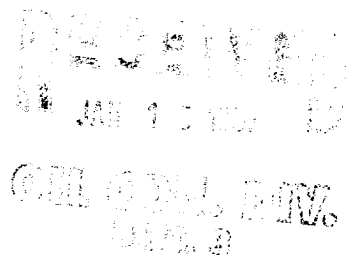


dugan production corp.

January 14, 1997

New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, NM 87410

Re: Dugan Production Corp.
Lilly #1
Unit B, Sec. 1, T23N, R6W
Rio Arriba County, NM



Gentlemen:

Below are the deviations reported by the drilling contractor for the subject well:

3° @ 93'
1° @ 410'
1-1/4° @ 819'
1-1/4° @ 1353'
2-1/4° @ 1856'
2-3/4° @ 2361'

Sincerely,

Gary Brink
Operations Manager

cg

State of New Mexico) §
County of San Juan)

Subscribed and sworn to before me this 14th day of January, 1997.

Notary Public

My commission expires: Aug 11, 2000