

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, 9<sup>th</sup> Floor, suite 900, Montreal, Quebec, H3B 1M1

**Petitioner**

-and-

**RSM RICHTER INC.**, a duly incorporated legal person having its principal place of business at 2 Place Alexis-Nihon, in the city and district of Montreal, Quebec, H3Z 3C2

**Monitor**

---

**SEVENTH REPORT OF THE MONITOR  
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS  
January 31, 2012**

---

## **INTRODUCTION**

1. On June 8, 2011, Kitco Metals Inc. (the "Petitioner" or "Kitco") filed a Notice of Intention to Make a Proposal and 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 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. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
10. The purpose of this Seventh Report of the Monitor is to inform the Court of the following:
  - Financial Position;
  - Movement in Customer Inventory Pool;
  - Customer Deposits;
  - Transactions Carried out by the Scrap Gold Purchasing Department;
  - Forward Contracts;
  - Procedural Developments with Respect to the Contestation by the Petitioner of the Notices of Assessment Issued by the ARQ;

- Update Regarding the Real Estate Transactions;
  - Update Regarding the Employee Incentives;
  - December 2011 Notice of Assessment from Canada Revenue Agency (“CRA”);
  - Activities of the Monitor.
11. 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 unaudited financial information provided to the Monitor by the Petitioner’s management as well as obtained through discussions with the Petitioner’s management and employees.

## **FINANCIAL POSITION**

12. In conjunction with the filing of the Motion for the Second Extension of an Initial Order on October 18, 2011, the Petitioner submitted monthly cash flow projections covering the period from October 10, 2011, to May 31, 2012, a copy of which is attached as Exhibit “2” to the Fourth Report of the Monitor on the State of the Petitioner’s Financial Affairs.
13. As of January 13, 2012, the Petitioner’s cash balances amounted to \$10.3 million as compared to the projected balance of \$9.9 million, on which we comments as follows:
- \$0.9 million negative variance relating to net results from operations:
    - As reported in the Sixth Report of the Monitor (dated December 21, 2011) (“Sixth Report”), Kitco has been experiencing lower levels of activity as compared to its projections which commenced in October 2011 and have continued through the balance of 2011 and into 2012. Kitco maintains that the lower volume is primarily attributable to general market conditions and more recently, to a slow holiday period. However, this has been partially offset as a result of higher than budgeted gross margins in all 3 months due to a shifting product mix to higher margin items;
    - In addition, Management attributes the negative variance due to losses in connection with a November 2011 purchase of \$1.3 million of Rhodium (700 ounces) as a result of the non-renewal of a forward contract with Standard Bank PLC (“Standard”) which came due and was not renewed. A portion of this inventory (approximately 350 ounces) remains unsold. Further Kitco suffered losses due to the decline in the value of Rhodium since its acquisition in November 2011. Kitco expects to use this inventory to cover future customer purchases or to sell the remaining inventory over the next few months.

- \$1 million positive variance related to cash disbursements, primarily due to general and administrative expenses, a portion of which is believed to be permanent in nature;
  - \$0.3 million positive variance attributed to differences relating to the timing of when additional real estate deposits are required to be paid (for additional details, we refer you to the section entitled “Update Regarding the Real Estate Transactions”);
  - In light of lower activity levels, Kitco continues to examine and take steps to align its cost structure to current market conditions.
14. For additional details, we refer you to Exhibit “1” attached hereto entitled Comparative Cash Flow for the period October 10, 2011, to January 13, 2012.
15. 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 remain unpaid.

#### MOVEMENT IN CUSTOMER INVENTORY POOL

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

Kitco Metals Inc. Customer Inventory Pool Variation						
	June 8, 2011		Jan 13, 2012		Change June 8 - Jan 13, 2012	
	Ounces	Value	Ounces	Value	Ounces	Value
	(in thousands)	(in \$ millions)	(in thousands)	(in \$ millions)	(in thousands)	(in \$ millions)
Gold	96	\$ 145.9	93	\$ 157.3	(3)	\$ 11.4
Silver	4,848	176.8	4,839	148.6	(9)	(28.2)
Platinum	6	11.7	7	10.3	1	(1.4)
Palladium	23	18.7	16	10.5	(7)	(8.2)
Rhodium	6	13.5	7	9.5	1	(4.0)
	4,979	\$ 366.6	4,962	\$ 336.2	(17)	\$ (30.4)
					-0.3%	-8.3%

17. In terms of precious metals, overall balances are relatively unchanged from the December 9, 2011, reported amounts with only silver experiencing a slight increase, however, overall value has decreased due to declining metal prices.
18. Exhibit “2” attached hereto is a summary of the movement in the gold and silver customer pool on a weekly basis.

## **CUSTOMER DEPOSITS**

19. Customer deposits, which represent cash balances held by Kitco in segregated bank accounts on behalf of its customers, amount to \$50 million as of January 13, 2012. As per the attached chart (Exhibit “3”), since the commencement of the restructuring proceedings, customer deposits have ranged from \$49 million to \$78 million with an average balance of \$60 million.

## **TRANSACTIONS CARRIED OUT BY THE SCRAP GOLD PURCHASING DEPARTMENT**

20. 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 January 13, 2012 (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 tracks the unit movement in ounces of scrap metals daily.
21. In respect of the more material scrap metal positions, we comment as follows:
- a) Gold:
- From October 10, 2011 to January 13, 2012, Kitco purchased approximately 2,900 ounces of scrap gold and shipped approximately 3,200 ounces of scrap gold to the Royal Canadian Mint (“RCM”) for processing, resulting in a balance of scrap gold of approximately 2,600 ounces on January 13, 2012.
  - Since the commencement of the restructuring, scrap gold purchases consist of approximately 2,600 transactions with an average of approximately 3 ounces per transaction. As explained in our prior Reports, 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 October 10, 2011 to January 13, 2012, Kitco purchased approximately 14,400 ounces of scrap silver and shipped approximately 29,500 ounces of silver for refining, resulting in a January 13, 2012, balance of scrap silver of approximately 62,200 ounces.
  - Since the commencement of the restructuring, scrap silver purchases consisted of approximately 1,500 transactions with an average of 46 ounces per transaction. As explained in our prior Reports, 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.

## **FORWARD CONTRACTS**

22. We refer to our prior Reports which summarize Kitco's and Kitco International Limited's involvement in various forward contracts. There have been no material developments since our Sixth Report. We will provide further updates as necessary.

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

23. Petitioner's tax counsel has advised that there are no material developments since the update included with the Sixth Report. We will provide a further update with the monthly report to be filed in February 2012.

## **UPDATE REGARDING THE REAL ESTATE TRANSACTIONS**

24. We refer to our Fourth Report dated October 14, 2011 ("Fourth Report"), wherein we indicated that Kitco purchased residential condominiums and office space. The Cash Flow Projections for the period from October 10, 2011, to May 31, 2012, accompanying the Fourth Report as Exhibit "2", provided for \$0.3 million in December 2011 and \$0.5 million in January 2012, in respect of further deposits owing on the real estate in accordance with the terms of the offers to purchase.
25. Kitco has provided the Monitor with copies of notices dated January 26, 2012 from the property developer advising that the necessary threshold has been met and the further deposits totaling \$0.8 million are due and owing. Kitco intends to pay these deposits in the coming week. Kitco is continuing its efforts to sell one of the condo units.

## **UPDATE REGARDING THE EMPLOYEE INCENTIVES**

26. We refer to our Fourth Report wherein we indicated that Kitco intends on paying employee incentive bonuses (on a company-wide basis) should the company achieve certain targets. The Cash Flow projections included a \$1.1 million provision for these bonuses.
27. As of the date of this Report, Management advises that based on 2011 results, they expect to pay the projected bonuses in February 2012. The Monitor will review the supporting schedules with the Company.

## **DECEMBER 2011 NOTICE OF ASSESSMENT FROM CANADA REVENUE AGENCY ("CRA")**

28. On December 2, 2011, Kitco received a Notice of Assessment from CRA in the amount of \$13 million relating to the disallowance of a various costs relating to the 2008 and 2009 taxation years. Kitco has

informed the Monitor that notwithstanding that it will be contesting this assessment, it has been informed that the assessment was overstated and will be reduced to approximately \$4.5 million. Based on the information provided to the Monitor, these assessments are not related to the notices of assessment from the ARQ which precipitated Kitco's restructuring proceedings.

29. These assessments are currently stayed during the pendency of the CCAA proceedings. The Monitor will report on future developments relating to these assessments.

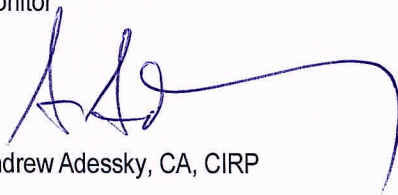
## **ACTIVITIES OF THE MONITOR**

30. The Monitor's activities have included the following:
- The Monitor has been at the premises of the Company on a regular basis 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 has responded to queries from the Petitioner's suppliers, customers and 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 has prepared and filed this Report;
  - Other administrative and statutory matters relating to the Monitor's appointment.

Respectfully submitted at Montreal, this 31<sup>st</sup> day of January, 2012.

**RSM Richter Inc.**

Monitor



Andrew Adessky, CA, CIRP

**Kitco Metals Inc.**
**Exhibit "1"**
**Reported vs. Projected Cash Flow**
**For the Period: October 10 to Jan 13, 2012**
**(in millions \$CAD) - Unaudited**

	<b>Reported</b>	<b>Projected</b>	<b>Variance</b>	
<b><u>Net Results from Operations</u></b>	<b>\$ 6.0</b>	<b>\$ 6.9</b>	<b>\$ (0.9)</b>	<b>1</b>
<b><u>Disbursements</u></b>				
Salary and Benefits	3.0	3.1	0.1	
General and Administrative	1.1	1.9	0.8	2
Restructuring Costs	0.5	0.6	0.1	
	<b>4.6</b>	<b>5.6</b>	<b>1.0</b>	
<b>Net Cash Flow</b>	<b>1.4</b>	<b>1.3</b>	<b>0.1</b>	
Real Estate	-	(0.3)	0.3	3
Opening Consolidated Bank Balance per Book	8.9	8.9	-	
Closing Consolidated Bank Balance per Book	<b>\$ 10.3</b>	<b>\$ 9.9</b>	<b>\$ 0.4</b>	<b>4</b>

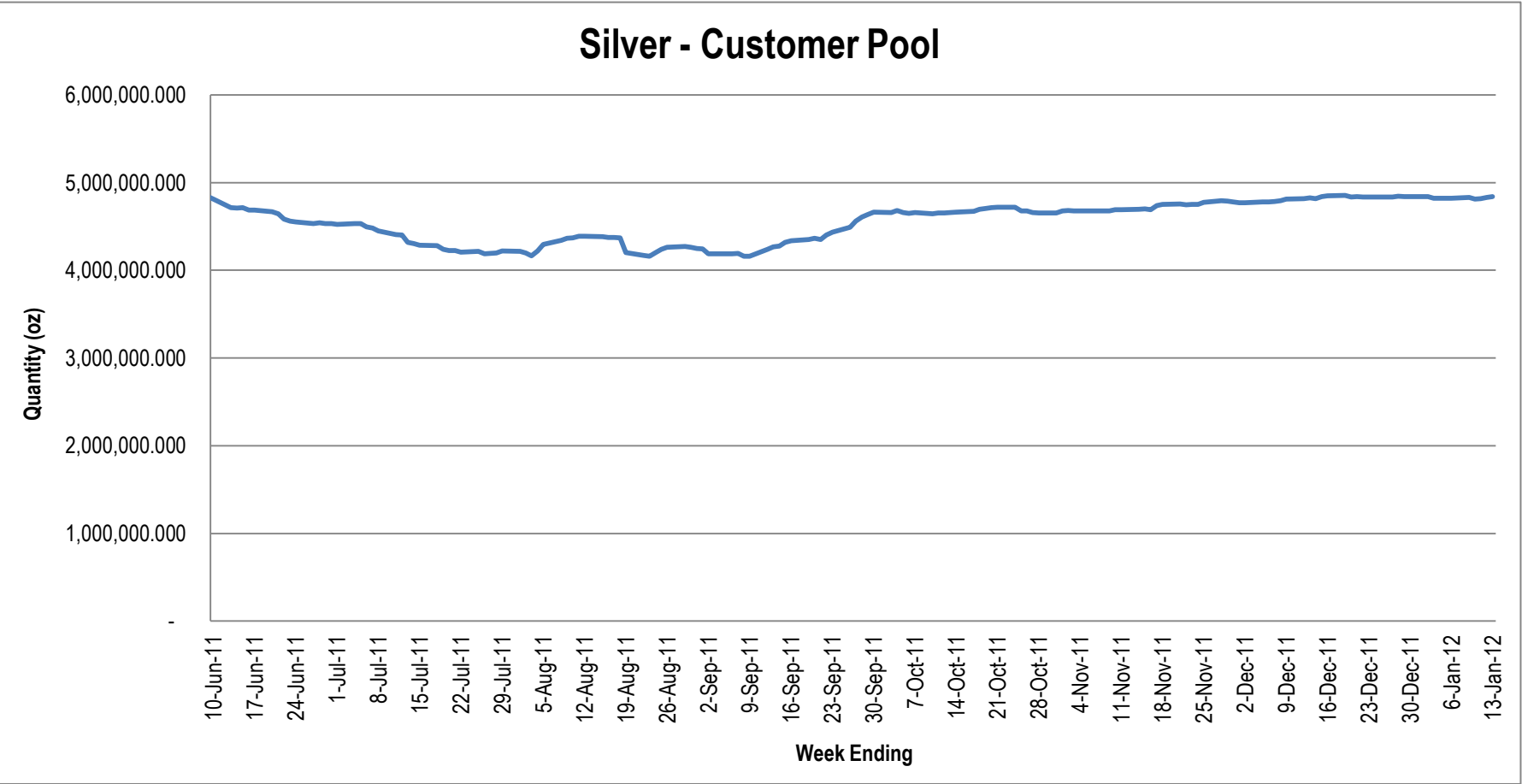
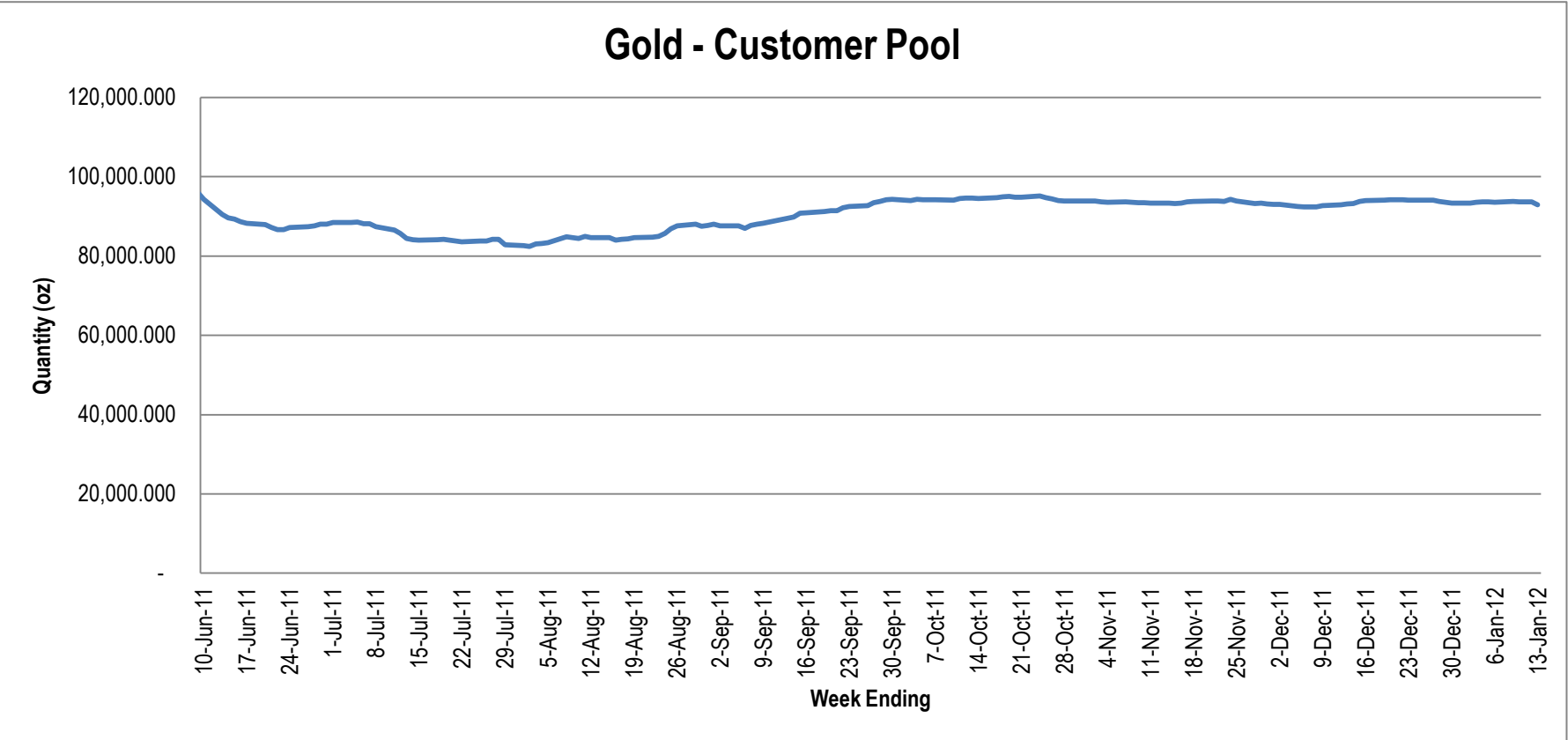
Note 1: Management attributes the negative variance in part due to timing and in part due to losses in connection with a November 2011 purchase of \$1.3 million of Rhodium (700 ounces). A portion of this inventory (~350 ounces) remains unsold. Further, Kitco suffered certain losses due to the decline in the value of Rhodium since its acquisition in November 2011. This Rhodium purchase was a result of a forward contract which came due in November 2011 which was not renewed. Kitco expects to use the balance of this inventory to cover future customer purchases or to sell the remaining inventory over the next few months.

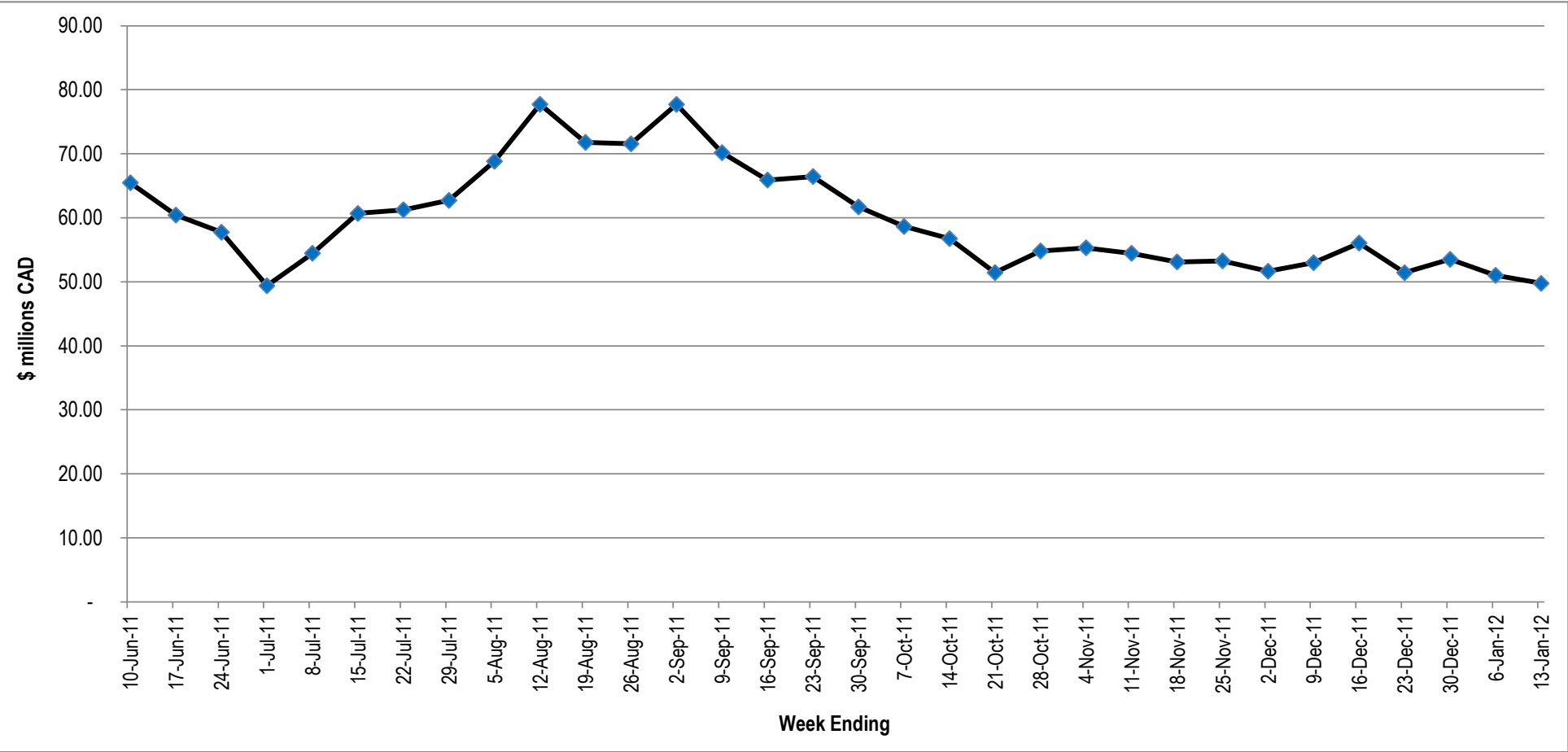
Note 2: Reported general and administrative costs continue to trend favorably during the reporting period and a portion of this favorable variance is likely permanent in nature.

Note 3: Management's projections reflected the payment of \$0.8 million of additional deposits tied to the level of completion of various condominiums which Kitco has agreed to acquire. On January 26, 2012, Kitco was advised by the developer that the necessary threshold has been met, and that these deposits are due and owing. Kitco intends to pay the deposits in the coming week.

Note 4: Closing consolidated bank balance includes \$0.4 million of cash on hand.







Kitco Metals Inc.  
Summary of Scrap Transactions  
For the period June 8, 2011 to January 13, 2012

Exhibit "4"

	Gold	
	Ounces	\$
	(in \$ millions)	
<b>Beginning balance</b>	<b>2,623</b>	
Purchase	8,283	
Sale	(19)	
Sent to refinery	(8,297)	
<b>Ending balance</b>	<b>2,589</b>	<b>\$ 4.4</b>

	Silver	
	Ounces	\$
	(in \$ millions)	
<b>Beginning balance</b>	<b>101,633</b>	
Purchase	69,815	
Sale	(2,460)	
Sent to refinery	(106,816)	
<b>Ending balance</b>	<b>62,172</b>	<b>\$ 1.9</b>

	Platinum	
	Ounces	\$
	(in \$ millions)	
<b>Beginning balance</b>	<b>1,293</b>	
Purchase	874	
Sale	(0)	
Sent to refinery	(560)	
<b>Ending balance</b>	<b>1,607</b>	<b>\$ 2.5</b>

	Palladium	
	Ounces	\$
	(in \$ millions)	
<b>Beginning balance</b>	<b>266</b>	
Purchase	23	
Sale	-	
Sent to refinery	(81)	
<b>Ending balance</b>	<b>209</b>	<b>\$ 0.1</b>

	Irridium	
	Ounces	\$
	(in \$ millions)	
<b>Beginning balance</b>	<b>102</b>	
Purchase	97	
Sale	-	
Sent to refinery	-	
<b>Ending balance</b>	<b>200</b>	<b>\$ 0.2</b>

	Rhodium	
	Ounces	\$
	(in \$ millions)	
<b>Beginning balance</b>	<b>48</b>	
Purchase	24	
Sale	-	
Sent to refinery	(17)	
<b>Ending balance</b>	<b>55</b>	<b>\$ 0.1</b>

Note 1: The value of scrap metal as of January 13, 2012 is based upon spot pricing as of that date.