



CONTACT INFORMATION  
Mining Records Curator  
Arizona Geological Survey  
416 W. Congress St., Suite 100  
Tucson, Arizona 85701  
602-771-1601  
<http://www.azgs.az.gov>  
[inquiries@azgs.az.gov](mailto:inquiries@azgs.az.gov)

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Los Angeles, 12 October 1967

5.0070  
76.0070

FILE MEMO:

I met with Mr. Walsh yesterday at Chanslor-Western office concerning Peninsula Mining Company's option for lease in Yavapai County, Arizona.

On April 18, 1967 Peninsula wrote to Mr. Rodgers stipulating three proposed changes for the mining lease. Change 2 requested a very liberal definition of the term net smelter returns. I objected to this since Signal wished the definition to include the cost of refining, selling and transportation from smelter to refinery and from refinery to market. In my opinion net smelter return means just that. That is, the royalty is based on the net liquidation paid by the smelter. Charges beyond the smelter treatment are absorbed by the mining company and not by the lessor.

As consequence of this meeting, Mr. Walsh will write to Signal Oil and Gas, with copy to Mr. Arthur Still, Consultant, giving a definition of net smelter returns as follows:

"Net smelter returns," as used herein, is agreed to mean the amount of payments received by the Lessee from the smelter to which any ore or concentrates derived from the Leased Premises are delivered for treatment and sale, after deduction has been made for all smelter penalties and charges, freight, costs of transportation and haulage from the Lease Premises to the smelter.

The above definition is identical to that of the Union Pacific Railroad Company.

Wm. H. Crutchfield, Jr.



Los Angeles, 25 September 1967

→ 5.0070  
76.0070

Mr. T. H. Rodgers:

Your C-15-2-SFP, August 23, 1967, with copy to me, requesting Mr. Stephens' concurrence in granting Peninsula Mining Company (Signal Oil and Gas Company) an option for lease in Yavapai County, Arizona.

I note that Mr. J. L. Stephens has concurred per his letter to you of August 28, 1967.

Before you proceed further with Peninsula, I would like to discuss this matter with you at your early convenience. In the meantime for background, I would appreciate receiving a copy of the SFP lease with Standard Metals.

Wm. H. Crutchfield, Jr.

A. T. & S. F. RY.  
RECEIVED

AUG 30 1967

MINING DEPARTMENT,  
LOS ANGELES, CALIF.

- MEMORANDUM -

76.0070

Chicago, August 28, 1967

C-102-1168

Mr. Rodgers:

Reference is made to your memorandum dated August 23, 1967 concerning application from Peninsula Mining Company (a wholly-owned subsidiary of Signal Oil and Gas Company) for an option to lease 1800 acres in Sections 15, 27 and 35-14N-1E, Yavapai County, Arizona for the mining of copper, lead, zinc, gold, silver, platinum group metals, cobalt, nickel, cadmium, selenium, mercury, pyrite, pyrrhotite and associated minerals.

I concur that we should enter into an option for lease with Peninsula Mining Company on the terms outlined in the third paragraph of your memorandum and find the revisions Peninsula has requested in our form satisfactory. I particularly am in favor of the agreement setting out specifically what constitutes "net smelter returns" as I think this is highly desirable.

J. L. Stephens

cc: Mr. W. H. Crutchfield

A. T. & S. F. RY.  
RECEIVED

AUG 24 1967

MINING DEPARTMENT,  
LOS ANGELES, CALIF.

MEMORANDUM

Los Angeles - August 23, 1967

Sections 15, 27 and 35, T14N,  
R1E, Yavapai County, Arizona

Request for Option for Lease  
from Peninsula Mining, Inc.

C-15-2-SFP

Mr. J. L. Stephens:

We have an application from Peninsula Mining Company, a wholly owned subsidiary of Signal Oil and Gas Company, for an option to lease approximately 1800 acres in Sections 15, 27 and 35, <sup>2 miles</sup> Township 14 North, Range 1 East, Yavapai County, Arizona.

Peninsula is engaged in extensive exploration in this area which is in the Jerome-Cottonwood Area of Arizona, and have retained the services of Still & Still, prominent mining consultants of Prescott, Arizona.

*No*  
In discussions we have had with Peninsula, in which Mr. Crutchfield participated, they indicated that they would be willing to accept, with three revisions, our option for lease and mining lease form which we worked out with Standard Metals Corporation, which as you know calls for a \$2.00 consideration per acre for the two year option. The mining lease would provide for a royalty of 5% of the net smelter return. Peninsula asked that our lease be revised in three ways. First, that the minerals which it proposes to lease be spelled out, i.e., copper, lead, zinc, gold, silver, platinum group metals, cobalt, nickel, cadmium, selenium, mercury, pyrite, pyrrhotite and associated minerals, which lease would be for a term of five years and as long thereafter as commercial mining is continued. Second, the lessee would also have a Right of First Refusal to negotiate for any other minerals not specifically set out which were discovered during operations. Three, the term "net smelter returns" would set out specifically the deductions which may be made to arrive at the net returns. The deductions which Peninsula proposes are standard in the industry. *??*

We have been negotiating for quite some time with Peninsula on this matter and we do not feel in good faith that we can withhold their application on the grounds that we are making further studies of our royalty structure, as we have with other companies. Accordingly we recommend that the option for lease be granted to Peninsula under the terms outlined above. Do you concur?

T. H. Rodgers

cc: W. H. Crutchfield - W/enclosure

Would appreciate your comments on Signal's letter of April 18, 1967. T.H.R.

# Signal Oil and Gas Company

General offices: 1010 Wilshire Boulevard, Los Angeles, California 90017

Telephone: 482-0722 • Cable address: SIGOILGAS

April 18, 1967

Santa Fe Pacific Railroad Company  
Office of the Land Commissioner  
4549 Produce Plaza  
Los Angeles, California 90058

Attention: Mr. T. H. Rodgers

Gentlemen:

Re: Sections 15, 27 and 35 T14N,  
R1E, Yavapai County, Arizona

Proposed Option for Lease with  
Peninsula Mining, Inc.

C-15-2 SFP

*8/18  
Called Bob - he's  
not sure Signal is  
still interested. Will  
check & let us know  
SFP*

*C-15-2-27P*

In accordance with our meeting on Monday, April 10, 1967, the following are three proposed changes for the subject Mining Lease:

1. That portion of Paragraph 1 of the Mining Lease which appears on page one should be deleted and replaced with the following:

"1. Lessor, upon the terms and conditions and subject to the reservations hereinafter set forth, hereby grants to Lessee the exclusive right and privilege, to mine, remove and sell copper, lead, zinc, gold, silver, platinum group metals, cobalt, nickel, cadmium, selenium, mercury, pyrite, pyrrhotite and associated minerals, hereinafter referred to as "said minerals", from and upon the following described land situated in the County of Mohave, State of Arizona:

Except as otherwise herein provided, this lease shall remain in force for a term of five (5) years beginning with the date hereof, and so long thereafter as Lessee shall be engaged in the production of said minerals in commercial quantities from the leased premises, and/or

so long thereafter as Lessee is pursuing development work, or work preparatory thereto with reasonable diligence and continuity, and/or so long thereafter as Lessee's development or production operations are suspended or deferred, all as herein provided.

If during the term hereof, Lessee discovers any minerals other than those included within the term "said minerals" (hereinafter called "said other minerals") Lessee shall have a Right of First Refusal with respect to said other minerals as follows: upon the discovery of said other minerals, Lessee shall notify Lessor and the parties shall endeavor to negotiate a lease covering said other minerals. Lessor shall not lease, sell or otherwise dispose of said other minerals from the leased premises without first giving Lessee written notice of the terms and conditions of such sale, lease or disposal. Lessee shall have sixty (60) days from the date of such notice within which to notify Lessor that Lessee desires to lease or otherwise acquire the lands described in said notice, upon such terms and conditions. In the event of such notice by Lessee, Lessor agrees to sell, lease or otherwise dispose of the lands described in the notice to Lessee. If Lessee shall fail to give such notice, Lessor may sell, lease or otherwise dispose of the said lands to any other person free and clear of any rights herein granted Lessee, provided, however, that the terms and conditions of such sale, lease or disposal shall be substantially the same as those specified in such notice from Lessor to Lessee."

2. The following should be inserted at the end of Paragraph 5 on page five of the Mining Lease:

"The term 'net smelter returns' shall mean the net proceeds received by Lessee for said minerals sold by Lessee to a bona fide purchaser, after deductions by Lessee for all of the following:

Santa Fe Pacific Railroad Company  
April 18, 1967  
Page 3

*Smelter*

- (a) Custom smelting costs, treatment charges and penalties at a smelter, mint or other treatment facility, including, but without being limited to, metal losses, penalties for impurities, refining, selling, and transportation from smelter to refinery and from refinery to market.]
- OK (b) Costs of rail transportation of said minerals from the rail head to a smelter, mint or other place of treatment.

The two points dealing with the extended term of the Mining Lease and identification of the minerals leased thereby with a right of first refusal to the unleased minerals are treated under Paragraph 1 above. The definition of "net smelter returns" is included under Paragraph 2 above. Art Still checked with the Standard Metals Corporation people as to any understanding between Santa Fe and them as to the meaning of "net smelter returns" under their recent Option for Lease with Santa Fe. The definition of "net smelter returns" contained in Paragraph 2 above is based upon the advice of Standard Metals to Art Still on their understanding of the meaning of "net smelter returns" in their Option for Lease with Santa Fe.

Very truly yours,

SIGNAL OIL AND GAS COMPANY

  
Joseph H. Loeb  
Attorney

JHL:me/mk

*DP mineral  
lease terms  
"net smelter"*

3% when the value of the crude ore mined is \$12.00 or less per ton.

4% when the value of the crude ore mined is more than \$12.00 and less than \$20.00 per ton.

5% when the value of the crude ore mined is \$20.00 or more per ton.

[ "Net smelter returns," as used herein, is agreed to mean the amount of payments received by the Lessee from the smelter to which any ore or concentrates derived from the Leased Premises are delivered for treatment and sale, after deduction has been made for all smelter penalties and charges, freight, costs of transportation and haulage from the Leased Premises to the smelter, and any taxes attributable to the Lessors' interest in the ores, minerals and metals sold. "Net mint returns," as used herein is agreed to mean the amount of the payments received by the Lessee from the United States Mint or other authorized bullion purchaser, after deduction has been made for all postage, express, insurance and other handling charges incurred in connection with shipment of such bullion from the Leased Premises to said purchaser.

- (b) In the event that the Lessee elects to terminate this lease as provided hereinafter, he shall furnish to the Lessors copies of all geological, drilling, engineering, assaying and other data relating to the Leased Premises developed by the Lessee in his prospecting and exploration hereunder.
- (c) The Lessee shall indemnify and hold harmless the Lessors for and on account of claims, demands or liabilities arising out of or in connection with the Lessee's activities or operations hereunder. The Lessee shall assume full and sole responsibility for the operation and the direction of the work done under this lease and no employee or agent of the Lessee shall under any circumstances be an employee or agent of the Lessors.
- (d) The Lessee shall perform mining work done hereunder in accordance with good mining practice; shall comply with the applicable laws and regulations relating to performance of mining work on the Leased Premises; and shall comply with applicable workmen's compensation laws. The Lessee shall pay in full for all labor performed upon or material furnished to the Leased Premises at the instance or request of the Lessee, and shall keep the Leased Premises free from any and all mechanics or laborers liens, except those which he in good faith desires to contest.

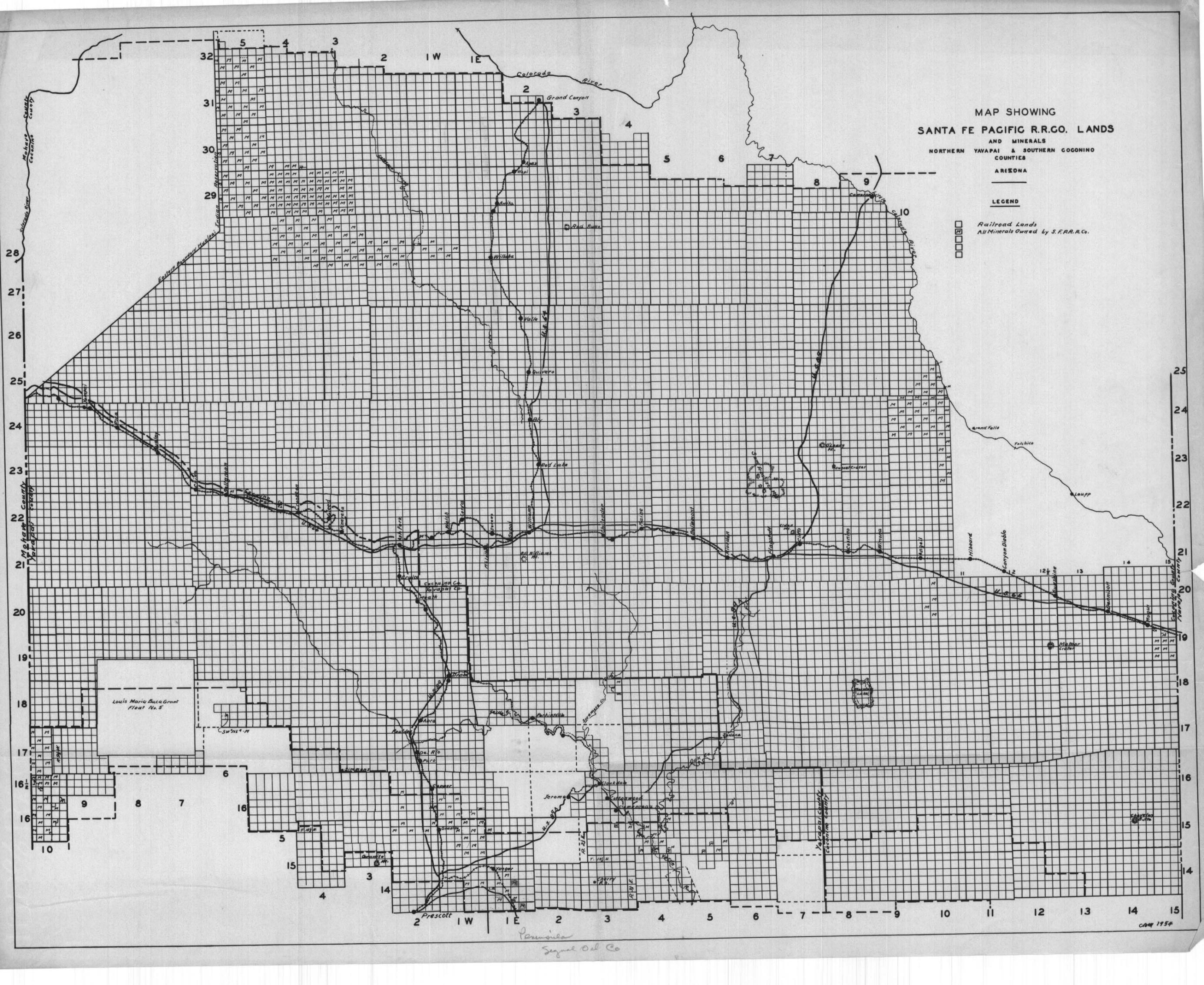
MAP SHOWING  
SANTA FE PACIFIC R.R.CO. LANDS

AND MINERALS  
NORTHERN YAVAPAI & SOUTHERN COCONINO  
COUNTIES

ARIZONA

LEGEND

-  Railroad Lands
-  All Minerals Owned by S.F.R.R.Co.



*Parsonella  
Signal Oil Co*