

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

**TWENTY THIRD REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
January 23, 2015**

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 and modifications to the terms of the Initial Order.

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 was 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 approval of the sale of its Industrial Division to 8547335 Canada Inc. (the "Sale"). The Monitor filed its Fifteenth Report on June 20, 2013, in support of the Sale. On June 28, 2013, the Court granted a vesting order authorizing and approving the execution of the Sale and also ordered that the sale proceeds 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”). The Set-off Motion has not yet been heard.

20. On October 22, 2013, the Monitor filed its Sixteenth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor for the quarter ended August 31, 2013.
21. On February 4, 2014, the Monitor filed its Seventeenth Report providing an update to the Court and creditors with respect to the operations of the Petitioner and the activities of the Monitor for the quarter ended November 30, 2013.
22. On March 11, 2014, the Petitioner filed a motion requesting a sixth extension of the stay of proceedings until April 30, 2015, in order to allow the Petitioner additional time to litigate and/or negotiate with ARQ regarding its dispute (“Extension Motion”). The Extension Motion also contained a request by the Petitioner to be authorized to purchase certain condominium units and to proceed with the payment of an interim distribution to its creditors. On March 11, 2014, the Monitor filed its Eighteenth Report in connection thereto. The Extension Motion and Eighteenth Report were served by e-mail or fax to all creditors who have filed a proof of claim with the Monitor.
23. On March 13, 2014, the Court granted an order extending the stay of proceedings until August 21, 2014 and authorized the Petitioner to complete the purchase of the various condominium units.
24. On April 11, 2014, the Monitor filed its Nineteenth Report (which was served by e-mail or fax to all creditors who have filed a proof of claim with the Monitor) providing an update to the Court and creditors with respect to the i) Altitude Real Estate Transaction and ii) proposed Interim Distribution, as those expressions are defined in the Nineteenth Report.
25. On April 17, 2014, the Court granted an order authorizing the Petitioner to proceed with the payment of the Interim Distribution.
26. On May 22, 2014, the Monitor filed an update letter with the Court in respect of the Altitude Real Estate Transaction.
27. On July 7, 2014, the Monitor filed its Twentieth Report (which was served by e-mail or fax to all creditors who have filed a proof of claim with the Monitor).
28. On August 19, 2014, the Petitioner filed a motion requesting a seventh extension of the stay of proceedings until October 9, 2014. The Monitor filed its Twenty First Report on August 20, 2014 in support of that motion (which was served by e-mail or fax to the service list and to all creditors who have filed a proof of claim with the Monitor). On August 21, 2014, the Court granted an order extending the stay of proceedings until October 9, 2014.

29. On October 7, 2014, the Petitioner filed a motion requesting an eighth extension of the stay of proceedings until June 18, 2015. On November 6, 2014, the Court granted an order extending the stay of proceedings until June 18, 2015.
30. All amounts reflected in this report are stated in Canadian dollars unless otherwise noted.
31. The purpose of this Twenty Third Report of the Monitor is to inform the Court of the following:
- Financial Position (for the period from August 1, 2014 to November 30, 2014 ("Period"));
 - Update Regarding the Altitude Real Estate Transactions;
 - 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;
 - Penal Charges Filed against the Petitioner and Mr. Bart Kitner by the ARQ;
 - Activities of the Monitor.
32. 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

33. In conjunction with the filing of the Twenty First Report of the Monitor on August 20, 2014, the Petitioner submitted monthly cash flow projections covering the period from August 1, 2014 to July 31, 2015 (the "Projections"), a copy of which is attached as Exhibit "2" to the Twenty First Report of the Monitor on the State of the Petitioner's Financial Affairs.
34. As of November 30, 2014, the Petitioner's cash balances amounted to \$11.6 million as compared to the projected balance of \$11.7 million, on which we comment as follows:
- \$1.5 million negative variance relating to net results from operations primarily due to lower than budgeted revenues. As noted in prior reports of the Monitor, Kitco has attributed the lower revenues to general market conditions;
 - \$0.7 million positive variance related to cash disbursements primarily due to lower than budgeted general and administrative costs, considered to be permanent in nature. Management reports that it was successful in continuing to control its selling, general and administrative expenses during the Period;
 - \$0.7 million positive variance related to "Other" is timing related as Kitco has not yet received invoices for transfer duties and city taxes related to the condos purchased in the Altitude project. This favorable variance will reverse in subsequent periods.
35. 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.

For additional details, we refer you to Exhibit "1" attached hereto, entitled Reported vs Projected Cash Flow for the Period.

UPDATE REGARDING THE ALTITUDE REAL ESTATE TRANSACTIONS

36. As noted in our Twenty Second Report, Kitco accepted an offer to purchase the residential condo unit for \$3.6 million. This transaction was closed and the majority of the purchase price was applied to the outstanding mortgage financing from its initial loan value of \$4.75 million to approximately \$1.4 million.
37. Kitco had previously engaged Cushman and Wakefield ("Cushman") to sell or lease the commercial space in the Altitude project. Effective November 30, 2014, Kitco exercised its option to terminate Cushman's mandate and on December 12, 2014, engaged Royal LePage Heritage ("Royal") and Jones Lang Lasalle ("JLL") to continue to market the commercial space.

38. Pursuant to the agreement with Royal and JLL, a commission of 5% will be paid on the sale of the commercial space. The mandate to Royal and JLL expires on June 30, 2015.
39. The Company's projections had assumed that two of the four floors would be leased as of January 1, 2015. As Kitco now advises it is unlikely to lease any of the floors during the first half of 2015, the negative impact on their net cash flow will be approximately \$0.2 million for the balance of the extension period.
40. The Petitioner advises that it is in compliance with all the terms of its mortgage in respect of the condo units.

MOVEMENT IN CUSTOMER INVENTORY POOL

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

| Kitco Metals Inc. Customer Inventory Pool Variation | | | | | | | |
|--|---------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|----------------------------------|--|
| | June 8, 2011 | | July 31, 2014 | | November 30, 2014 | | |
| | Ounces (in thousands) | Value (in \$ millions) | Ounces (in thousands) | Value (in \$ millions) | Ounces (in thousands) | Value (in \$ millions) | |
| Gold | 96 | \$ 145.9 | 90 | \$ 128.8 | 90 | \$ 120.3 | |
| Silver | 4,848 | 176.8 | 5,031 | 113.2 | 4,857 | 84.3 | |
| Platinum | 6 | 11.7 | 7 | 10.7 | 7 | 9.7 | |
| Palladium | 23 | 18.7 | 9 | 8.4 | 9 | 8.1 | |
| Rhodium | 6 | 13.5 | 9 | 13.4 | 9 | 12.9 | |
| Total | 4,979 | \$ 366.6 | 5,146 | \$ 274.5 | 4,972 | \$ 235.3 | |

42. In terms of ounces of precious metals, the quantities reflect a slight decrease due to a decline in silver pool holdings. The value of the pool holdings has decreased slightly in comparison to July 31, 2014 values, mainly driven by the price decreases of gold and silver.
43. 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

44. Customer deposits which represent cash balances held by Kitco in segregated bank accounts on behalf of its customers, amount to \$44.8 million (vs. \$44.6 million as of July 31, 2014). As per the attached chart (Exhibit "3"), since the commencement of the restructuring proceedings, customer deposits have ranged from approximately \$43 million to \$78 million with an average monthly balance of \$52 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

45. We refer to Exhibit "4" attached hereto for a summary of the operations of the Petitioner's scrap metal department since it filed for protection on June 8, 2011. We note that the value of scrap metal as of November 20, 2014 (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 daily volume movements.
46. In respect of the more material scrap metal positions, we comment as follows:
- a) Gold:
- From August 1, 2014 to November 30, 2014, Kitco purchased approximately 1,200 ounces of scrap gold and shipped approximately 1,500 ounces of scrap gold for processing, predominantly to the Royal Canadian Mint ("RCM"), resulting in a balance of scrap gold of approximately 1,400 ounces as of November 30, 2014;
 - Since the commencement of the restructuring, scrap gold purchases have totaled approximately 7,500 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 August 1, 2014 to November, 2014, Kitco purchased approximately 25,100 ounces of scrap silver and shipped approximately 32,600 ounces for refining, resulting in an November 30, 2014 balance of scrap silver of approximately 35,200;
 - Since the commencement of the restructuring, scrap silver purchases have totaled approximately 4,400 transactions with an average of 69 ounces per transaction. As explained in our prior reports, according to management, this volume is significantly below

its normal level of scrap silver 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

47. 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 November 30, 2014, Kitco maintained ~9,800 ounces of gold for a reported value of \$13 million (vs. ~12,800 ounces as of July 31, 2014) and ~643,200 ounces of silver for a reported value of \$11.1 million (vs. ~618,300 ounces as of July 31, 2014).
48. 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

49. We have been informed by Petitioner's tax counsel that there have been no material developments since the last update provided in the Monitor's Twenty-Second Report.

PENAL CHARGES FILED AGAINST THE PETITIONER AND MR. BART KITNER BY THE ARQ

50. We have been informed by Petitioner's tax counsel that there have been no material developments since the last update provided in the Monitor's Twenty-Second Report.

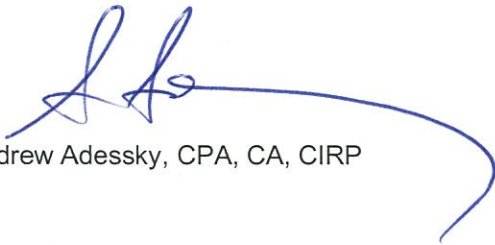
ACTIVITIES OF THE MONITOR

51. 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 or metal 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 and penal charges;
- 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 23rd day of January 2015

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

A handwritten signature in blue ink, consisting of stylized initials 'A' and 'A' followed by a long horizontal stroke that curves upwards at the end.

Andrew Adessky, CPA, CA, CIRP

Exhibit 1

Kitco Metals Inc.
Reported vs. Projected Cash Flow
For the Period: August 1, 2014 - November 30, 2014
(in millions \$CAD)
Unaudited

| | Reported | Projected | Variance | Note |
|--|-----------------------|-----------------------|------------------------|------|
| Net results from Operations | \$ 3.1 | \$ 4.6 | \$ (1.5) | 1 |
| Disbursements | | | | |
| Salary and Benefits | 2.7 | 2.7 | - | |
| General and Administrative | 1.3 | 1.9 | 0.6 | |
| Restructuring Costs | 0.5 | 0.6 | 0.1 | |
| | <u>4.5</u> | <u>5.2</u> | <u>0.7</u> | 2 |
| Net Cash Flow | (1.4) | (0.6) | (0.8) | |
| Other (costs) revenues | (0.1) | (0.8) | 0.7 | 3 |
| Opening Consolidated Bank Balance per Book | 13.1 | 13.1 | - | |
| Closing Consolidated Bank Balance per Book | <u><u>\$ 11.6</u></u> | <u><u>\$ 11.7</u></u> | <u><u>\$ (0.1)</u></u> | 4 |

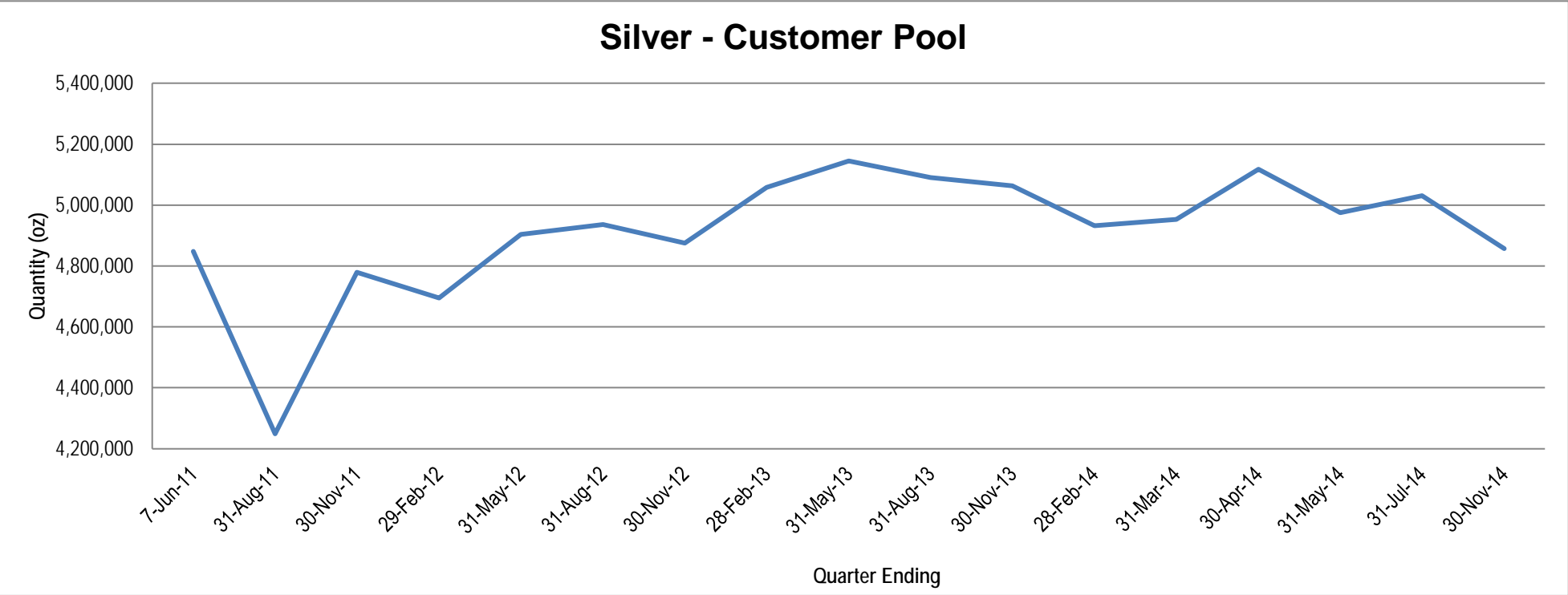
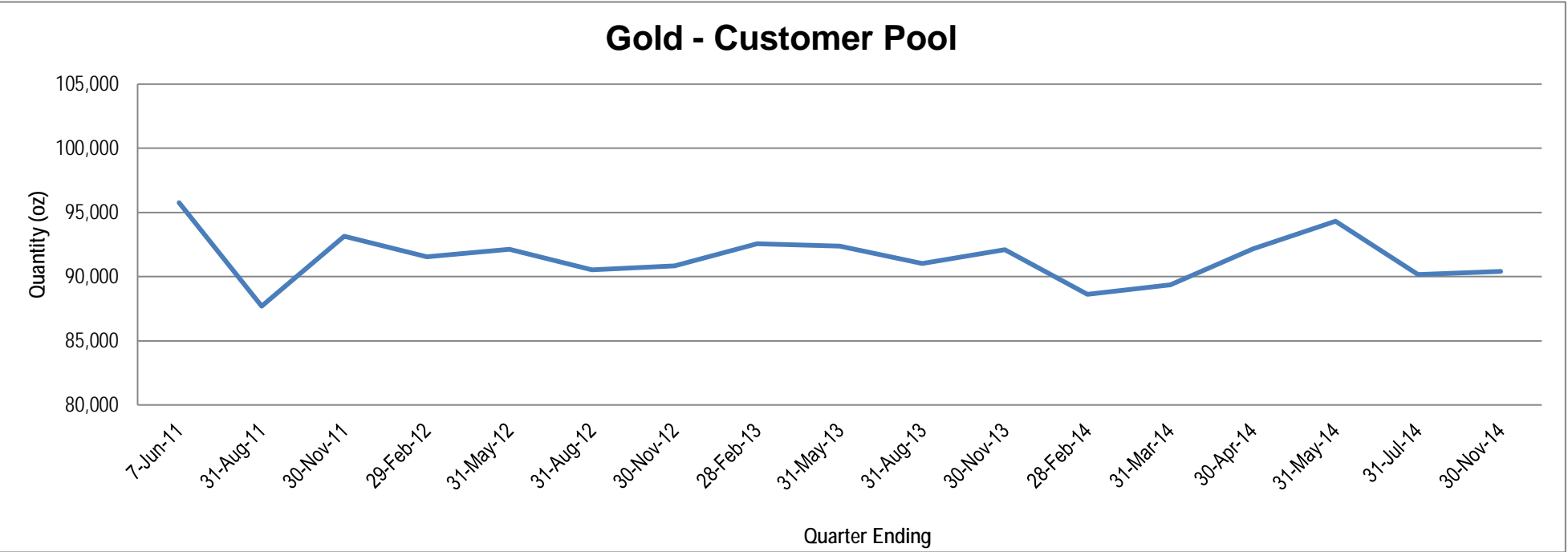
Note 1: Reported Net results from Operations includes \$0.8 million of cheques on hold.

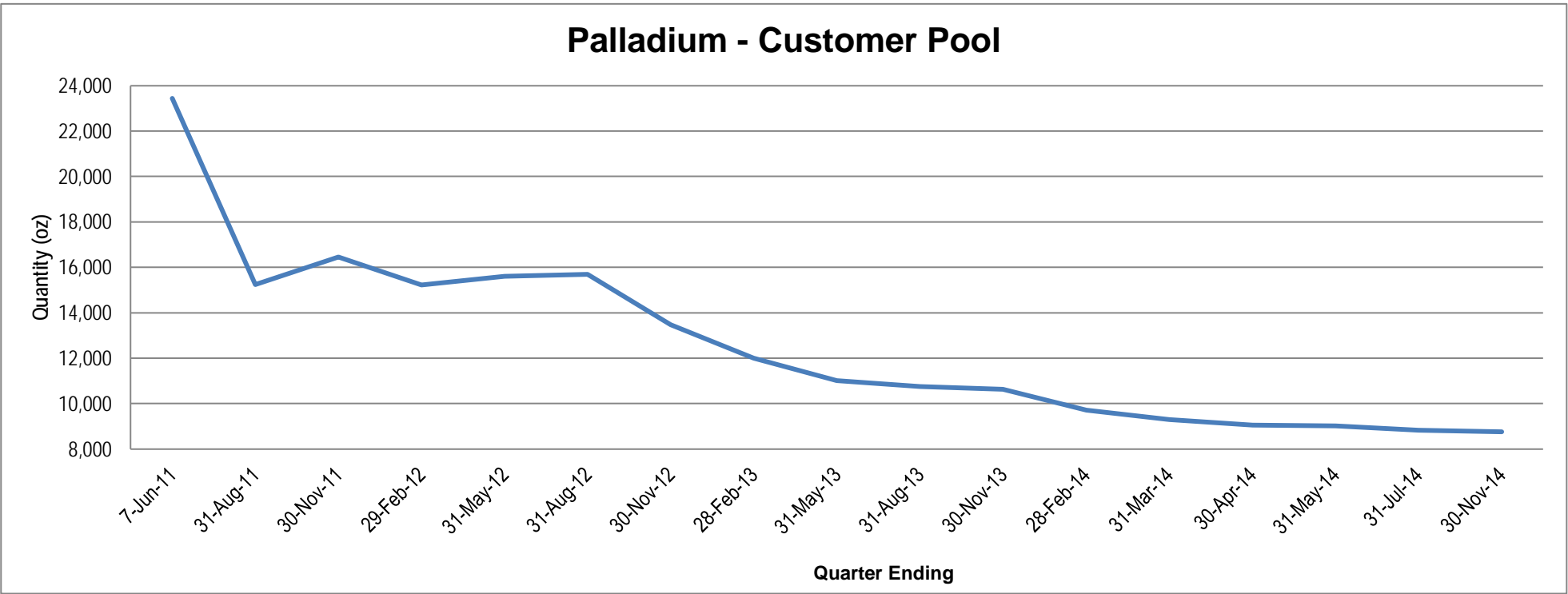
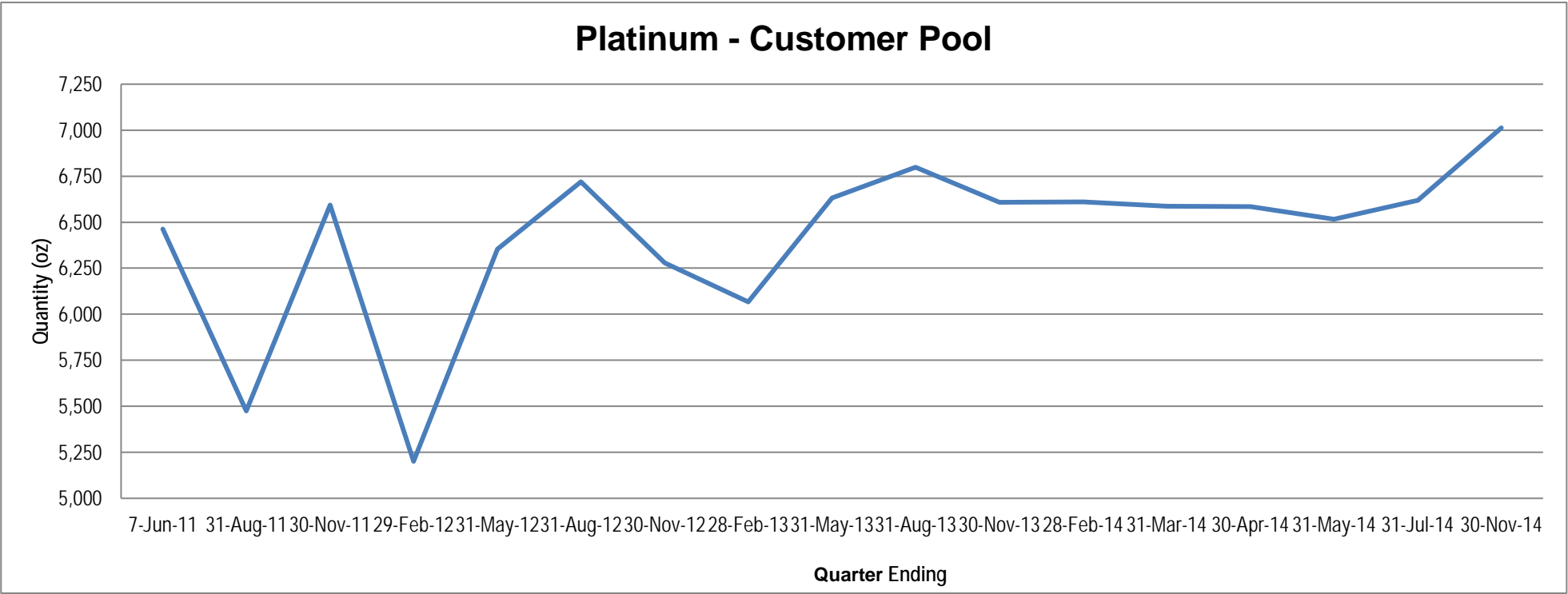
Note 2: Positive variance primarily due to lower than budgeted general and administrative costs.

Note 3: Positive variance is timing related as Kitco has not yet received invoices for welcome and city taxes related to the condos purchased in the Altitude project.

Note 4: Reported Closing Consolidated Bank Balance per Book does not include approximately \$0.4 million of cash on hand.

Exhibit 2





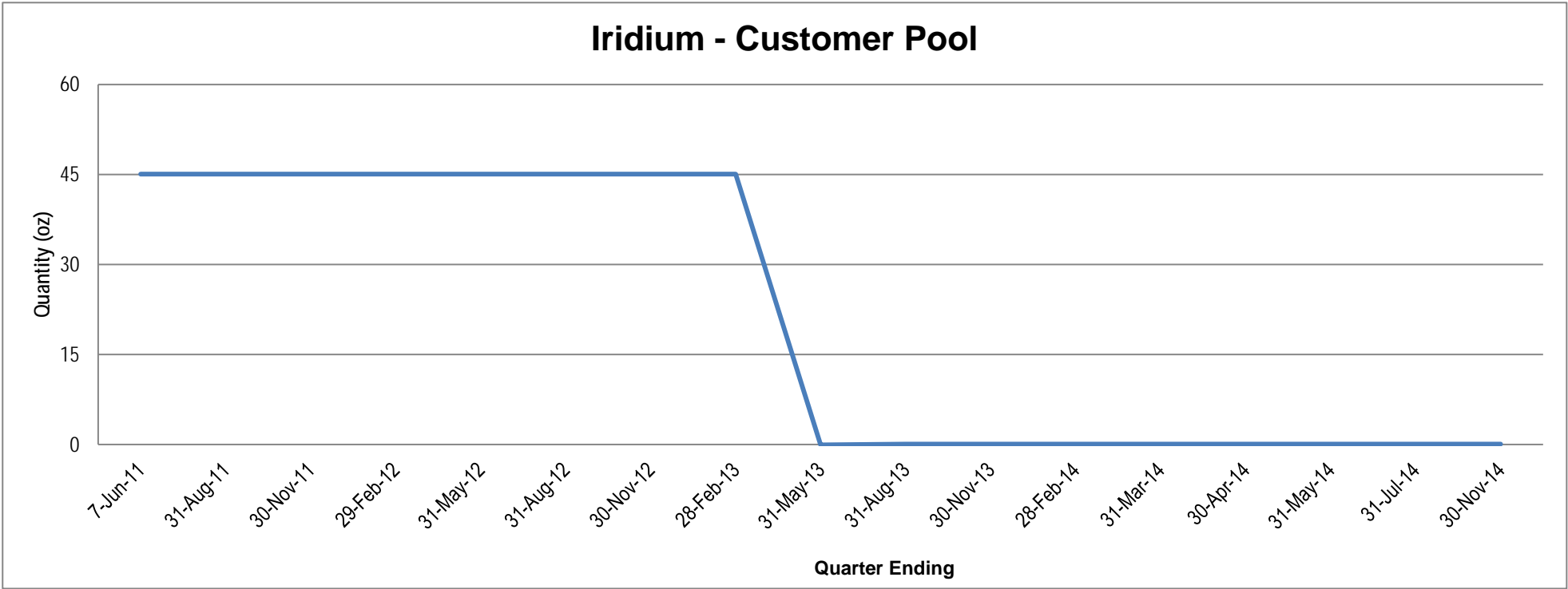
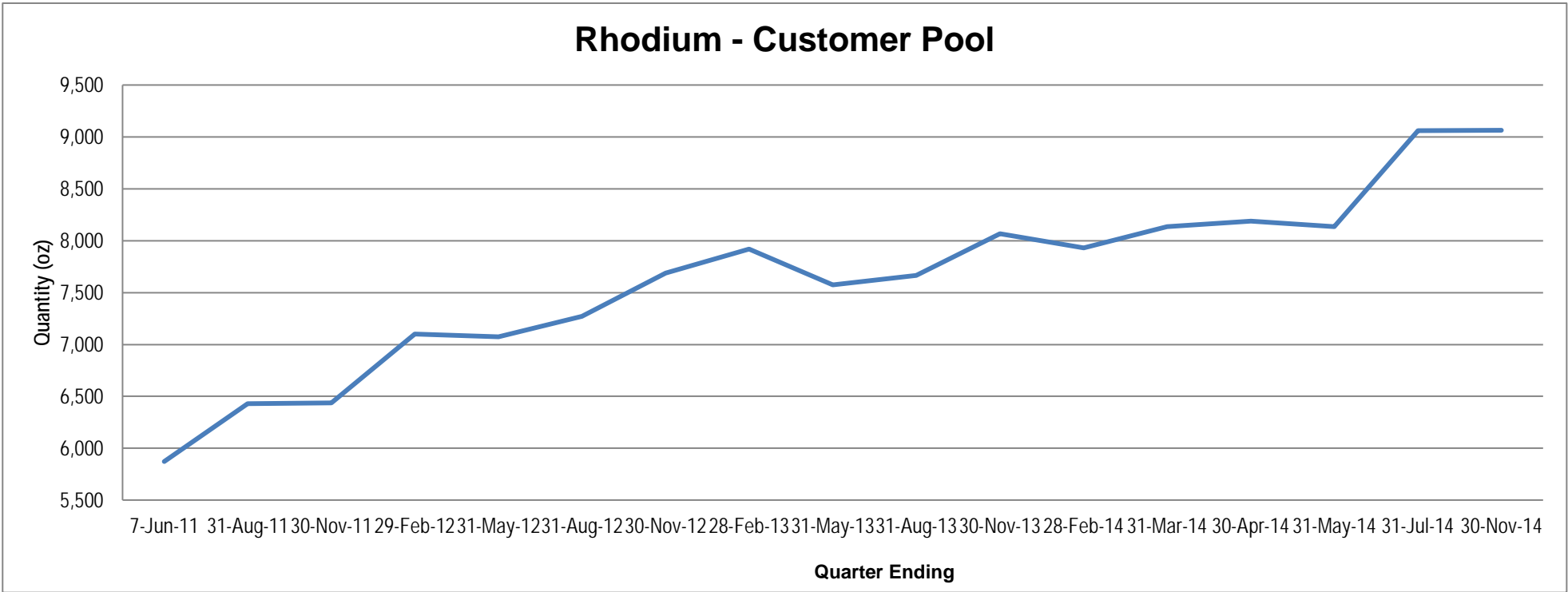


Exhibit 3

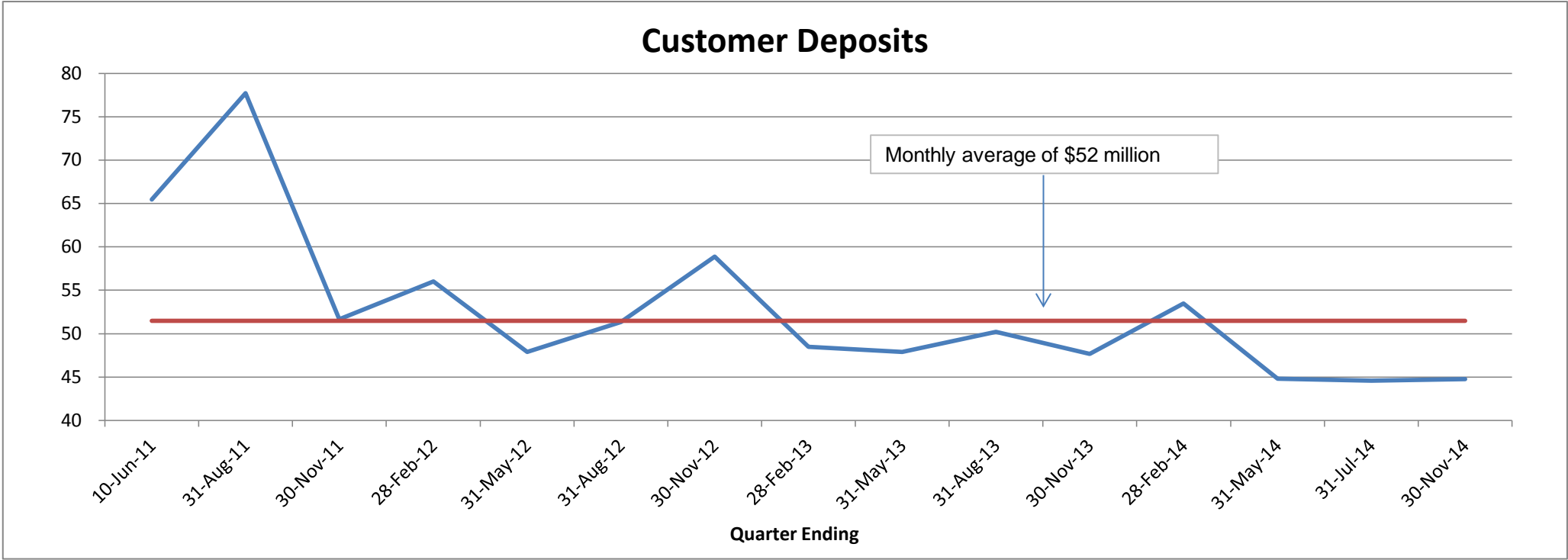


Exhibit 4

Kitco Metals Inc.
Summary of Scrap Transactions
For the period June 8, 2011 to November 30, 2014

Exhibit "4"

| Gold | | |
|--------------------------|--------------|------------------------|
| | Ounces | \$ (in \$ millions) |
| Beginning balance | 2,623 | |
| Purchase | 37,548 | |
| Sale | (189) | |
| Sent to refinery | (38,596) | |
| Ending balance | 1,386 | \$ 1.8 |

| Silver | | |
|--------------------------|----------------|------------------------|
| | Ounces | \$ (in \$ millions) |
| Beginning balance | 101,633 | |
| Purchase | 303,154 | |
| Sale | (18,025) | |
| Sent to refinery | (351,596) | |
| Ending balance | 35,166 | \$ 0.6 |

| Platinum | | |
|--------------------------|--------------|------------------------|
| | Ounces | \$ (in \$ millions) |
| Beginning balance | 1,293 | |
| Purchase | 4,055 | |
| Sale | (26) | |
| Sent to refinery | (5,215) | |
| Ending balance | 107 | \$ 0.1 |

| Palladium | | |
|--------------------------|------------|------------------------|
| | Ounces | \$ (in \$ millions) |
| Beginning balance | 266 | |
| Purchase | 387 | |
| Sale | (118) | |
| Sent to refinery | (512) | |
| Ending balance | 23 | \$ - |

| Iridium | | |
|--------------------------|------------|------------------------|
| | Ounces | \$ (in \$ millions) |
| Beginning balance | 102 | |
| Purchase | 143 | |
| Sale | - | |
| Sent to refinery | (243) | |
| Ending balance | 2 | \$ - |

| Rhodium | | |
|--------------------------|-----------|------------------------|
| | Ounces | \$ (in \$ millions) |
| Beginning balance | 48 | |
| Purchase | 165 | |
| Sale | (49) | |
| Sent to refinery | (136) | |
| Ending balance | 27 | \$ - |

Note 1: The value of the scrap metal as of November 30, 2014 is based upon spot pricing as of that date.

Exhibit 5

Kitco Metals Inc.
Gold and Silver Canadian Allocated Storage Program
For the Period June 7, 2011 to November 30, 2014
Unaudited

