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

S U P E R I O R C O U R T
(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

EIGHTEENTH REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
March 11, 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 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 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 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 an 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”). In accordance with instructions from the Court, the Extension Motion and this Eighteenth Report were served on all creditors who have filed a proof of claim with the Monitor by e-mail or fax.

23. Included in the Extension Motion, is a request by the Petitioner seeking authorization to complete the purchase of various condominium units in respect of the Altitude project, as more fully described below.

24. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.

25. The purpose of this Eighteenth Report of the Monitor is to inform the Court of the following:

- Financial Position (for the period of December 1, 2013 to February 28, 2014 (“Period”));
- Cash Flow Projections (for the period of March 1, 2014 to April 30, 2015);
- 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;
- Request for an Extension of the Stay of Proceedings to April 30, 2015;
- Request for an Approval of the Altitude Real Estate Transaction.

26. 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

27. 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.

28. As of February 28, 2014, the Petitioner's cash balances amounted to $18.9 million as compared to the projected balance of $18 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, which is consistent with the quarter ended November 30, 2013;
- $2.7 million positive variance related to cash disbursements:
  - $1.8 million positive variance relating to lower than budgeted general and administrative costs 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;
  - $0.8 million positive variance relating to lower than budgeted bonuses paid in the Period ($0.6 million vs. a budget of $1.4 million). In respect of the bonuses, we note that approximately $370k was paid to seven senior management including Bart Kitner.

- Included in the $18.9 million cash balance is 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.

29. For additional details, we refer you to Exhibit "1" attached hereto, entitled Reported vs. Projected Cash Flow for the Period June 1, 2013 to February 28, 2014.

30. 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.

CASH FLOW PROJECTIONS

31. The Petitioner presents to this Court its Statement of Projected Cash Flow ("Projections") for the period March 1, 2014 to April 30, 2015 ("Budget Period") (Exhibit "2").

32. The Projections for the Budget Period are based on information and assumptions provided by management based on financial and other information available as of February 28, 2014. The cash flow projections have been prepared using probable assumptions supported and consistent with the plans of the Company for the Budget Period, considering the economic conditions that are considered the most probable by management. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material.

33. The basic assumptions underlying the Projections are that the Company will continue to operate in the normal course of business which involves the processing of customer transactions including the sale and purchase of pool account participations, the acceptance or return of customer deposits and storage or delivery of metals. Further, the Projections reflect that the Company will complete its purchase of the Altitude real estate in March 2014, assuming Court approval is granted and will effect a payment to pre-filing trade creditors in April 2014, subject again to Court approval.

34. The projected cash flow reflects the following:

- $19.2 million of net results from operations representing the projected margin resulting from customer trades and other product lines during the Budget Period. Consistent with prior forecasts, the projections provided to us do not include specific forecasts for sales and gross margin targets. However, Management advises that its projected net results from operations do incorporate recent trending in respect of sales volumes, sales mix and gross margins. We caution that as the projections are based on assumptions regarding future events, and due to the length of the forecast period, actual results will vary from the information presented, and the variations may be material;

- $21.9 million of cash disbursements, summarized as follows:
  - $11.3 million of salaries and benefits which is based upon current payroll levels adjusted for anticipated salary increases effective February 2015 along with a provision for potential performance bonuses to be paid in February 2015, assuming bonus targets for calendar 2014 are achieved;
  - $8.4 million of general and administrative costs as forecast are higher than recent trending to account for contingencies, the planned upgrade of Kitco's website, maintenance Capex as well as general conservatism. As noted in prior reports, management consistently sets a conservative budget with respect to general and administrative expenses due to the uncertainty in market conditions; however, it has demonstrated the ability to control costs in light of fluctuating market conditions based on operating results which fluctuate with the market;
  - $2.2 million of restructuring/other costs consist primarily of projected professional fees for Debtor counsel, tax counsel in respect of the various assessments and charges, as well as the Monitor and its counsel. The projected fees are based on current run rates as well as a provision for increased costs depending on future events.
- $7.8 million net negative cash flow over the Budget Period consisting of:
  - $2.7 net loss from operations;
  - $5.1 million of other expenditures which relate to $5.7 million for the Altitude real estate transaction, plus a $2.4 million provision for an interim distribution to Kitco's trade creditors as discussed below, offset by a partial reimbursement of $3 million payment from 3609979 Canada Inc. ("3609979"), Kitco's parent company on account of a $4.8 million intercompany loan payable from 3609979 to Kitco;
- Net cash flow from operations during the Budget Period is projected to be $77k after taking into account the non-reimbursed sales taxes and the restructuring/other costs.

UPDATE REGARDING THE ALTITUDE REAL ESTATE TRANSACTIONS

35. As part of the Extension Motion, Kitco is seeking approval to conclude a transaction with Altitude Montreal Inc. ("Altitude"), the developer of an office and condominium project adjacent to Kitco's current leased premises at 620 Cathcart, Montreal, Quebec.

36. While the Monitor has previously reported on the terms and conditions of various offers to purchase entered into between Kitco and Altitude (Fourth, Seventh, Eleventh, Twelfth, Thirteenth,

Fourteenth, Sixteenth and Seventeenth Reports), we will nonetheless, summarize the original transaction before commenting upon the current proposed transaction with Altitude:

INITIAL TRANSACTION AND RECENT EVENTS

37. Kitco originally entered into four offers to purchase with Altitude between April 2010 and September 2010.

38. Three offers to purchase related to three residential condominiums for approximately $4.6 million (or $5.2 million taxes included) and one offer to purchase 20,000 square feet of office space (on four floors) for $10 million (or $11.3 million taxes included) ("Offers").

39. The residential condominiums were acquired for investment purposes and were to be rented out.

40. Kitco intended to utilize a portion of the office space for immediate expansion and lease the balance of the office space until it is required for further expansion.

41. The cost of the proposed real estate investment and Kitco's payments to date can be summarized as follows:

Kitco Metals Inc.
Investment in Altitude Real Estate
(in $000's)

Unit # Residential Condominiums [1]	Unit Price	Taxes	Total	25% Deposit	Balance Due
2904 [2]	$ 1,360	$ 175	$ 1,535	$ 384	**$ 1,151**
2905 [2]	519	67	586	146	**439**
3203	2,772	357	3,129	782	**2,347**
	4,651	599	5,250	1,312	**3,937**
Office Space [3]	10,050	1,294	11,344	2,836	**8,508**
Total	**$ 14,701**	**$ 1,893**	**$ 16,594**	**$ 4,148**	**$ 12,445**

Note 1: Unit price for the residential condominiums includes $50,000 for each condominium in respect of parking.

Note 2: According to Kitco, units 2904 and 2905 were combined into one unit, unit 2903.

Note 3: Office space consists of 4 floors totalling approximately 20,000 square feet.

42. The majority of the 25% deposit ($3.3 million) was paid by Kitco to Altitude prior to the commencement of the CCAA proceedings. In October, 2011, Kitco requested Court permission to pay $825k, which was the balance of the initial 25% deposit, in accordance with the terms of the Offers. The Monitor supported this payment on the basis of an appraisal from Cushman and Wakefield which reflected that the residential and office condominiums were maintaining their value and in order to avoid triggering a potential default with respect to the Offers. The Court approved the payment of the $825k.

43. In addition to the above, Kitco has agreed to $140k (tax included) of extra's in respect of the residential unit #3203, of which $82k has been paid to Altitude.

44. As a result of the length of time of the CCAA proceedings as well as Kitco' restricted liquidity (which is attributed to the funds being held by the ARQ as an offset to the tax assessments), Kitco reexamined its options with respect to the residential and office condominiums.

45. On or about February 2013, Kitco engaged an independent real estate broker, Services Immobiliers Asgaard Inc. ("Asgaard") to attempt to either sell Kitco's interest in the office condominiums or to lease the space to provide cash flow to support Kitco's investment in this space. While Asgaard has been marketing the space for approximately one year, to date, apart from one offer to purchase all of the space which was rejected as inadequate, there have been no written offers to lease or purchase part or all of the space**.** Kitco attempted to engage a broker for the residential condominiums but was informed that brokers could not market the space on the Montreal Listing Service ("MLS") until Kitco was the actual owner of the units.

46. Altitude has informed the Monitor that it began delivering residential units to various purchasers in mid-2013.

47. On January 27, 2014, Altitude's attorneys sent a demand letter to Kitco convening it to a closing for the 29th floor residential unit on February 10, 2014 failing which it will be in default. Kitco did not attend the closing and instead continued discussions with Altitude towards an agreement, the terms of which are summarized below.

48. As a result of the inability of Kitco's broker to find purchasers to take over Kitco's investment in the residential and office condominiums, as a result of traditional financial institutions unwillingness to provide financing to Kitco to complete the transaction (which is attributed to Kitco's current CCAA proceedings), and as a result of Altitude's position that the project is complete and Kitco must proceed to closing in respect of the Offers, Kitco has been in discussions with Altitude regarding potential solutions. These discussions have resulted in Kitco and Altitude entering into various agreements which are the subject of the agreements filed under seal and annexed to the Extension Motion. We summarize the salient facts as follows:

PROPOSED TRANSACTION

a) Altitude Agreement

- Assuming Court approval, Kitco will proceed to complete the purchase of the office condominiums and the 32nd floor residential condominium ("Units") within 10 business days. The offers to purchase for the 29th floor condominium units will be cancelled and the deposits that Kitco has paid on these units will be applied to the purchase price of the

Units. Altitude has informed Kitco that it already has an accepted offer on the 29th floor condominium unit from an arms-length third party;

- Kitco does not have sufficient liquidity to complete the purchase of the Units and as noted above, is unable to find third party financing. As such, Groupe Daca Inc. ("Daca"), whom we understand is a related party to Altitude, has agreed to provide a $4.725 million mortgage to Kitco with Kitco paying the balance of the purchase price of $4.75 million calculated as follows:

Kitco Metals Inc.
Proposed Altitude Transaction
(in $000's)

	Unit 3203	Office	Total
Sale price	$ 3,147	$ 10,000	$ 13,147
Taxes	405	1,288	1,693
Extras (tax included)	140	-	140
Total	3,692	11,288	$ 14,980
Less: deposits	(865)	(2,822)	(3,687)
Total Payable	2,827	8,466	11,293
Credit for deposit on unit 2904	(384)	-	(384)
Credit for deposit on unit 2905	(146)	-	(146)
Altitude mortgage	(1,146)	(3,579)	(4,725)
Tax credit [1]	-	(1,288)	(1,288)
Balance payable by Kitco	**$ 1,151**	**$ 3,599**	**$ 4,750**

Note 1: According to Kitco, based on current tax legislation, it will self-declare the tax payable on the office and claim an offsetting tax credit resulting in no cash outflow.

- Kitco proposes to fund the purchase of the Units by using i) cash on hand, as well as ii) $3 million partial repayment of an intercompany loan from 3609979 ("360 Repayment")**.** Kitco has indicated that it will only proceed with the purchase of the Units if it is permitted to use the 360 Repayment so as not to deplete cash on hand; Kitco will place the Units for rent and/or sale and Kitco authorizes Altitude to do the same;

- Kitco and Altitude agree that the remaining allowance owed by Altitude for tenant improvements on the office condominiums is $25 per square foot, as Altitude has already paid $10 per square foot for said space;

- For a one year period following the completion of this transaction, Kitco grants Altitude an irrevocable option to purchase any or all of the Units (excluding the 7th floor office condominium) at a price equal to Kitco's acquisition cost, without consideration for any carrying costs that may be incurred by Kitco in this one year period. Altitude has agreed that the office condominium on the seventh floor will not be placed for sale as Kitco wishes to retain this unit for future expansion;

- Kitco agrees to accept any offer to purchase any of the Units (excluding the 7^{th} floor office condominium) from third parties :
  - where the purchase price meets or exceeds Kitco's acquisition cost and any parameters that may be set in advance by the Court;
  - Kitco agrees that if Altitude (or its designee) assists in the sale, it will be entitled to receive a commission that a broker would have received;
  - Kitco agrees that if any of the Units are sold, than 50% of any profits made on such sale shall be payable to Altitude (profits will equal the proceeds received less Kitco's acquisition cost less taxes, interest and condominium fees.
- Kitco agrees to a minimum base rent for the office condominiums and will agree to accept any offer that is equal to or above the minimum base rent;
- Kitco will provide an indemnity to Altitude in respect of claims, demands, losses, etc. that arise out of, under or pursuant to Kitco's failure to fulfill its obligations under the Altitude Agreement.

b) <u>Loan Agreement</u>

- The $4.7 million mortgage from Daca will include the following terms:
  1) Interest rate of prime plus 1% for the first year of the term and prime plus 3% for the balance of the 25 year term;
  2) The net proceeds from the sale of any of the Units will be applied to reduce the mortgage until it is paid in full;
  3) In the event of the lease of any of the Units, the annual net cash flow (after taking into account carrying costs) will also be applied to the then outstanding mortgage;
  4) Altitude will have a first ranking hypothec on all of the Units as well as a first ranking hypothec on all rents generated from the Units until such time as the mortgage is fully repaid;
  5) The loan agreement contains various events of default including:
     - Failure to make any payment of principal or interest when due, if such failure is not remedied within 10 days of receiving written notice;

- Should Kitco decline any offer to purchase the Units in accordance with the terms of the loan agreement;
- Should Kitco or any of its officers, directors, agents, shareholders or related parties be found guilty of any penal provisions, penal act or related charge of wrong doing;
- Should Kitco default under the terms of the Hypothec or the Altitude Agreement. As of the preparation of this report, the Loan Agreement, the Altitude Agreement and the Hypothec are still in draft format;
- If an event of default is not remedied within the grace period, than Daca shall have the right, after first obtaining leave of the Court, to institute action to recover all outstanding amounts;
- Upon resolution of the litigation with the ARQ, the balance of the loan shall become payable within a delay of 6 months.

c) Appraisal Report

49. In September, 2013, the Monitor again mandated Cushman to update its assessment of the market value of these Units and to opine on certain of the Kitco's cash flow assumptions in respect of leasing the condominiums. Cushman submitted their report in December, 2013 and provided the following assessment of market values (pre-tax):

- Office condominiums: $11 million ($2.75 million per floor) vs. a Kitco purchase price of $10 million ($2.5 million per floor);
- 32nd floor residential condominium: $2.95 million vs. a Kitco purchase price of $2.72 million;
- 29th floor residential condominium: $2.0 million vs. a Kitco purchase price of $1.9 million;

50. Cushman was further asked to validate certain of Kitco's cash flow assumptions, in particular, related to rental rates for the office condominiums as well as tenant improvement incentives. Cushman's report supports the net rental rates for the office space being used by Kitco in its cash flows.

Post Closing Cash Flow

51. Kitco has prepared a three year cash flow for the Units it will own if it completes the transaction with Altitude. These assumptions take into account estimated timelines to lease the condominiums as well as the projected carrying costs including mortgage payments, taxes, condo fees, insurance, etc. The cash flows which we summarize below, reflect a $0.7 million negative cash flow in year one followed by a break even in year two and a positive cash flow in year three as follows:

Kitco Metals Inc. Projected Cash Flow (in $000's)									
	Unit 3203				Office				Combined
	2014	2015	2016	Total	2014	2015	2016	Total	
Rental income	$ 109	$ 186	$ 186	$ 481	$ 206	$ 675	$ 900	$ 1,781	$ 2,262
Welcome Taxes	(50)	-	-	(50)	(196)	-	-	(196)	(246)
City and school taxes	(35)	(37)	(39)	(111)	(375)	(393)	(413)	(1,181)	(1,292)
Mortgage	(69)	(98)	(101)	(268)	(195)	(275)	(284)	(754)	(1,022)
Condo fees / insurance	(22)	(26)	(26)	(74)	(44)	(53)	(53)	(150)	(224)
	(176)	(161)	(166)	(503)	(810)	(721)	(750)	(2,281)	(2,784)
Net Cash Flow	**$ (67)**	**$ 25**	**$ 20**	**$ (22)**	**$ (604)**	**$ (46)**	**$ 150**	**$ (500)**	**$ (522)**

We comment as follows on the assumptions:

- Rental income:
  - Residential – assumes the 32nd floor condo will be leased by June 2014;
  - Office – as noted above, the net rental rate being used has been supported in the Cushman appraisal report. The projected cash flow assumes that two of the four floors will be leased by the end of 2014 and each of the remaining two floors will be leased in 2015 and 2016 respectively;
- Taxes: based on current tariffs in effect in the City of Montreal and include a 5% provision for future increases;
- Mortgage: based on the terms of the loan agreement with Daca;
- Condo fees / insurance: condo fees are based on discussions with Altitude.

52. The cash flows are based on assumptions regarding future events as well as market conditions and as such, the actual results may vary and such variations may be material. The most likely areas for a negative variance relate to:

- Projected rental income, either lower rates or a longer time frame to find tenants;
- The possibility that prospective tenants for the office condominiums may request higher up front tenant improvements which may only be recouped over time;
- We consider it possible that such variations could increase the cash flow deficit in the first year by $200k to $400k.

MOVEMENT IN CUSTOMER INVENTORY POOL

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

Kitco Metals Inc. Customer Inventory Pool Variation	June 8, 2011			November 30, 2013			February 28, 2014		
	Ounces (in thousands)	**Value** (in $ millions)		**Ounces** (in thousands)	**Value** (in $ millions)		**Ounces** (in thousands)	**Value** (in $ millions)	
Gold	96	$	145.9	92	$	124.0	89	$	131.6
Silver	4,848		176.8	5,063		108.8	4,933		117.6
Platinum	6		11.7	7		9.7	7		10.7
Palladium	23		18.7	11		8.3	10		8.1
Rhodium	6		13.5	8		9.1	8		10.0
Total	**4,979**	**$**	**366.6**	**5,181**	**$**	**259.9**	**5,047**	**$**	**278.0**

54. In terms of ounces of precious metals, there is a slight decrease in gold and silver from the reported values as of November 30, 2013. The value of the pool holdings has increased since November 30, 2013, driven largely by a price increase of all metals.

55. Exhibit “3” attached hereto is a summary of the movement in all metals on a quarterly basis since the commencement of the restructuring.

CUSTOMER DEPOSITS

56. Customer deposits which represent cash balances held by Kitco in segregated bank accounts on behalf of its customers, amount to $53.5 million (vs. $47.7 million as of November 30, 2013). As per the attached chart (Exhibit “4”), since the commencement of the restructuring proceedings, customer deposits have ranged from approximately $46 million to $78 million with an average monthly balance of $53 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

57. We refer to Exhibit “5” 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 February 28, 2014 (as reflected in Exhibit “5”) 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.

58. In respect of the more material scrap metal positions, we comment as follows:

a) Gold:

- From December 1, 2013 to February 28, 2014, Kitco purchased approximately 3,900 ounces of scrap gold and shipped approximately 4,600 ounces of scrap gold for processing, predominantly to the Royal Canadian Mint ("RCM"), resulting in a balance of scrap gold of approximately 1,250 ounces on February 28, 2014;

- Since the commencement of the restructuring, scrap gold purchases have totaled approximately 6,650 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 December 1, 2013 to February 28, 2014, Kitco purchased approximately 42,000 ounces of scrap silver and shipped approximately 32,500 ounces for refining, resulting in an February 28, 2014 balance of scrap silver of approximately 51,800 ounces;

- Since the commencement of the restructuring, scrap silver purchases have totaled approximately 3,900 transactions with an average of 64 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

59. 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 February 28, 2014, Kitco maintained ~9,600 ounces of gold for a reported value of $14.3 million (vs. ~7,600 ounces as of November 30, 2013 and ~12,900 ounces as of June 7, 2011) and ~383,000 ounces of silver for a reported value of $9.1 million (vs. ~374,800 ounces as of November 30, 2013 and ~198,000 ounces as of June 7, 2011).

60. Exhibit "6" 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

61. We refer to the attached memo from the Petitioner's tax counsel (Exhibit "7") which sets out the status of recent developments relating to the notices of assessments and other proceedings between Kitco and the ARQ.

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

62. Petitioner's tax counsel has informed us that both Kitco and Mr. Bart Kitner filed a non-guilty plea in relation to the statements of offense issued under the *Tax Administration Act* and the *Excise Tax Act* at a hearing on February 24, 2014. The case was adjourned pro-forma to April 28, 2014, and in the interim ARQ is required to disclose their evidence to the attorney representing Kitco and Bart Kitner.

ACTIVITIES OF THE MONITOR

63. 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 Petitioner's projections for the Budget Period;
- The Monitor reviewed the marketing updates from Asgaard;
- The Monitor has reviewed the Altitude Agreement, the Loan Agreement and the Hypothec in connection with the proposed Altitude transaction;
- The Monitor has reviewed the Petitioner's cash flow projections in respect of the proposed Altitude real estate purchase;

- The Monitor has reviewed the Cushman appraisal report on the Altitude real estate;
- The Monitor has prepared and filed this Report;
- Other administrative and statutory matters relating to the Monitor's appointment.

REQUEST FOR AN EXTENSION OF THE STAY OF PROCEEDINGS TO APRIL 30, 2015

64. At the present time, it is premature for the Petitioner to devise a Plan of Arrangement and present same to its creditors. The Petitioner is seeking an extension in order to continue its negotiations / litigation with ARQ as any Plan of Arrangement will be contingent on the outcome of this disputed liability.

65. The Petitioner has been paying for all goods and services received subsequent to the date of filing the CCAA.

66. The Petitioner's management has, and continues to act in good faith, with due diligence and has been cooperating with all stakeholders involved in this process, including but not limited to the Monitor, ARQ, and Kitco's other creditors.

67. Given the present state of the tax litigation and the recently filed penal charges, it is not anticipated that a resolution thereof will arise within the next year.

68. The Monitor is supporting the extension of the Initial Order until April 30, 2015, for the above noted reasons.

69. The Court should grant this extension as:

    - The Petitioner has and continues to act in good faith and with diligence;
    - The Petitioner needs additional time in order to negotiate / litigate with ARQ, the whole to permit it to resolve this issue and present a Plan of Arrangement to its creditors; The Petitioner has not prejudiced its creditors as it has paid for post-filing liabilities incurred since the date of filing and the Cash Flow Projections indicate that it will continue to do so;
    - A lengthier extension will reduce the cost associated with regular Motions for extension of delays;
    - Richter will continue to inform the Court of the evolution of the file through the filing of its quarterly reports;
    - The extension will not cause any prejudice to the various stakeholders.

REQUEST FOR AN APPROVAL OF THE ALTITUDE REAL ESTATE TRANSACTION

70. At present, Kitco has approximately $4.3 million invested ($4.1 million deposit and payments for extras and appliances) in the Offers. Kitco's investment in this project was commenced prior to the present restructuring proceedings.

71. Kitco seeks to protect the funds already invested by completing the purchase of the Units. As Kitco is unable to find financing from a third party financial institution due to the nature of the tax dispute, it proposes to rely upon $4.7 million of financing from a company related to Altitude. In addition. Kitco will have to provide additional funding of $4.7 million at closing which it proposes to do from operating cash on hand and funding from the 360 Repayment. Further, Kitco's own projections reflect a negative cash flow from the Units of approximately $0.7 million in the first year following closing and we caution that this could be understated by $0.2 million to $0.4 million depending on various factors as outlined in this report.

72. Given Kitco's current situation, the financial terms of the Loan Agreement (prime plus one percent for the first year and three per cent thereafter) appear reasonable. We however draw attention to the various events of default and the limited cure period (10 days) for certain of the events of default which present risks that the investment of additional funds could be lost should an event of default occur.

Respectfully submitted at Montreal, this 11th day of March, 2014.

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

Andrew Adessky, CPA, CA, CIRP