AUG 31 1951

Re: DMA-1729

Mr. W. R. Nichols
Nichols Motor Company
500 Main Street
Montrose, Colorado

Dear Mr. Nichols:

Your application (DMA-1729) for a Government loan of $25,000 for working capital and equipment for open pit operations at the Lost Bay claims, Ouray County, Colorado, has been reviewed by the Lead-Zinc Branch of the Defense Minerals Administration.

A necessary qualification for a direct loan is that the applicant should have proven reserves of strategic minerals in large enough tonnage to secure the loan. No loan can be approved until an adequate reserve is established. I regret, therefore, to advise you that, due to the lack of proven reserves on your property, your application cannot be approved.

You mention in your application that your ore could be blocked out by a small diamond drilling program. As such work would be exploratory in nature, it may be eligible for exploration assistance under the Defense Minerals Administration's exploration program. This program requires that the applicant participate in half of the costs of the exploration on a lead deposit. Funds provided by the Government will be considered a loan, to be repaid if the exploration is profitable, but to be cancelled if unsuccessful. The details of the plan (MD-5) are enclosed, as are the necessary forms (MF-103) for making application under this program, should you care to apply. Also enclosed are copies of Form MF-202, "Landlord's Subordination Agreement" six copies of which should be completed by the Morningside Development Company (second lessor) and six copies by Earl and Linnie Alexander (first lessors); and copies of Form MF-201, "Mortgagor's Subordination Agreement", to be completed by the Western Finance Company, Montrose, Colorado.

In filling out the applications expenses should be itemized in detail, showing what labor, equipment, etc., are necessary and the cost of each. It should be pointed out, however, that the $5,000 in notes payable to the Western Finance Company could not be considered as an expenditure under a Government exploration agreement. Any modification of your original proposal that you wish to make will be considered,

routed

but you should be specific concerning the work which you wish to undertake.

Very truly yours,

Tom Lyon

Tom Lyon, Director
Supply Division

Enclosures

ABCampbell:emp
G 8-28-51
Copies to: J. H. East, Jr. Region IV (2)
Chief, Lead-Zinc Br.
E. T. McKnight 4204 GSA
R. H. Mote
Reports & Records
Directors r. file 4214 GSA
Br. r. file 4214 GSA
Files

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Re: DMA-1729
Open pit operation in
lead carbonate ore
Ouray County, Colorado
Direct loan, $25,000

Memorandum

To: Reports and Records Unit
Administrative Management Div.

From: Chief, Lead-Zinc Branch

Subject: Denial of direct loan

The applicant has requested a direct loan of $25,000 for working capital, equipment and supplies, and for the repayment of a $5,000 indebtedness. He proposes to carry out an open pit operation for the mining of lead carbonate which will be shipped directly to the smelter.

A review of the application shows no proven reserves in the property involved.

It is recommended, therefore, that the application for a direct loan be denied on the basis of insufficient proven reserves. It is further recommended that the applicant be advised concerning the eligibility of his proposal under the Government's exploration program and that application forms required for participation in the program be forwarded to him. He should also be advised that the $5,000 indebtedness could not be considered as a legitimate expenditure under the exploration program. These points are covered in enclosed letter to applicant.

Returned herewith is the following docket material:

3 Copies Form MF-100
3 Copies Form MF-102
2 Smelter return sheets
1 Copy of sublease
Correspondence from applicant

Gunnard Johnson

Approved:

Tom Tyson

Director, Supply Division

T. P. Billings, Chief
Lead-Zinc Branch

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