

**FOUNDERS' AGREEMENT
UKRAINIAN-AMERICAN LIMITED LIABILITY COMPANY
"SALVAGE METALS UKRAINA"**

**Article 1
THE FOUNDERS AND FORMATION**

1.1. The Ukrainian Founders:

(i) Welding Research Institute of the Ukrainian Academy of Science, also known as "Paton Institute"; legal address: Bozenko str. 11, Kiev, Ukraine,

(ii) "MOLNIA" Company - Small State Owned Enterprise, registered in Nikolaev, legal address: Artileriyskaya str., 19, Nikolayev, Ukraine;

1.2. The US Founder:

Corporation "CONSORTIUM SERVICE MANAGEMENT GROUP - "C.S.M.G" of Texas, legal address - 701 CCNB, North Tower 500, N.Shoreline, Corpus Christi, Texas, 78471, USA.

have agreed to act as Founders of a Limited Liability Company, referred to as "The Company", to be established in accordance with Ukrainian Law and for the purpose and the terms herein set forth. As Founders, Ukrainian Founders and American Founder are the original shareholders.

**Article 2
DURATION**

The duration of the Company shall be perpetual.

**Article 3
PURPOSES AND FIELDS OF ACTIVITY**

The broad commercial purpose of the Company is promotion of new industrial technologies of metals salvage, processing and reprocessing of used metal objects, sale, marketing, distribution, trade, export of scrap and reproduced metals products.

The scope of business activity shall be specified in the Company' Statute.

**Article 4
NAME AND THE LEGAL ADDRESS OF THE COMPANY**

The name of the Company shall be:

"SALVAGE METALS UKRAINA"

The legal address of the Company is:

Bozenko street, 11, Kiev, Ukraine;

Article 5 LEGAL STATUS OF THE COMPANY

5.1. The Company is established as a Limited Liability Company in accordance with The Law of Ukraine On Business Associations, i.e. a company which has a capital fund divided into parts, the sizes of which are set out by constituent documents of the Company (the founders agreement and the Company's Statute).

Article 6 CAPITAL FUND AND PERCENTAGE INTERESTS

6.1. The Capital Fund of the Company is one million (1000,000) of Ukrainian karbovanetz ("UK"- the lawful currency of Ukraine). This Capital Fund is divided into 3 parts (shares) and consists of respective contributions of the four founders. The founders respective contributions to the initial Capital Fund shall be:

i) Paton Institute shall provide 100,000 UK, which shall be 10% interest in the Company;

ii) "MOLNIA" Company shall provide 400,000f UK, which shall be 40% interest in the Company;

iii) Corporation "CSMG" shall provide in USD a sum which is equivalent to 500,000 UK in accordance with the official exchange rate announced by the National Bank of Ukraine on the date of signing of this Agreement, which shall be 50% interest in the Company;

6.2. The Company shall increase its Capital Fund after starting operations subject to decision of Founders' Assembly. All main assets of the Company such as salvage equipment or real estate (industrial buildings) acquired by the Company and financed by credits in USD or UK, as well as assets acquired through capitalization of Company profits shall be contributed to the Capital Fund.

6.3. Changes in valuation of assets contributed to the Capital Fund and additional investments on the part of the Founders in form of providing additional Working Capital subject to Decisions of the Board of Directors shall have no effect to the initial shares distribution set forth in this Agreement.

6.4. Up to the time of registration of the Company, each of the Founders is obliged to invest no less than 30% of the investment specified by the founding documents and the investment is confirmed by documents issued by a banking institution.

6.5. A founder who has paid his investment in full is given a certificate to this effect by the Company.

Article 7 FINANCING OF THE COMPANY BUSINESS

7.1. The Company shall open, pursuant to the Law of Ukraine the following bank accounts:

- i) a UK account in one of the local Banks;
- ii) a USD account in one of the local Banks;
- iii) a hard currency account in one of the first class European or US banks, referred to as "Foreign bank account", for the purpose of funding equipment, operating and other necessary business expenses and to function as a receiving account for the purpose of depositing the irrevocable letters of credit from the sale of salvage metals and reproduced metals to the world markets. This account the Company shall open after receiving license from the National Bank of Ukraine.

7.2. The Company can use part of the assets invested into the Capital Fund to cover part of the office expenses costs until first profits appear.

7.3. "CSMG" shall provide financing up to an aggregate amount up to five million USD (\$ 5000,000) of the operations listed herein:

- i) to purchase in US of metal salvage equipment;
- ii) to purchase salvage objects (used ships, railway cars, others) and scrap until first profits appear;
- iii) to provide marketing for the Company in the World Market;
- iv) to pay the costs of expertise to organise proper management of salvage operations;
- v) to pay the costs of acquiring export licenses;
- vi) to provide training of the personnel;
- vii) to cover other operational expenses that the Founders consider necessary.

7.4. This financing shall be in form of a loan to which the Company will be a debtor, with loan to be provided by one of US or European Commercial Banks.

7.5. All the founders shall provide working capital to the Company until first profits appear. These investments shall not be regarded as contributions to the Capital Fund, but the Company's

accountant office shall keep track of all the expenses of the founders related to its operations; the amount of actual investments in form of working capital shall be taken into account at the first dividend's distribution.

7.6. The Company shall ship part of its salvage metals to the Ukrainian metals plants for reproducing in exchange for reproduced metals and export both salvage metals and reproduced metals to world market at the best average prices attainable .

Article 8. SECURITY OF THE COMPANY DEBT

8.1. Immediately after obtaining of the registration certificate of the Company Ukrainian Founders shall address the appropriate Government authorities of Ukraine and to the National Bank of Ukraine and obtain special license for operating the Foreign Bank account in the Company name, to handle operations referred to in the paragraph 7.1. of this Agreement;

8.2. The US Founder shall retain one of "the big six" accounting firms to oversee the Foreign bank account operations.

8.3. The Ukrainian Founders shall seek to obtain from the Government of Ukraine a written document, guaranteeing the following:

50% of the Salvaged Metals are to be sold to the World Market for the hard Currency with the remaining 50% shipped to the Ukrainian Metals Plants for reproducing with the right of the Company to sell its share of the reproduced Metals to the World Market for hard currency. the Company shall have the right to increase its percentage of metals to the Ukraine Metal Plants if payment from the sale of reproduced metals is received 45 days from the Date of shipment of salvaged metals from the Company salvage operations to the Ukraine Metal Plants. In the event The Ukraine Metals Plants are unable to reproduce the metals and provide reproduced metals in agreement with the Company's specifications of such Reproduced metals within a period of 60 days from the date that the salvaged metals are shipped to the Ukraine Metals Plants, then the Company shall have the right to sell all salvaged metals to the world market for hard currency until such time as the Ukraine Metal Plants can deliver the reproduced metals to the Company in a period of 45 days from the Date the salvaged metals are shipped from the Company salvage operations.

8.4. All the salvage metals hardware acquired by the Company and paid for from the debt assets shall be put under collateral up to the date of the final settlement of Credit.

8.5. On the Condition of the Reception of the Hard Currency Credit of \$5000,000 for the period of 38 month The Company shall pay monthly to the Creditor beginning with the date of the first payment and each month thereafter from the sale of salvaged metals or reproduced metals the sum of \$131,579. In the event of a

Different Sum of Credit is received, which is due to be repaid monthly, this sum shall be calculated as the division of the current sum of Credit on the date of the final settlement of Credit month by month.

Article 9 PROFIT OF THE COMPANY AND ITS DISTRIBUTION

9.1. The Company shall keep books and records concerning all profits, losses, income, expenditures, assets and liabilities.

9.2. Profit of the Company after all allocations to the State Budget if any shall be the Company property. The profit and loss distribution between the Founders after full repayment of the Credit shall be proportional to their respective investments to the Capital Fund, provided that all contributions to the working capital also shall be refunded.

9.3. The Profits of the Company shall be counted for in accordance with the accounting regulations effective in Ukraine, though financial statements prepared in accordance with American accounting standards shall be prepared.

Article 10. INSURANCE FUND AND LIABILITY OF FOUNDERS.

10.1. The insurance fund is created by the Company at the amount of 25 twenty five percent (25%) of the Capital Fund.

10.2. The Company will be liable to the demands of creditors to the extend all its property and assets, but founders are liable only within the limits of their investments.

Article 11. FOUNDERS OBLIGATIONS AS TO STARTING SALVAGE OPERATIONS

11.1. Ukrainian founders will take common efforts in order to provide for the Company:

i) provide the salvage operations location with necessary elements of industrial infrastructure in a form of investment of another party to be invited or on the terms of the lease ;

ii) purchase and support of supplies for dismantling and salvage of vessels, boats, railcars and other objects for salvage as well as scrap metal on the level of 200,000 tons per year per salvage operation location annually and at prices which include all shipping costs not to exceed 20% of the actual resale export price received by the Company from the salvaged and reproduced metals sales.

11.2. The US Founder will take efforts in order to provide for the Company:

i) purchase and shipment to Ukraine of salvage operations equipment payed by the Credit assets;

ii) hard currency financing for purchase of the objects subject to utilization during the initial period of the Company operations, but such operational expenses shall not exceed, calculated per unit of salvaged or reproduced products for sale by the Company, 18% of the gross salvaged metals export price, received by the Company.

iii) marketing and sales to the World market of the Company products at highest but competitive prices available;

iv) training of the Company personnel if nessecary.

Article 12 GENERAL RIGHTS AND DUTIES OF THE FOUNDERS

12.1. Founders shall have rights and obligations pursuant article 11 of the law of Ukraine "On Business Associations".

Article 13 CONCESSION OF A SHARE IN THE CAPITAL FUND, PAYMENT OF VALUE OF PROPERTY AT THE TIME OF WITHDRAWAL OF A FOUNDER, LEGAL SUCCESSORS.

13.1. Any Founder may, with the agreement of the other Founders concede his share (part of it) to one or several other founders and also to the third parties. If the a third party is invited to participate in the Company then the share redistribution shall effect only Ukrainian Founders, but the amount of the US Founder interest in the Company (50%) shall not be effected.

13.2. The transfer of the share (or part of it) to third parties, payment of value of property at the time of withdrawal of a Founder from the Company and the legal successors (heirs) of a Founder entering are subject to regulation by Articles 53,54,55 of the law of Ukraine "On Business Associations".

Article 14 GOVENING BODIES OF THE COMPANY.

14.1. The Founders shall create governing bodies of the Company pursuant to Ukrainian legislation: Founders assembly, Board of Directors and Audit Committy.

14.2. Founders Assembly shall be convined once a month in person of by telephone conference. Founders shall elect Chairman of the Founders assembly who will bear the title "President of the Company" and will be the highest officer of the Company.

14.3. Board of Directors shall consist of up to eight members; US Founder on his part and Ukrainian Founders on their part shall designate equal number of Directors and the Company will conclude a contract with each of the Directors. Two members of the Board of Directors (one on Ukrainian part and one on US part) shall be appointed as Directors General. Directors General shall manage every day operations of the Company and will not be authorised to fund without the Board of Directors approval assets which according to the exchange rate announced by the Bank of Ukraine exceed \$500, except for every day operational expenditures.

Article 15 ARBITRATION.

All disputes that may arise between US Founder and Ukrainian Founders shall be subject to litigation at the International Commercial Arbitration in Stockholm.

Article 16 FINAL CLAUSES

16.1. This Agreement shall be effective from the date of its signing by the Founders. From this date all other documents (correspondence, protocols of intent) shall not be effective.

16.2. This Agreement shall be executed in 3 counterparts in English and 3 counterparts in Ukrainian, each of which shall be deemed an original, but in case of any misunderstanding the English text will prevail.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be executed on their behalf as of this 6th day of March, 1993.

CONSORTIUM SERVICE MANAGEMENT GROUP

By 

Donald Robbins

PATON INSTITUTE

By 

Leonid Volgin

"MOLNIA" COMPANY

By 

Vladimir Vassiliev

