

GLEN E. FARMER

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June 30, 1999

OIL & GAS LEASES
OIL & GAS PROPERTIES
OIL & GAS EXPLORATION
OIL & GAS INVESTMENTS

Fay
(915) 687-1307

Ms. Sherrie Green, Land Department
Coates Energy Trust
P. O. Box 171717
San Antonio, Texas 78217

Re: South Nadine Area
Lea County, New Mexico
T-20-S, R-38-E, N.M.P.M.
Section 2: Lots 3 and 4 and S/2NW/4 (160 acres)

Dear Ms. Green:

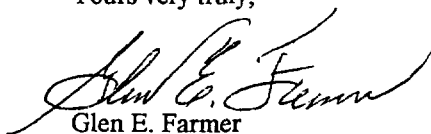
Reference is made to our telephone conversation of June 28 relative to an offer to lease your company's undivided 1/4 mineral interest, being 40 net mineral acres under the captioned land, our offer is hereby made on the following basis:

1. Bonus: \$200 per net mineral acre,
2. Royalty: 1/4,
3. Term: 3 years, paid-up.

You also advised that your company owned a like interest in the Section situated north of the captioned land, being Section 35, T-19-S, R-38-E. Please provide us with the exact description of the ownership in said Section 35, and please advise us as to the open depths. We would be interested in taking a look at what you have open therein.

We would appreciate hearing from you on our offer, as well as information on the aforesaid Section 35.

Yours very truly,


Glen E. Farmer

NMOCD Case No. 12730

Coates Trust Exhibit No. 2