

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

**SEVENTEENTH REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
February 4, 2014**

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. 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.
21. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
22. The purpose of this Seventeenth Report of the Monitor is to inform the Court of the following:
 - Financial Position (for the period September 1, 2013 to November 30, 2013 ("Period"));
 - Update Regarding the 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.
23. 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

24. 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.
25. As of November 30, 2013, the Petitioner's cash balances amounted to \$18.5 million as compared to the projected balance of \$19.2 million, on which we comment as follows:
- \$1.8 million negative variance relating to net results from operations generated by lower than budgeted revenues (attributable to general market conditions) and partially offset by higher than budgeted gross margins as well as by a favourable working capital variance.
 - \$1.1 million positive variance related to cash disbursements:
 - The positive variance is primarily attributed to significantly lower than budgeted general and administrative costs, a \$1.2 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.
 - Included in the \$18.5 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.
26. For additional details, we refer you to Exhibit "1" attached hereto, entitled Reported vs. Projected Cash Flow for the Period June 1, 2013 to November 30, 2013.
27. 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

28. As reported in our Sixteenth Report to Court, the Company is working on the terms of an agreement with Altitude, which, if approved by the Court, would enable it to purchase the majority of the residential and commercial office condominiums in the Altitude project located in Montreal, Quebec (the "Properties").
29. Notwithstanding the negotiations of an agreement with Altitude, on January 27, 2014, Kitco received a demand letter ("Demand Letter") from Altitude's legal advisors in which Kitco has been requested to attend at Altitude's offices on February 10, 2014 to close on the residential condo unit

on the 29th floor of the project. According to the Demand Letter, should Kitco not complete the purchase transaction for this unit, it will be declared in default. This matter is under review by Kitco's legal counsel.

30. In connection with a possible purchase of the Properties, the Monitor received an appraisal report from Cushman & Wakefield Ltd. in December 2013 which indicates that the current values of the Properties meet or slightly exceed the initial purchase price of these units.
31. The Monitor has recently received updated projections from the Company in respect of the estimated cost to proceed with the proposed purchase of the Properties, and will provide its opinion on those costs and further information on the value of the Properties in a subsequent report.
32. In the interim, Kitco continues to work with Service Immobiliers Asgaard Inc. to seek a purchaser or lessee of the commercial units.

MOVEMENT IN CUSTOMER INVENTORY POOL

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

Kitco Metals Inc. Customer Inventory Pool Variation						
	June 8, 2011		August 31, 2013		November 30, 2013	
	Ounces	Value	Ounces	Value	Ounces	Value
	(in thousands)	(in \$ millions)	(in thousands)	(in \$ millions)	(in thousands)	(in \$ millions)
Gold	96	\$ 145.9	91	\$ 135.3	92	\$ 124.0
Silver	4,848	176.8	5,090	128.0	5,063	108.8
Platinum	6	11.7	7	11.0	7	9.7
Palladium	23	18.7	11	8.3	11	8.3
Rhodium	6	13.5	8	9.2	8	9.1
	4,979	\$ 366.6	5,207	\$ 291.8	5,181	\$ 259.9

34. In terms of ounces of precious metals, there is a slight decrease in silver from the reported values as of August 31, 2013, however, the overall customer pool balance is relatively unchanged. The value of the pool holdings has decreased since August 31, 2013, driven largely by significant price decreases of gold and silver.
35. 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

36. Customer deposits which represent cash balances held by Kitco in segregated bank accounts on behalf of its customers, amount to \$47.7 million (vs. \$50.2 million as of August 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 monthly balance of \$54 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

37. 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 November 30, 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 daily volume movements.
38. In respect of the more material scrap metal positions, we comment as follows:
- a) Gold:
- From September 1, 2013 to November 30, 2013, Kitco purchased approximately 2,000 ounces of scrap gold and shipped approximately 2,300 ounces of scrap gold for processing, predominantly to the Royal Canadian Mint (“RCM”), resulting in a balance of scrap gold of approximately 2,000 ounces on November 30, 2013;
 - Since the commencement of the restructuring, scrap gold purchases have totaled approximately 6,300 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 September 1, 2013 to November 30, 2013, Kitco purchased approximately 14,100 ounces of scrap silver and shipped approximately 100 ounces for refining, resulting in an November 30, 2013 balance of scrap silver of approximately 44,400 ounces;
 - Since the commencement of the restructuring, scrap silver purchases have totaled approximately 3,700 transactions with an average of 56 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

39. 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, 2013, Kitco maintained ~7,600 ounces of gold for a reported value of \$10.2 million (vs. ~14,500 ounces as of August 31, 2013 and ~12,900 ounces as of June 7, 2011) and ~374,800 ounces of silver for a reported value of \$8.1 million (vs. ~386,300 ounces as of August 31, 2013 and ~198,000 ounces as of June 7, 2011). According to Management, the decline in the CAS gold position is attributable to a single customer withdrawing its position. This customer continues to store silver with Kitco under the CAS program.
40. 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

41. Petitioner's tax counsel has informed us that they will file a full report on all proceedings in connection with the next extension motion to be presented on March 13, 2014.

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

42. Petitioner's tax counsel has informed us of the following:
- On November 28, 2013 and November 29, 2013, ARQ served sixty (60) statements of offense against Kitco and sixty (60) statements of offence against Mr. Bart Kitner for the reporting periods of March 2008 to August 2010 under the *Tax Administration Act*, CQLR, ch. A-6.002 (subparagraph 62a) and subparagraph 62f)) and, for the same reporting periods, served a summons jointly accusing Kitco and Mr. Bart Kitner of sixty (60) offenses under the *Excise Tax Act — Part IX — Goods and Services Tax*, R.S.C. (1985), ch. E-15 (subsections 327(1)a) and 327(1)b));
 - The ARQ is accusing Kitco and Mr. Bart Kitner of two (2) different offenses by reporting period under different statutes, although the accusations concern the same facts, for the same reporting periods and concern the same input tax credits and the same input tax refunds;
 - It appears that the alleged offences refer to the same elements as the input tax credits and input tax refunds which were refused by the notices of assessment relating to GST and QST which are the source of the present proceedings before the Superior Court, Commercial Division.

43. Further to the service of said statements of offense, Kitco and Mr. Bart Kitner issued a press release indicating that the statements of offense were vigorously contested, and we are informed that Kitco and Mr. Bart Kitner have filed a non-guilty plea in relation to the statements of offense issued under the *Tax Administration Act*. In regard to the summons, the appearance is scheduled to take place on February 24, 2014.
44. We are informed that Kitco and Mr. Bart Kitner have retained the services of a law firm specialized in penal matters in respect to the statements of offense and summons.

ACTIVITIES OF THE MONITOR

45. 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 and penal charges;
 - The Monitor reviewed the Petitioner's financial affairs and results;
 - The Monitor reviewed the marketing updates from Asgaard;
 - The Monitor has reviewed the appraisal report from 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 4th day of February, 2014.

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 - November 30, 2013

(in millions \$CAD)

Unaudited

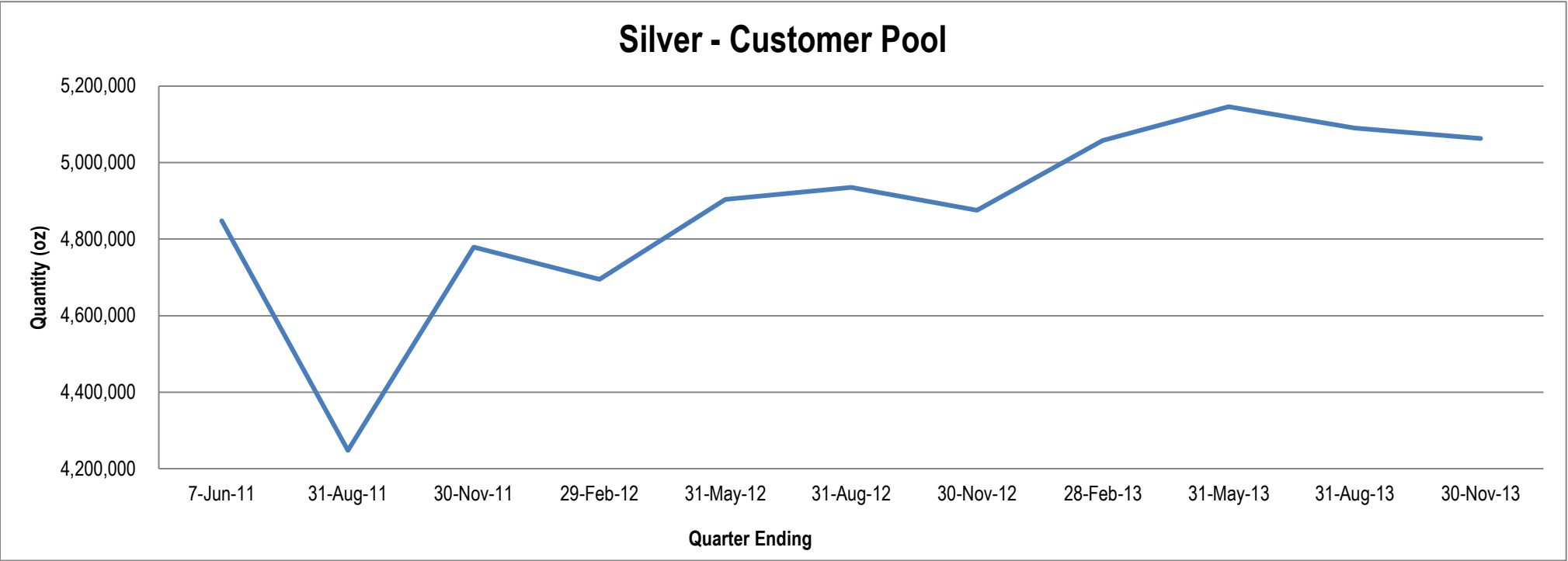
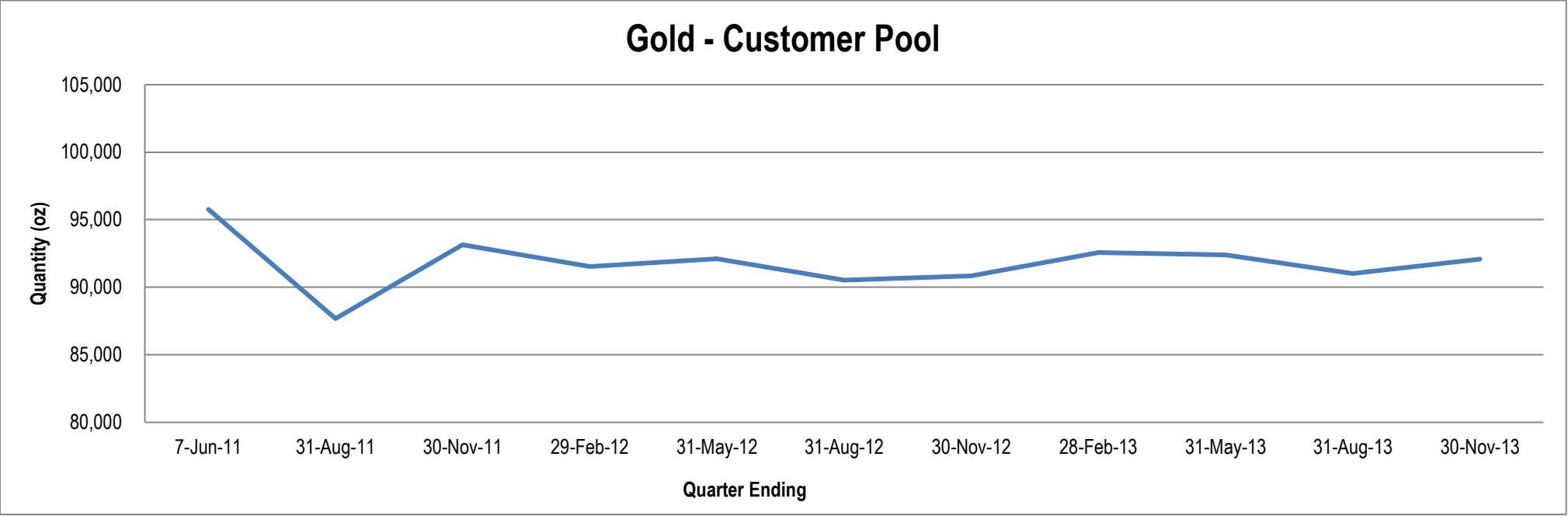
	Reported	Projected	Variance	
<u>Net Results from Operations</u>	\$ 6.6	\$ 8.4	\$ (1.8)	1
Disbursements				
Salary and Benefits	4.0	4.0	-	
General and Administrative	2.0	3.2	1.2	2
Restructuring Costs / Other	0.8	0.7	(0.1)	
	<u>6.8</u>	<u>7.9</u>	<u>1.1</u>	
Net Cash Flow	(0.2)	0.5	(0.7)	
Sale of Platinum Division	1.7	1.7	-	3
Opening Consolidated Bank Balance per Book	17.0	17.0	-	
Closing Consolidated Bank Balance per Book	\$ 18.5	\$ 19.2	\$ (0.7)	3

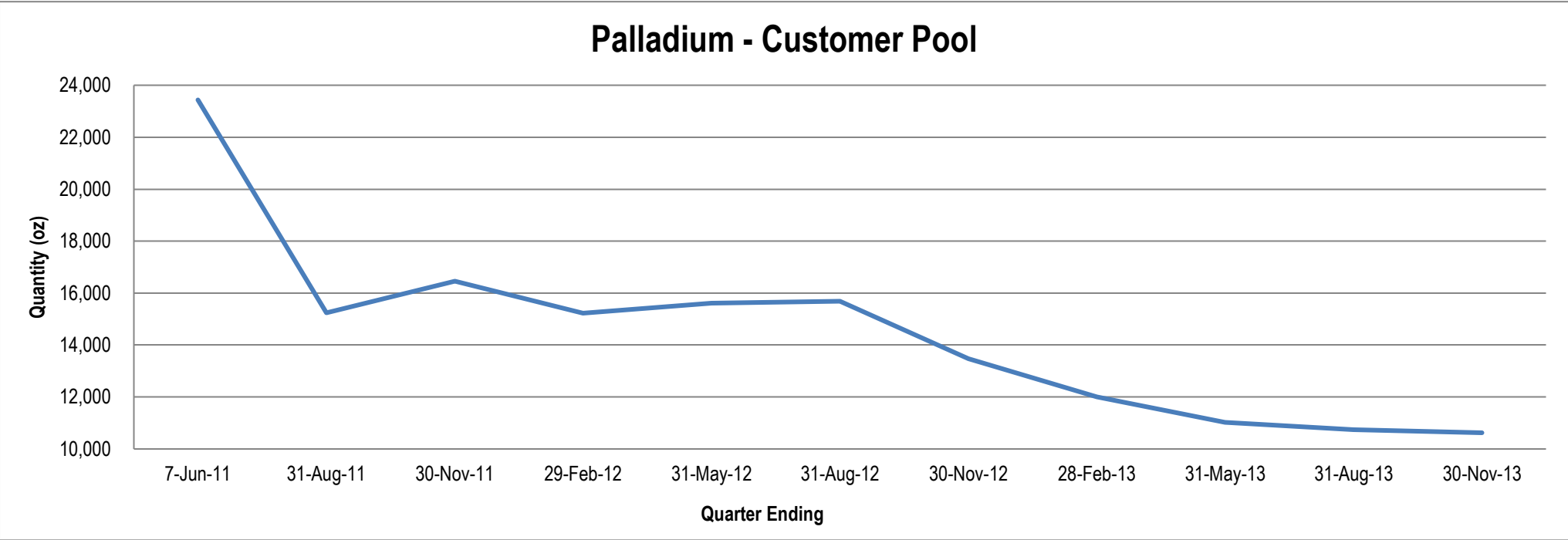
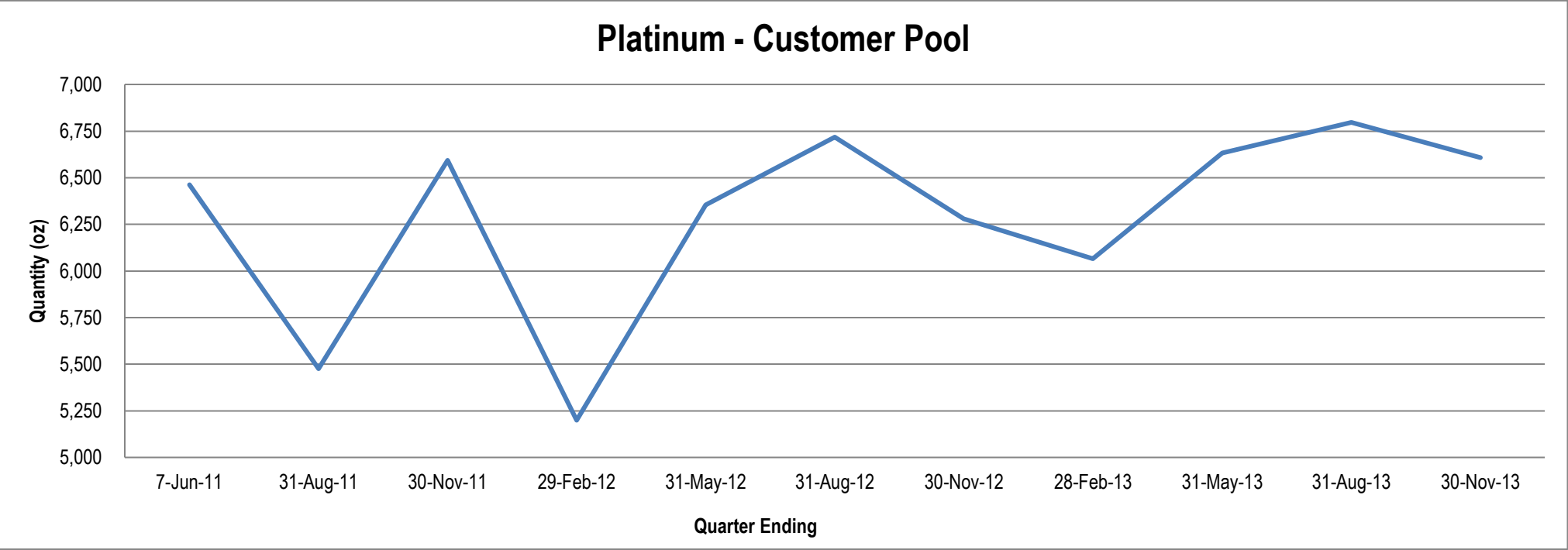
Note 1: Management attributes the unfavourable variance primarily to lower than budgeted revenues, which were partially offset by higher than budgeted gross margins and a favourable working capital variance (which may reverse in future periods).

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

Note 3: The closing consolidated bank balance includes \$1.7 million of restricted cash in trust which continues to be held by 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





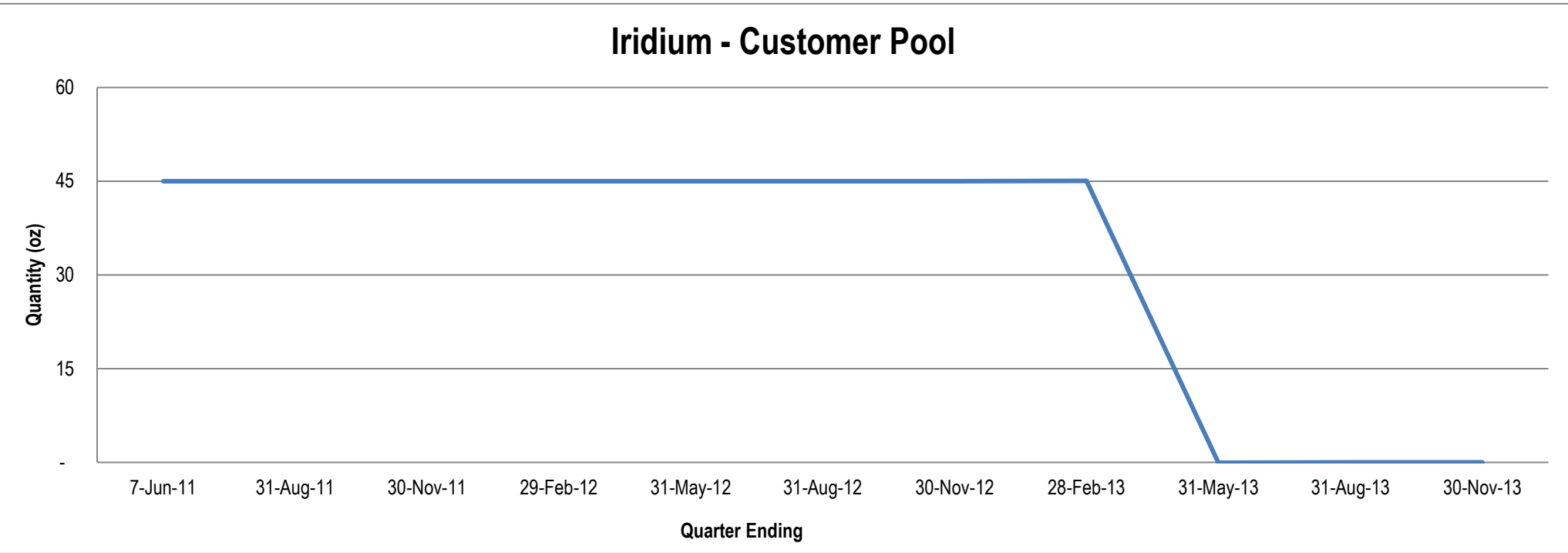
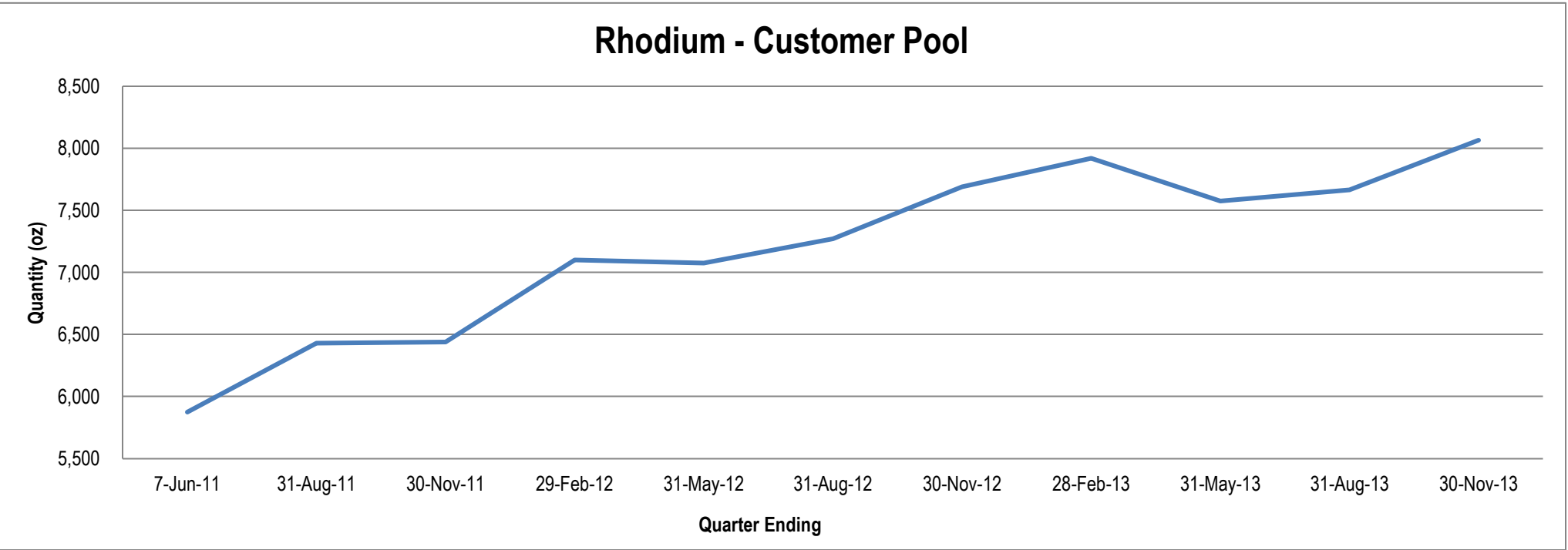


Exhibit 3

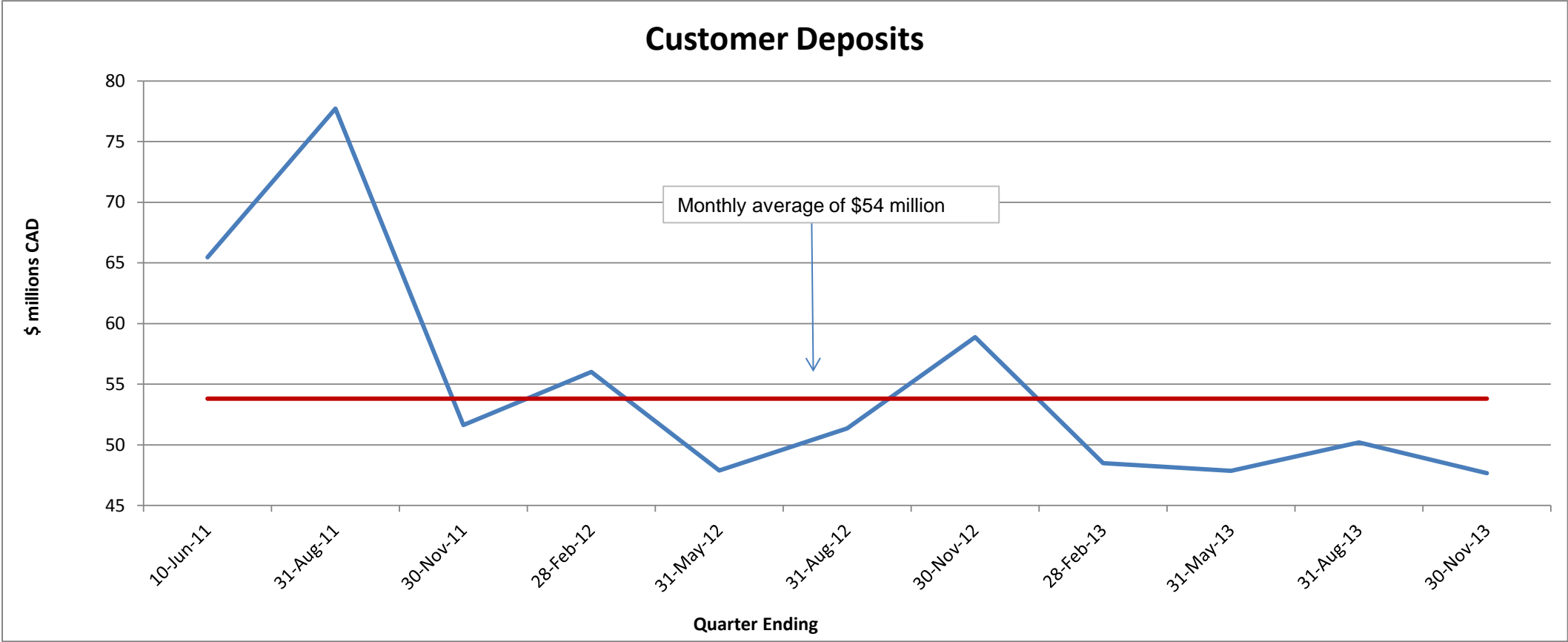


Exhibit 4

Kitco Metals Inc.
Summary of Scrap Transactions
For the period June 8, 2011 to November 30, 2013

Exhibit "4"

Gold	
Ounces	\$
(in \$ millions)	
Beginning balance	2,623
Purchase	30,506
Sale	(98)
Sent to refinery	(31,051)
Ending balance	1,980 \$ 2.7

Silver	
Ounces	\$
(in \$ millions)	
Beginning balance	101,633
Purchase	204,539
Sale	(12,876)
Sent to refinery	(248,863)
Ending balance	44,433 \$ 1.0

Platinum	
Ounces	\$
(in \$ millions)	
Beginning balance	1,293
Purchase	3,973
Sale	(17)
Sent to refinery	(5,163)
Ending balance	86 \$ 0.1

Palladium	
Ounces	\$
(in \$ millions)	
Beginning balance	266
Purchase	267
Sale	-
Sent to refinery	(500)
Ending balance	34 \$ -

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	139
Sale	(48)
Sent to refinery	(124)
Ending balance	14 \$ -

Note 1: The value of the scrap metal as of November 30, 2013 is based upon spot pricing as of that date.

Exhibit 5

