

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

**SIXTEENTH REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
October 22, 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 of 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 of 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 the requested extension.
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 of 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 the requested extension.

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 that motion.
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 of 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 right to solicit offers of financing, lease or sale with respect to the commercial and residential condo units which Kitco is 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 of 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. On June 25, 2013, the Court granted an order extending the stay of proceedings until March 14, 2014.
18. On June 20, 2013, the Petitioner filed a motion requesting the authorization to sell and the approval of the sale of its Industrial Division to 8547335 Canada Inc. (the "Sale"), the whole as more fully set out in the "*Asset Purchase Agreement*" (the "APA"), as well as in certain other related Transaction Agreements. In addition, the motion requested the issuance of a vesting order in connection with the transactions contemplated in the APA. The Monitor filed its Fifteenth Report on June 20, 2013, in support of the motion for the Sale. On June 28, 2013, the Court granted a vesting order authorizing and approving the execution of the Sale and of the Transaction Agreements, which included various other conditions, notably the obligation for the sale proceeds to be remitted to the attorney for the Monitor, Woods LLP, and held in trust.
19. On June 20, 2013, the Petitioner filed a "Motion to enforce the initial order, to declare illegal certain rights of set-off exercised by the Agence du Revenu du Québec and the Attorney General of

Canada, to declare inapplicable, invalid, inoperative, unconstitutional or of no force and effect certain provisions of certain tax statutes of the province of Quebec and of Canada and to condemn L'Agence du Revenu du Québec and the Attorney General of Canada to pay to the Petitioner the input tax credits and the input tax refunds to which it is entitled" ("Set-off Motion"). This Set-off Motion has not yet been heard.

20. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
21. The purpose of this Sixteenth Report of the Monitor is to inform the Court of the following:
 - Financial Position (for the period June 1, 2013 to August 31, 2013 ("Period"));
 - Update Regarding the Real Estate Transactions;
 - Update Regarding the Sale of the Platinum Division;
 - Movement in Customer Inventory Pool;
 - Customer Deposits;
 - Transactions Carried out by the Scrap Gold Purchasing Department;
 - Canadian Allocated Storage ("CAS") Program;
 - Procedural Developments with Respect to the Contestation by the Petitioner of the Notices of Assessment Issued by the ARQ;
 - Activities of the Monitor.
22. We inform the Court that the Monitor has not conducted an audit or investigation of the information it was provided by the Petitioner and that accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this Report. The information contained herein is based on a review of unaudited financial information provided to the Monitor by the Petitioner's management as well as discussions with the Petitioner's management and employees.

FINANCIAL POSITION

23. In conjunction with the filing of the Motion for the Issuance of an Order Authorizing the Sale of Certain Assets of the Petitioner (Platinum/Industrial Division) on June 20, 2013, the Petitioner submitted monthly cash flow projections covering the period from June 1, 2013, to June 30, 2014 (the "Projections"), a copy which is attached as Exhibit "2" to the Fifteenth Report of the Monitor on the State of the Petitioner's Financial Affairs.
24. As of August 31, 2013, the Petitioner's cash balances amounted to \$19.8 million as compared to the projected balance of \$18.9 million, on which we comment as follows:

- \$0.4 million positive variance relating to net results from operations which was generated by a favourable working capital variance as well as higher than budgeted gross margins, offset by lower than budgeted revenues (attributable to general market conditions).
 - \$0.5 million positive variance related to cash disbursements:
 - The positive variance is primarily attributed to significantly lower than budgeted general and administrative costs, a \$0.7 million savings, which is primarily permanent in nature. Management reports that it was successful in continuing to control its selling, general and administrative expenses during the Period.
 - Restructuring costs exceeded the projections by \$0.2 million due to an increase in professional fees as a result of the sale of the Platinum Division and the various motions and reports filed in connection therewith.
 - Included in the \$19.8 million cash balance are the proceeds of the sale of Kitco's Industrial/Platinum Division. These funds remain in a trust account with the Monitor's attorney, Woods LLP, in accordance with the Court's requirements, and as such, are reflected as restricted cash in Kitco's ending cash balance.
25. For additional details, we refer you to Exhibit "1" attached hereto, entitled Reported vs. Projected Cash Flow for the Period June 1, 2013 to August 31, 2013.
26. Since the filing of the CCAA, the Petitioner is paying its suppliers based on negotiated terms or upon receipt of invoices. The Petitioner advises that since the filing, it has not incurred significant liabilities which are not being paid in the normal course of its business.

UPDATE REGARDING THE REAL ESTATE TRANSACTIONS

27. Further to the updates provided in our prior Reports to Court with respect to Kitco's real estate transactions, we advise that in September 2013, the Company informed the Monitor that it had reached a potential agreement with Altitude, the owner of the real estate project, which would in the Company's view allow them to proceed with the purchase of most but not all of the residential and commercial space.

Consequently, the Monitor has mandated Cushman & Wakefield Ltd. to provide an updated assessment of the market value of these residential and commercial condominiums as well as an expert opinion with respect to the various cash flow and market rental assumptions used by Kitco in its projections related to the potential agreement with Altitude. Following receipt of the report from Cushman & Wakefield, the Monitor will complete its analysis of the proposed terms and conditions of the potential transaction and the impact on Kitco's cash flow and balance sheet.

We caution that at the present time, there is no formal agreement between Kitco and Altitude and the possibility remains that Kitco could be called upon by Altitude to pay the balance of the purchase price in the coming months as delivery of the residential units is well under way and the commercial units are nearing completion.

Kitco continues to seek a purchaser or a lessee for both the commercial and residential units:

- **Commercial Units:** Kitco continues to work with Services Immobiliers Asgaard Inc. ("Asgaard") who were retained to lease / sell these units. The Company has not received any subsequent offer to purchase since the first one in April 2013, the terms of which were not acceptable. While Asgaard has informed us that they continue to market the commercial units and are in contact with interested parties, they are unable to say when or if, any of those discussions will lead to a transaction.
- **Residential Units:** The Company continues to work with Altitude's real estate agent (Re/Max) to sell or lease the two residential units. Thus far, no offers have been received.

Ultimately, any financing, sales or leases of these units will be subject to the prior approval of this Court.

SALE OF THE PLATINUM DIVISION

28. As previously reported, on June 19, 2013, Kitco reached an agreement for the sale of its Industrial/Platinum Division with the potential for additional payments. The net proceeds from the sale were transferred to Woods, LLP, the attorney of the Monitor on July 31, 2013, and are being held in an interest bearing trust account in accordance with the Court order described in Paragraph 18. For further details relating to the sale of the Platinum Division, we refer you to our Fifteenth Report.

MOVEMENT IN CUSTOMER INVENTORY POOL

29. The position of the customer inventory pool is summarized below:

Kitco Metals Inc. Customer Inventory Pool Variation						
	June 8, 2011		May 31, 2013		August 31, 2013	
	Ounces	Value	Ounces	Value	Ounces	Value
	(in thousands)	(in \$ millions)	(in thousands)	(in \$ millions)	(in thousands)	(in \$ millions)
Gold	96	\$ 145.9	92	\$ 134.4	91	\$ 135.3
Silver	4,848	176.8	5,146	120.5	5,090	128.0
Platinum	6	11.7	7	10.2	7	11.0
Palladium	23	18.7	11	8.7	11	8.3
Rhodium	6	13.5	8	9.5	8	9.2
	4,979	\$ 366.6	5,264	\$ 283.3	5,207	\$ 291.8

30. In terms of ounces of precious metals, there is a slight decrease in silver from the quarter ended May 31, 2013, however, the overall customer pool balance is relatively unchanged. The value of the pool holdings has increased since May 31, 2013, driven largely by a small price increase for silver.
31. Exhibit "2" attached hereto is a summary of the movement in all metals on a quarterly basis since the commencement of the restructuring.

CUSTOMER DEPOSITS

32. Customer deposits which represent cash balances held by Kitco in segregated bank accounts on behalf of its customers, amount to \$50.2 million (vs. \$47.9 million as of May 31, 2013). As per the attached chart (Exhibit "3"), since the commencement of the restructuring proceedings, customer deposits have ranged from approximately \$47 million to \$78 million with an average quarterly balance of \$56 million. Management believes that the current customer deposit balance is correlated with general market conditions and the overall activity levels of the Company.

TRANSACTIONS CARRIED OUT BY THE SCRAP GOLD PURCHASING DEPARTMENT

33. We refer to Exhibit "4" attached hereto for a summary of the operations of the Petitioner's scrap metals department since it filed for protection on June 8, 2011. We note that the value of scrap metals as of August 31, 2013 (as reflected in Exhibit "4") is based on spot pricing at that date. Kitco does not value its scrap metal position on a daily basis, but rather only tracks the unit movement in ounces of scrap metals daily.
34. In respect of the more material scrap metal positions, we comment as follows:
- a) Gold:
- From June 1, 2013 to August 31, 2013, Kitco purchased approximately 1,900 ounces of scrap gold and shipped approximately 2,700 ounces of scrap gold for processing, predominantly to the Royal Canadian Mint ("RCM"), resulting in a balance of scrap gold of approximately 2,300 ounces on August 31, 2013;
 - Since the commencement of the restructuring, scrap gold purchases have totaled approximately 6,000 transactions with an average of approximately 5 ounces per transaction. As explained in our prior reports, according to management, this volume is significantly below its normal level of scrap gold purchases and is due to Kitco's inability to recover its input tax credits which are being withheld by ARQ.

b) Silver:

- From June 1, 2013 to August 31, 2013, Kitco purchased approximately 8,400 ounces of scrap silver and did not ship any ounces of silver for refining, resulting in an August 31, 2013 balance of scrap silver of approximately 30,700 ounces;
- Since the commencement of the restructuring, scrap silver purchases have totaled approximately 3,500 transactions with an average of 55 ounces per transaction. As explained in our prior reports, according to management, this volume is significantly below its normal level of scrap gold purchases, and is due to Kitco's inability to recover its input tax credits, which are being withheld by ARQ.

CANADIAN ALLOCATED STORAGE ("CAS") PROGRAM

35. As reflected in previous reports, Kitco's CAS program allows customers to store purchased physical metals on a segregated and allocated basis at a facility under the control of Kitco in Montreal, Quebec or at a third party storage facility (Garda). In terms of overall CAS positions held on behalf of its customers as at August 31, 2013, Kitco maintained ~14,500 ounces of gold for a reported value of \$21.5 million (vs. ~14,700 ounces as of May 31, 2013 and ~12,900 ounces as of June 7, 2011) and ~386,300 ounces of silver for a reported value of \$9.7 million (vs. ~362,800 ounces as of May 31, 2013 and ~198,000 ounces as of June 7, 2011).
36. Exhibit "5" attached hereto is a summary of the movement in the gold and silver CAS on a quarterly basis.

PROCEDURAL DEVELOPMENTS WITH RESPECT TO THE CONTESTATION BY THE PETITIONER OF THE NOTICES OF ASSESSMENT ISSUED BY THE ARQ

37. We have been informed by Petitioner's tax counsel that they will provide a memo outlining current developments relating to the notices of assessment to be included with the Monitor's next Report.

ACTIVITIES OF THE MONITOR

38. The Monitor's activities have included the following:
- The Monitor has been at the premises of the Company as required to carry out its duties including the requirement to monitor i) the Petitioner's cash flow, ii) the position of the precious metals and participations in pool accounts, iii) position of segregated accounts and storage accounts and iv) transactions carried out by the scrap gold purchasing department. As well, the Monitor has had meetings and conference calls with the Petitioner's management and legal counsel with a view to keeping all parties apprised of material developments and to seek input with respect to the restructuring process;

- The Monitor continues to respond to queries from suppliers, customers or other unsecured creditors;
- The Monitor has communicated with Petitioner's counsel to follow the status of developments relating to the notices of assessment;
- The Monitor reviewed the Petitioner's financial affairs and results;
- The Monitor reviewed the marketing updates from Asgaard;
- The Monitor has engaged Cushman Wakefield;
- The Monitor has prepared and filed this Report;
- Other administrative and statutory matters relating to the Monitor's appointment.

Respectfully submitted at Montreal, this 22th day of October 2013.

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



Andrew Adessky, CPA, CA, CIRP

Exhibit 1

Kitco Metals Inc.**Exhibit "1"****Reported vs. Projected Cash Flow****For the Period: June 1, 2013 - August 31, 2013****(in millions \$CAD)****Unaudited**

	<u>Reported</u>	<u>Projected</u>	<u>Variance</u>	
Net Results from Operations	\$ 4.5	\$ 4.1	\$ 0.4	1
Disbursements				
Salary and Benefits	1.9	1.9	-	
General and Administrative	0.9	1.6	0.7	2
Restructuring Costs / Other	0.6	0.4	(0.2)	3
	<u>3.4</u>	<u>3.9</u>	<u>0.5</u>	
Net Cash Flow	1.1	0.2	0.9	
Sale of Platinum Division	1.7	1.7	-	4
Opening Consolidated Bank Balance per Book	17.0	17.0	-	
Closing Consolidated Bank Balance per Book	<u>\$ 19.8</u>	<u>\$ 18.9</u>	<u>\$ 0.9</u>	4

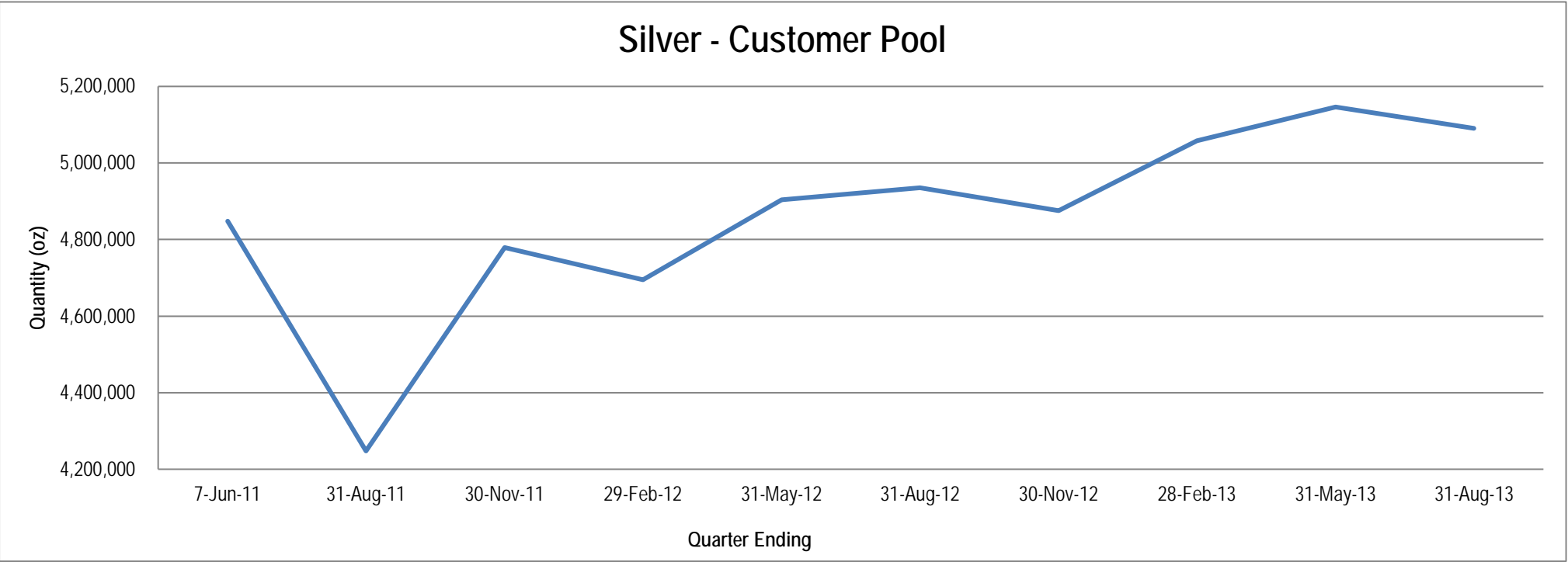
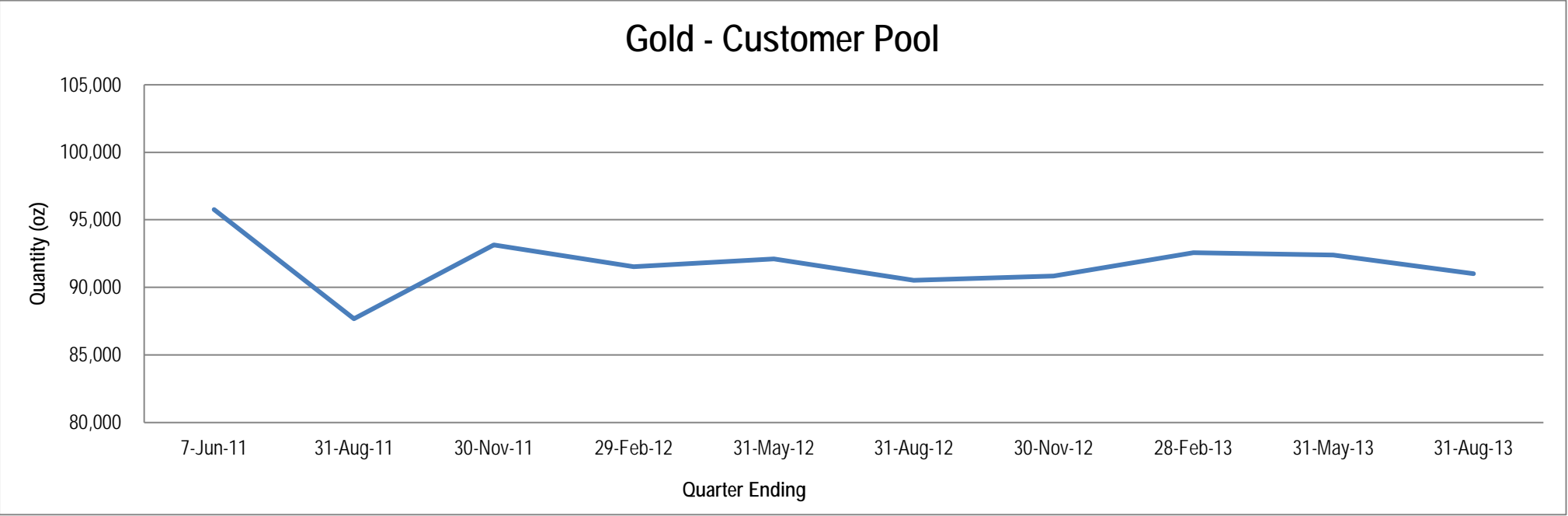
Note 1: Management attributes the favourable variance primarily to positive timing differences with respect to working capital which may reverse in future periods.

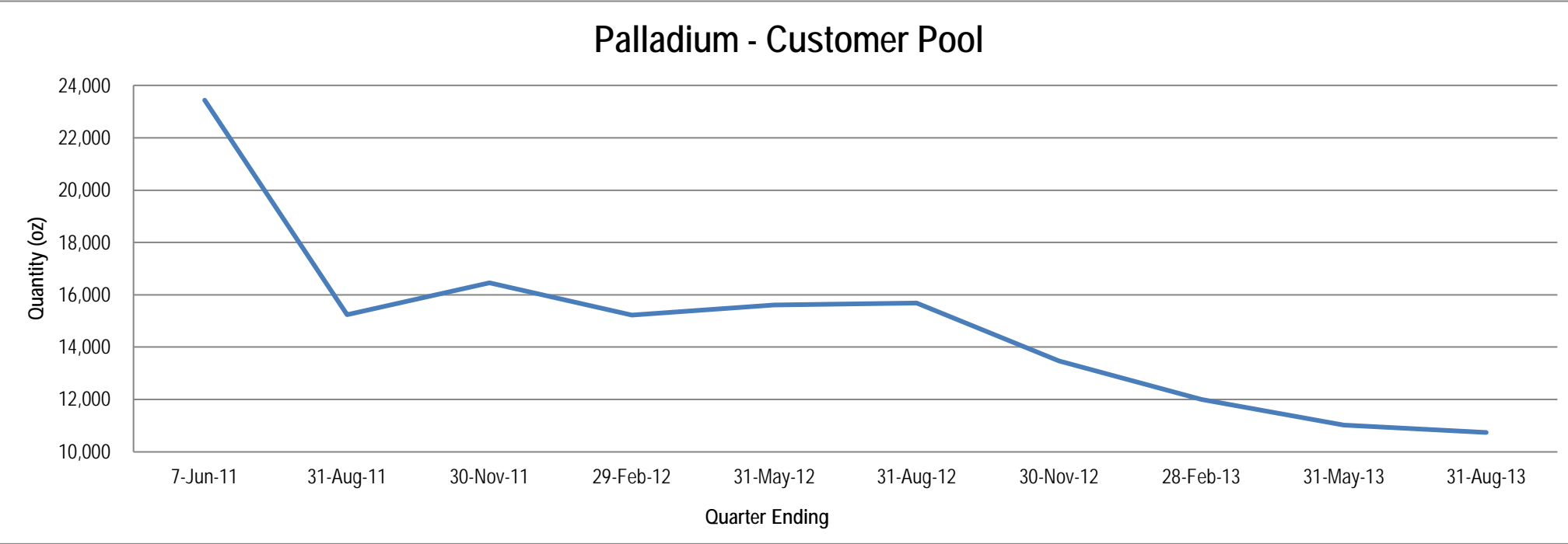
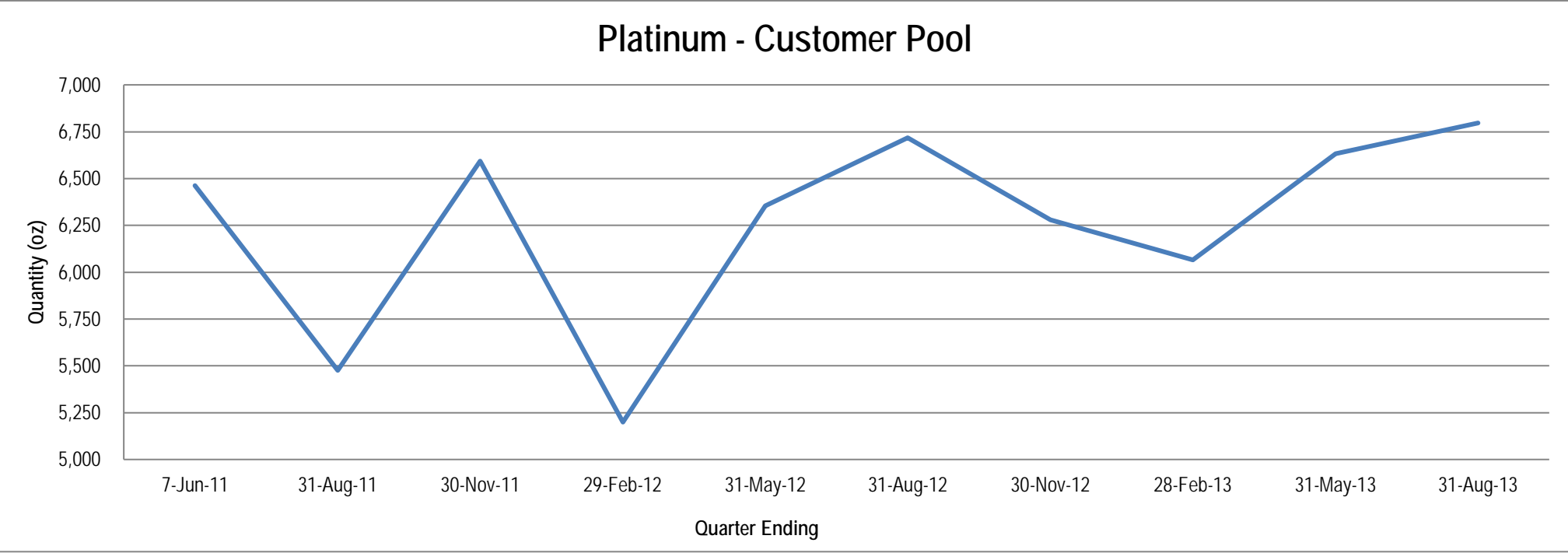
Note 2: Reported general and administrative trended favourably compared to budget based on Kitco's efforts to control expenses and conservative budgeting.

Note 3: Reported restructuring costs/other trended unfavourably compared to budget due to an increase in professional fees as a result of the sale of the Platinum Division and the various motions and reports filed in connection therewith.

Note 4: The closing consolidated bank balance includes \$1.7 million of restricted cash in trust with Woods LLP (Counsel to the Monitor) relating to the sale of the Platinum Division as well as \$0.3 million of cash on hand.

Exhibit 2





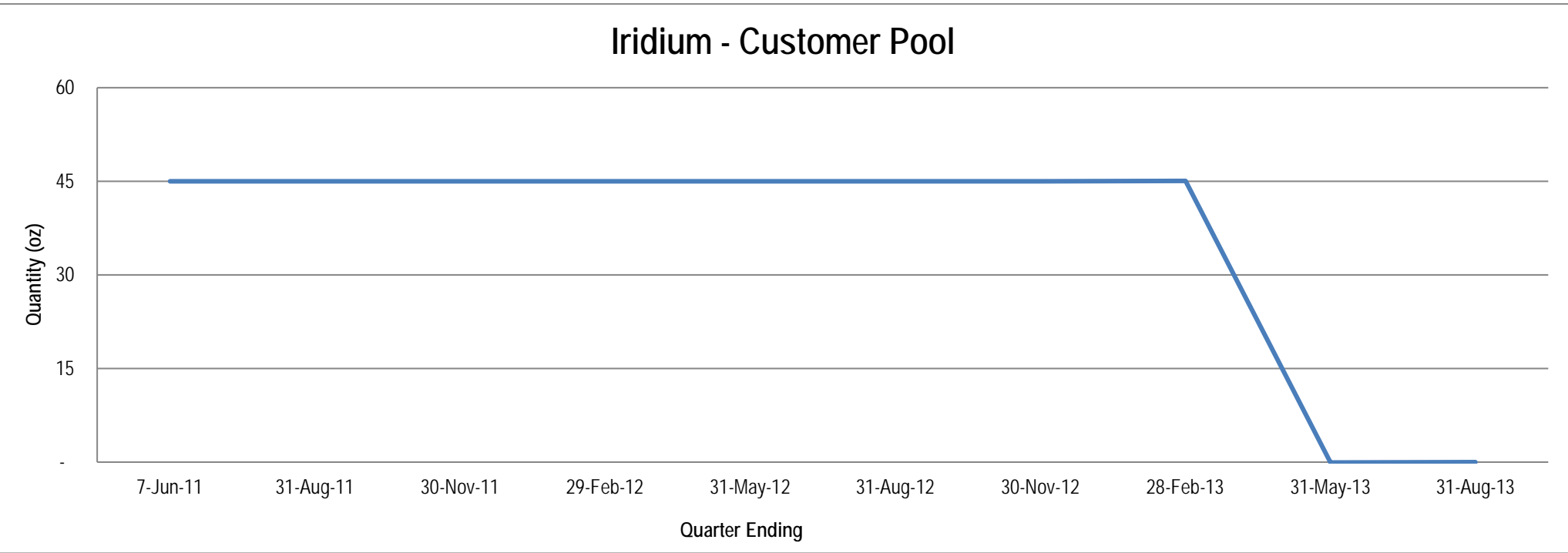
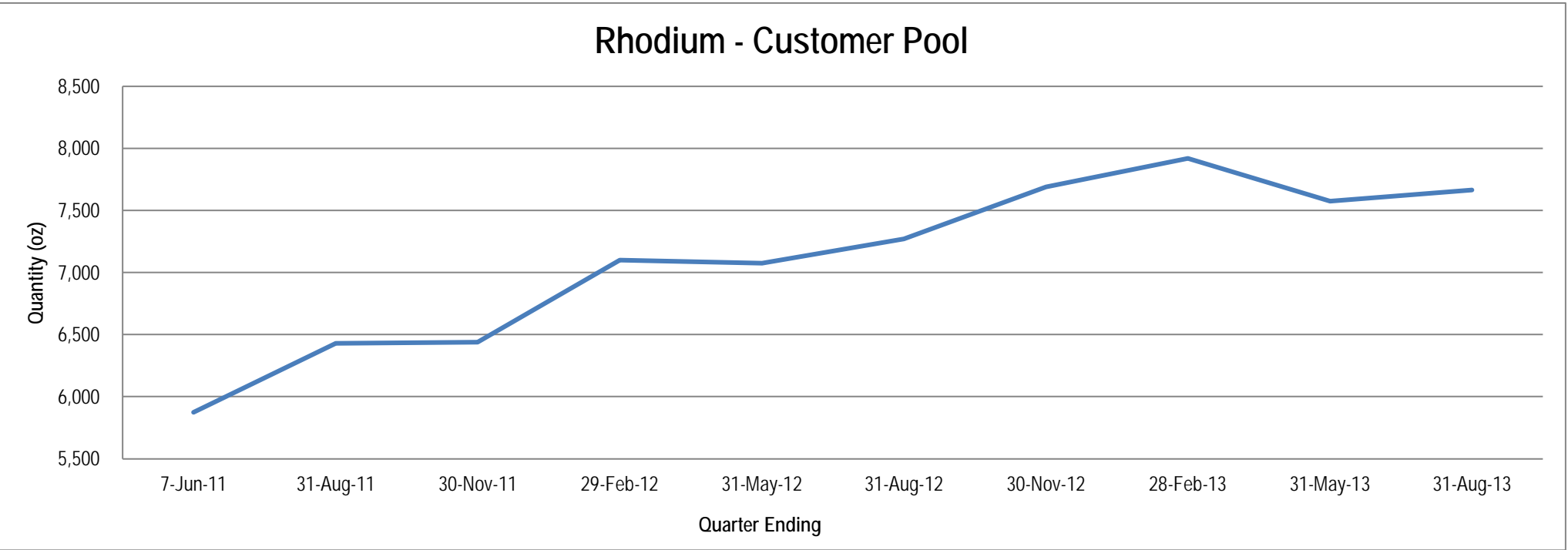


Exhibit 3

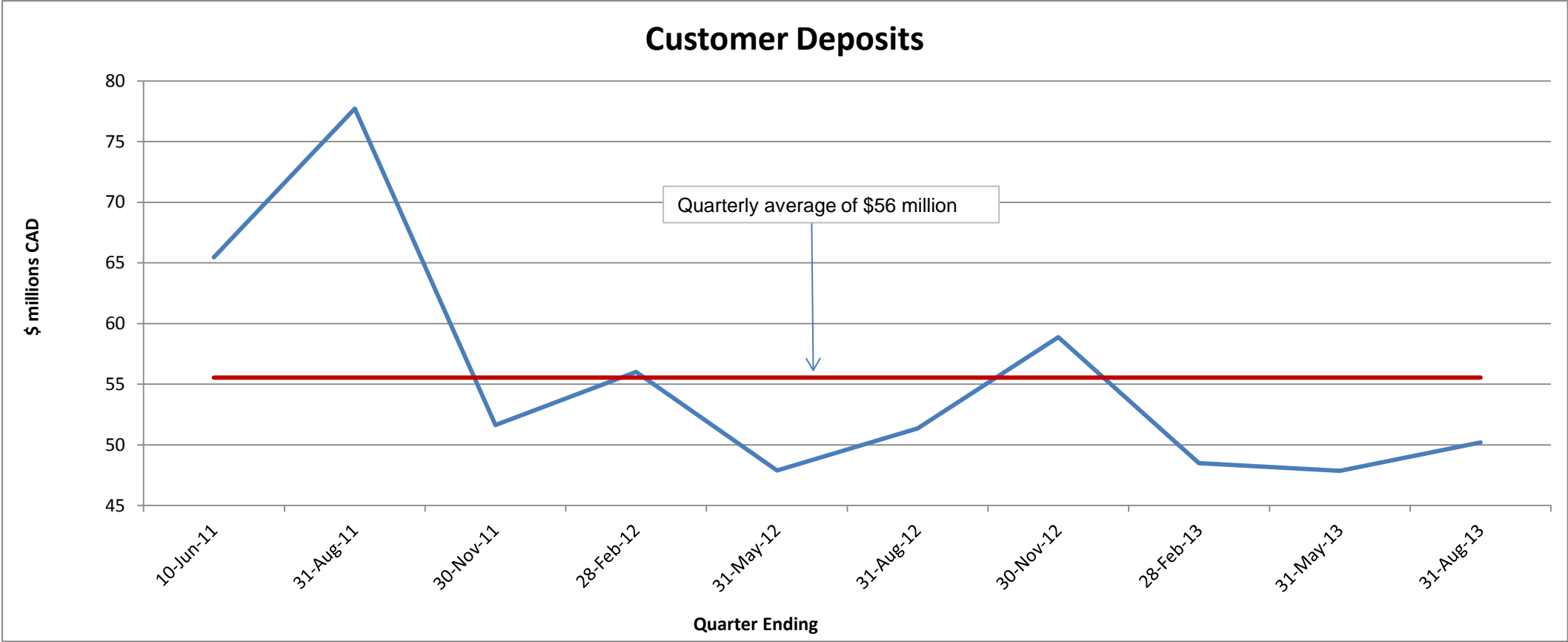


Exhibit 4

Kitco Metals Inc.
Summary of Scrap Transactions
For the period June 8, 2011 to August 31, 2013

Exhibit "4"

	Gold	
	Ounces	\$
	(in \$ millions)	
Beginning balance	2,623	
Purchase	28,551	
Sale	(91)	
Sent to refinery	(28,741)	
Ending balance	2,342	\$ 3.2

	Silver	
	Ounces	\$
	(in \$ millions)	
Beginning balance	101,633	
Purchase	190,472	
Sale	(12,634)	
Sent to refinery	(248,783)	
Ending balance	30,688	\$ 0.6

	Platinum	
	Ounces	\$
	(in \$ millions)	
Beginning balance	1,293	
Purchase	3,953	
Sale	(17)	
Sent to refinery	(4,992)	
Ending balance	236	\$ 0.4

	Palladium	
	Ounces	\$
	(in \$ millions)	
Beginning balance	266	
Purchase	187	
Sale	-	
Sent to refinery	(270)	
Ending balance	183	\$ 0.1

	Irridium	
	Ounces	\$
	(in \$ millions)	
Beginning balance	102	
Purchase	143	
Sale	-	
Sent to refinery	(239)	
Ending balance	6	\$ -

	Rhodium	
	Ounces	\$
	(in \$ millions)	
Beginning balance	48	
Purchase	132	
Sale	(48)	
Sent to refinery	(124)	
Ending balance	7	\$ -

Note 1: The value of the scrap metal as of August 31, 2013 is based upon spot pricing as of that date.

Exhibit 5

