701-4417

Re: Oil and Gas Lease Proposal
NW/4 Section 2, T-20-S, R-38-E, N.M.P.M.
Lea County, New Mexico

Dear Mr. Farmer

We are in receipt of your letter dated June 30, 1999, in which you set out a proposal to lease the mineral interest of Coates Energy Trust; Jenny Roberts Schimpff Trust; Catherine G. Roberts Trust; Barry Coates Roberts Trust; Lisa Stieren Hardeman Trust; George L. Stieren Trust; Wendy Stieren Wirth Trust; Kelly Stieren Daniell Trust and Amy E. Stieren Trust (collectively "Coates") under the above referenced acreage in Lea County, New Mexico. You have advised that you are leasing on behalf of Leonard Resource Investment Corp. ("Leonard") out of Midland, Texas.

Please be advised that Coates is not interested in leasing under the terms set out in your letter but would be agreeable to negotiating a lease with Leonard on 280 acres (NW/4 Section 2, T20S, R38E & SW/4 Section 35, T19S, R38E), subject to Leonard's acceptance of the Coates lease form, under the following basic terms: *1255 - 20 ac RBP*

Bonus: \$350/net acre
Delay Rental: \$25/net acre
Term: 2 years
Royalty: 30%
Depths: Surface down to the depth Leonard is interested in drilling (please advise specific depth)
Acreage: 280 acres

NMOCD Case No. 12730

Coates Trust Exhibit No. 3

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If Leonard is interested in negotiating a lease on the basic terms and conditions set forth above, please advise by 4:00 p.m. on August 13, 1999. This is not, and is not intended to be, a binding agreement between the parties and none of the parties will have any liability to the other in the event a binding oil and gas lease is not executed for any reason.

Yours very truly,

COATES ENERGY TRUST; JENNY ROBERTS
SCHIMPF TRUST; CATHERINE G. ROBERTS
TRUST; BARRY COATES ROBERTS TRUST;
LISA STIEREN HARDEMAN TRUST; GEORGE L.
STIEREN TRUST; WENDY STIEREN WIRTH
TRUST; KELLY STIEREN DANIELL TRUST AND
AMY E. STIEREN TRUST



Sherrie Green, CPL
Land Manager