

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
No.: 500-11-040900-116

SUPERIOR COURT
(Commercial Division)
The Companies' Creditors Arrangement Act

**IN THE MATTER OF THE PLAN OF
ARRANGEMENT WITH RESPECT TO:**

KITCO METALS INC., a legal person duly incorporated under the laws of Canada, having its principal place of business at 620 Cathcart, 9th Floor, suite 900, Montreal, Quebec, H3B 1M1

Petitioner

-and-

**RICHTER ADVISORY GROUP INC. (formerly
RSM RICHTER INC.)**, a duly incorporated legal person having its principal place of business at 1981 McGill College, 12th Floor, in the city and district of Montreal, Quebec, H3A 0G6

Monitor

**FIFTEENTH REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
June 20, 2013**

INTRODUCTION

1. On June 8, 2011, Kitco Metals Inc. (the "Petitioner" or "Kitco") filed a Notice of Intention to Make a Proposal and Richter Advisory Group Inc. (formerly known as RSM Richter Inc. ("Richter")) was named Trustee. Pursuant to a motion filed by Kitco and the resulting Order issued on June 10, 2011 ("Order") by the Honourable Martin Castonguay, J.S.C., Richter was further appointed Interim Receiver to Kitco.
2. On July 5, 2011, Kitco filed with the Quebec Superior Court a Motion for the Issuance of an Initial Order pursuant to Section 11 of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36, as amended (the "CCAA"). On July 6, 2011, the Honourable Mark Schrager, J.S.C. issued an initial

order (the “Initial Order”), which *inter alia* appointed Richter as Monitor (the “Monitor”) with certain duties including duties similar to those that were originally provided for in the Interim Receiver Order.

3. On July 26, 2011, the Petitioner filed a motion requesting an extension to the stay of proceedings until February 29, 2012, in order to allow the Petitioner additional time to litigate and/or negotiate with Agence du Revenu du Québec (“ARQ”) regarding its dispute. The Monitor filed its First Report on July 25, 2011 in support of the motion for an extension. On July 27, 2011, the Court granted an order extending the stay of proceedings until October 18, 2011.
4. On September 1, 2011, the Monitor filed its Second Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
5. On October 3, 2011, the Monitor filed its Third Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
6. On October 14, 2011, the Petitioner filed a motion requesting an extension to the stay of proceedings until April 18, 2012, in order to allow the Petitioner additional time to litigate and/or negotiate with ARQ regarding its dispute. The Monitor filed its Fourth Report on October 14, 2011, in support of the motion for an extension. On October 18, 2011, the Court granted an order extending the stay of proceedings until April 18, 2012.
7. On November 16, 2011, the Monitor filed its Fifth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
8. On December 21, 2011, the Monitor filed its Sixth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
9. On January 21, 2012, the Monitor filed its Seventh Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
10. On March 8, 2012, the Monitor filed its Eighth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
11. On April 16, 2012, the Petitioner filed a motion requesting an extension to the stay of proceedings until October 17, 2012, in order to allow the Petitioner additional time to litigate and/or negotiate with ARQ regarding its dispute. In addition, the Petitioner requested various modifications to Paragraph 30 of the Initial Order, including that the Monitor only be required to monitor the Petitioner’s cash flow on a monthly (vs. weekly) basis and file a report in Court on a quarterly (vs. monthly) basis to report on various matters, the whole as more fully set out in the Initial Order. The Monitor filed its Ninth Report on April 16, 2012, in support of the motion for an extension and the

modifications to the terms of the Initial Order. On April 18, 2012, the Court granted an order extending the stay of proceedings until October 17, 2012.

12. On April 16, 2012, the Petitioner filed a motion requesting the establishment of a process to solicit creditors' proof of claims with a claims bar date of June 22, 2012, at 5:00 p.m. Montreal time. On April 18, 2012, the Court granted an order approving the process to solicit claims with a claims bar date of July 20, 2012, at 5:00 p.m. Montreal time.
13. On September 7, 2012, the Monitor filed its Tenth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
14. On October 15, 2012, the Petitioner filed a motion requesting an extension to the stay of proceedings until October 17, 2013, in order to allow the Petitioner additional time to litigate and/or negotiate with ARQ regarding its dispute. In addition, the motion contained a request to confirm the Petitioner's entitlement to solicit offers of financing, lease or sale with respect to the commercial and residential condo units which Kitco committed to purchase in the real estate project known as Altitude as well as to authorize the payment of certain expenditures in relation thereto. The Monitor filed its Eleventh Report on October 12, 2012, in support of the motion for an extension. On October 15, 2012, the Court granted an order extending the stay of proceedings until June 26, 2013, and approved the various additional aforementioned requests.
15. On February 27, 2013, the Monitor filed its Twelfth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
16. On May 10, 2013, the Monitor filed its Thirteenth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor.
17. On June 19, 2013, the Petitioner filed a motion requesting an extension to the stay of proceedings until June 26, 2014, in order to allow the Petitioner additional time to litigate and/or negotiate with ARQ regarding its dispute. The Monitor filed its Fourteenth Report on June 19, 2013, in support of the motion for an extension.
18. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
19. The purpose of this Fifteenth Report of the Monitor is to inform the Court with respect to the proposed sale of Kitco's Industrial/Platinum Ware Division ("Industrial Division") to 8547335 Canada Inc. ("8547335"), a wholly owned subsidiary of XRF Scientific Limited ("XRF"), which is the subject matter of Kitco's Motion For the Issuance of an Order Authorizing the Sale of Certain Assets of the Petitioner (the "Motion"), which has been or will be served on June 20, 2013. More particularly, this report will discuss the following:

- Overview of the Industrial Division;
- The Sales Process;
- The Asset Purchase Agreement (“APA”);
- The Revised Cash Flow Projections;
- Request for Approval of the Proposed Sale Transaction to 8547335.

OVERVIEW OF THE INDUSTRIAL DIVISION

20. Kitco’s Industrial Division is a small non-core segment of Kitco’s business which consists of the distribution of platinum lab ware to various users including cement and aluminum plants, soil analysis laboratories and others. In addition, this division also sells zirconium crucibles used in soil analysis.
21. The Industrial Division commenced operations in 2002. Six employees consisting of a Director and sales and order processing agents, service more than 900 customers worldwide from its operations in Montreal, Quebec. The majority of customers are located in North America with approximately 45% of gross margin concentrated in the top ten customers.
22. Overall, Kitco estimates that the Industrial Division will account for approximately 1% of revenue in 2013.

THE SALES PROCESS

23. The following outlines the timeline with respect to the sales process:
 - XRF initially approached Kitco in March 2012 to express interest in the potential acquisition of the Industrial Division, and discussions became more serious in the fall of 2012. During the hearing of October 15, 2012, counsel for Kitco informed the Court that an unsolicited offer had been received and that if it chose to explore it further, it would seek the assistance of the Monitor to conduct a formal sales process. In November 2012, Kitco requested the assistance of the Monitor to conduct a formal solicitation process with the objective of maximizing realization for the Industrial Division.
 - In December 2012, the Monitor prepared an information circular based on financial information provided by Kitco providing a high level overview of the investment opportunity (Exhibit “1”). Potential acquirers who wished to pursue the opportunity were requested to sign a confidentiality agreement. In addition, the information circular advised that offers would be received by Kitco until January 18, 2013, 5:00 PM (Eastern Standard Time).

- On December 7 and 10, 2012, the information circular was sent to more than twenty potential acquirers located in North America, Europe, Asia and Australia. The interested parties list was composed of parties provided by Kitco as well as additional names identified by the Monitor consisting of parties who have been in contact with the Monitor throughout the CCAA proceedings with respect to potential acquisition opportunities and parties who are potential strategic/financial buyers identified by the Monitor using research databases.
- Concurrently, with the sending of the information circular in December 2012, the Monitor set up a virtual data room which contained financial information relating to the Industrial Division accessible solely to those parties who signed confidentiality agreements.
- The Monitor received four signed confidentiality agreements from various parties, all of whom subsequently accessed the data room.
- Ultimately, only one offer was received on January 17, 2013, namely the offer from XRF. Kitco and XRF engaged in serious discussions but ultimately found they could not come to terms on a transaction and negotiations ended in March 2013.
- Kitco advised that in late April 2013, XRF contacted Kitco with a view to restarting discussions, which ultimately led to the transaction for which approval is being sought.

THE ASSET PURCHASE AGREEMENT (“APA”)

24. The following are the salient terms and conditions of the APA agreed to by Kitco and 8547335:

- 8547335 is acquiring the following assets used to carry out the operations of the Industrial Division:
 - Goodwill;
 - Physical Assets (primarily office furniture);
 - Business Records;
 - Domain Name Licenses;
 - Intellectual Property; and
 - All Rights and Obligations under the Metal Accounts.
- 8547335 will offer employment to all of the current employees of the Industrial Division.
- Kitco agrees to sublease an area of its premises to 8547335 pursuant to the Sublease Agreement filed with the Motion.

- Kitco agrees to supply 8547335 with inventory of precious metals having a value of not more than \$1.4 million at cost for a period of two years pursuant to the Wholesale Agreement filed with the Motion.
- Kitco Logistics Inc. (a wholly owned subsidiary of Kitco) agrees to provide storage and transportation services to 8547335 at its New York warehouse pursuant to a Service Agreement filed with the Motion.
- The purchase price is comprised of the following:
 - Payment at closing of \$1.7 million;
 - A deferred payment based on the level of earnings before interest, taxes, depreciation and amortization (“EBITDA”) of the Industrial Division for the twelve month period following closing.
- XRF has intervened to the APA to guarantee the obligations of 8547335.
- Bart Kitner and 3609979 Canada Inc. (the parent company of Kitco) have also intervened to the APA to guarantee the obligations of Kitco.

THE REVISED CASH FLOW PROJECTIONS

25. In conjunction with the filing of the Monitor’s Fourteenth Report on June 19, 2013, the Petitioner submitted monthly cash flow projections covering the period from June 1, 2013, to June 30, 2014 (“Initial Projections”), a copy of which is attached as Exhibit “2” to the Fourteenth Report of the Monitor on the State of the Petitioner’s Financial Affairs.
26. In conjunction with the filing of the Motion, the Petitioner has Amended its Initial Projections to reflect the impact of the sale of its Industrial Division in its Statement of Projected Cash Flow for the period June 1, 2013 to June 30, 2014 (“Revised Projections”) which are attached hereto as Exhibit “2”.
27. The Revised Projections are based on information and assumptions provided by management based on financial and other information available as of June 1, 2013. The Revised Projections have been prepared using probable assumptions supported and consistent with the plans of the Company for this period, considering the economic conditions that are considered the most probable by management. Since the Revised Projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material.

28. The Revised Projections incorporate all of the assumptions of the Initial Projections, save and except for the removal of the revenues and costs associated with the Industrial Division and the proceeds to be received on closing. In particular, we note the following:

- The receipt of \$1.7 million of proceeds from the sale in August 2013. Collection of deferred payments if any, are outside the projection period;
- A reduction of approximately \$0.6 million of net results from operations representing the projected margin of the Industrial Division for August to June 2014;
- A reduction of approximately \$0.4 million of cash disbursements representing salaries and general and administrative costs of the Industrial Division for August to June 2014;
- A net overall positive cash flow increase of \$1.5 million during the projection period.

REQUEST FOR APPROVAL OF THE PROPOSED SALE TRANSACTION TO 8547335

29. Kitco has cited the following reasons in support of the sale of the Industrial Division:

- The Industrial Division is a small non-core segment of Kitco's business and its sale enables Kitco to focus on its core activities of refining, precious metals and media;
- It allows for the growth of the Industrial Division beyond its current levels, provides continued employment for the employees and may represent a future source of revenue for Kitco as a supplier to XRF and the Industrial Division;
- XRF will become a client in Kitco's precious metals business and may become a customer for the media business.

30. The Monitor agrees with the reasons cited by Kitco to support the sale, has reviewed the commercial terms of the APA, considers the price being paid to be fair and therefore, supports the sale of the Industrial Division.

Respectfully submitted at Montreal, this 20th day of June 2013.

Richter Advisory Group Inc.
(formerly RSM Richter Inc.)
Monitor



Andrew Adessky, CPA, CA, CIRP

Exhibit 1

INVESTMENT OPPORTUNITY

Kitco Metals Inc.'s Industrial Division

The Opportunity

- ▶ Kitco Metals Inc. ("Kitco"), headquartered in Montreal, Canada, was founded in 1977 and has become a major retailer in precious metals.
- ▶ Kitco's revenues are generated from its Refining division, a Precious Metals division (bullion coins and bars), Industrial division (known as Platinum Ware) and a Media division (e-Marketing).
- ▶ Kitco or related entities also have operations in Hong Kong with its own Chinese website and operate a warehouse in the USA.
- ▶ For strategic reasons, the company has recently decided to focus on its core activities of refining, precious metals and media.

Consequently, Kitco has decided to solicit offers for its Platinum Ware division (platinum.kitco.com) from other companies whose platforms are better designed to integrate these operations which consist of the distribution of platinum lab ware to various users including cement and aluminum plants, soil analysis laboratories and others. In addition, this division also sells Zirconium crucibles used in soil analysis.

The Platinum Ware division employs a Director, two Sales Representatives, one Inside Sales Agent and two Order Processing Agents. This division started in 2002 and has accumulated more than 900 accounts worldwide.

- ▶ With respect of volume and number of pieces, Kitco's Platinum Ware division reports the following:
 - ▶ Calendar 2011: Sales of more than 2,200 items of platinum (not including wires) for approximately less than 100 kilos of alloys and sales of more than 1,800 zirconium crucibles.
 - ▶ As of October 31, 2012: Sales of approximately 2,100 items of platinum (not including wires) of approximately 67 kilos of alloys, and sales of approximately 2,100 zirconium crucibles.

Investment Highlights

Key investment considerations:

- ▶ **Strong financial performance** – The Platinum Ware division has a strong and consistent profitability from the sale of high gross margin products.
- ▶ **Significant barriers to entry** – Over the years, the Platinum Ware division has established solid, long-term relations with many key suppliers, who in return have provided consistency and quality in their manufacturing and customer service.
- ▶ **Highly experienced team** – Experienced, knowledgeable management and sales team with extensive industry experience. Customer service and the website are available in three languages and have had a significant impact on the continuous growth of the business.

INVESTMENT OPPORTUNITY

Kitco Metals Inc.'s Industrial Division

- **Extensive product line** – The Platinum Ware division offers customized items and also holds inventory for the high-rotation standard items. Kitco's Platinum Ware division is also one of the few businesses that sell zirconium and nickel items as a complementary product line to platinum.
- **Diverse customer base** – Products are sold to a large number of customers operating in various market segments including cement, soil analysis, mining, petro chemical and aluminum plants, etc. The US customer base includes major distributors of laboratory supplies who have provided regular business over the years. Year to date, the top ten accounts represent approximately 44% of the Platinum Ware's gross margins.
- The business strategy is to sustain consistent growth through the following:
 - Gradual expansion in the North and Latin American markets with the sale of borate fusion fluxes that are used by a majority of existing customers. This product line is closely linked to the X-Ray fluorescence analysis process and should have a mid-term impact on gross revenues.
 - The demand for zirconium crucibles has increased in 2012 and is forecast to further increase in 2013.
 - Continued expansion into the international market – The division exports worldwide. Currently, more than 40% of its revenues are generated from the USA, 28% from Canada, 15% from Latin America, 6% from Asia and 6% from Europe. The rest comes from Africa and Middle-East.

Financial Overview

- For 2012 (calendar year), gross revenues are expected to approximate \$8.5 million.
- Revenues from used metals purchases represent approximately 20% of all the gross revenues.

As a result of clearly identified growth initiatives and the inclusion of sales from its precision engineered products division, sales and profitability are forecasted to increase significantly in 2013.

INVESTMENT OPPORTUNITY

Kitco Metals Inc.'s Industrial Division

Transaction Process

Kitco is seeking offers to acquire its Platinum Ware division. Should you wish to pursue this opportunity, please complete the attached Confidentiality Agreement and return it to the attention of the undersigned, whereupon, further information will be made available.

Offers submitted should also identify transition requirements from the buyer. Should the buyer be interested in outsourcing some administrative procedures to Kitco, this may be considered.

Kitco will be receiving offers until **January 18, 2013, 5:00 PM (Eastern Standard Time)**. Offers or information requests should be transmitted to RSM Richter Inc.

Confidentiality and Disclaimer

This document has been prepared based on information provided by Kitco and is intended to provide preliminary information to potential buyers to formulate the basis of their investment and/or transaction intent. The information contained herein, along with any accompanying materials, is confidential and proprietary to Kitco. Accordingly, the reader agrees to treat all information as strictly confidential and shall not disclose, either in part or in whole, to any party not directly involved in the investment and/or transaction decision.

This document is not intended for general circulation or publication and cannot be reproduced in any form without the written permission of Kitco and of RSM Richter Inc. This document does not constitute a prospectus, offering memorandum or public offering. No guarantees are made or implied with regards to the investment and/or transaction that may ultimately result.

Enquiries concerning this business opportunity

should be directed to:

RSM Richter Inc.

1981 McGill College Av
12th Floor
Montreal (Québec) Canada
H3A 0G6

Andrew Adessky
514.934.3513
aadessky@rsmrichter.com

Corey Frenkiel
514.934.3478
cfrenkiel@rsmrichter.com

Exhibit 2

Kitco Metals, Inc.
Statement of Projected Cash Flow
For the Period: June 1, 2013 to June 30, 2014
(in thousands \$CAD)¹

Exhibit "2"

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	TOTAL
Receipts														
Net results from Operations	\$ 1,465	\$ 1,315	\$ 1,315	\$ 1,475	\$ 1,425	\$ 1,425	\$ 1,305	\$ 1,275	\$ 1,375	\$ 1,475	\$ 1,375	\$ 1,375	\$ 1,415	\$ 18,015
Disbursements														
Salary and benefits ²	619	621	630	600	899	600	600	600	2,081	631	631	947	631	10,090
General and administrative	537	537	529	529	529	529	529	529	529	529	529	529	529	6,894
Restructuring costs/other ³	117	117	117	117	117	117	117	117	117	117	117	117	117	1,521
Total Disbursements	1,272	1,274	1,276	1,246	1,546	1,246	1,246	1,246	2,728	1,278	1,278	1,593	1,278	18,505
Net Cash Flow	193	41	39	229	(121)	179	59	29	(1,353)	197	97	(218)	137	(490)
Opening consolidated bank balance per book ⁴	17,000	17,193	17,234	18,973	19,202	19,082	19,261	19,320	19,349	17,997	18,194	18,291	18,073	17,000
Proceeds from sale of division	-	-	1,700	-	-	-	-	-	-	-	-	-	-	1,700
Closing consolidated bank balance per book⁴	\$ 17,193	\$ 17,234	\$ 18,973	\$ 19,202	\$ 19,082	\$ 19,261	\$ 19,320	\$ 19,349	\$ 17,997	\$ 18,194	\$ 18,291	\$ 18,073	\$ 18,210	\$ 18,210

Profit and Loss Normalization (Extraordinary Items):	
Net Cash Flow	(490)
Add Back:	
Non-reimbursed GST/QST ⁵	585
Restructuring Costs/Other	1,521
Net Profit From Operations:	\$ 1,616

Note 1: All amounts are in Canadian funds. The cash flow assumes no exchange rate fluctuation during the cash flow period.

Note 2: Salary and benefits includes a provision in February 2014 for the payment of employee retention bonuses.

Note 3: Restructuring Costs/Other includes a provision for debtor counsel, the Monitor and its counsel as well as tax counsel in respect of various tax assessments.

Note 4: The consolidated bank balance per book excludes customer deposits which are held in segregated accounts.

Note 5: Represents estimated net sales tax reimbursement for the cash flow period which are not expected to be reimbursed by ARQ due to the ongoing dispute.


Bart Kithner
Kitco Metals Inc.