Thompson Creek Metals Co Inc.
Form 10-Q
August 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013
Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 001-33783
THOMPSON CREEK METALS COMPANY INC.
(Exact name of registrant as specified in its charter)

British Columbia, Canada	98-0583591
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
26 West Dry Creek Circle, Suite 810, Littleton, CO	80120
(Address of principal executive offices)	(Zip code)

(303) 761-8801
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No ý
As of August 6, 2013 there were 171,452,069 shares of the registrant's common stock, no par value, outstanding.

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THOMPSON CREEK METALS COMPANY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in millions, except share data)	June 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$402.8	$526.8
Accounts receivable	56.5	52.9
Accounts receivable-related parties	5.4	6.4
Product inventory	89.0	110.8
Material and supplies inventory	52.9	48.4
Prepaid expenses and other current assets	14.5	5.8
Income and mining taxes receivable	7.2	16.0
Restricted cash	24.4	37.1
	652.7	804.2
Property, plant, equipment and development, net	2,685.6	2,538.9
Restricted cash	5.7	5.7
Reclamation deposits	28.5	30.1
Other assets	28.6	31.3
	$3,401.1	$3,410.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$122.4	$128.5
Income, mining and other taxes payable	0.8	0.6
Current portion of long-term debt	16.0	16.6
Current portion of long-term capital lease obligations	20.6	14.1
Deferred income tax liabilities	6.3	5.9
Other current liabilities	12.7	13.8
	178.8	179.5
Gold Stream deferred revenue	768.6	669.6
Long-term debt	914.4	921.8
Long-term capital lease obligations	76.6	58.0
Other liabilities	4.5	5.3
Asset retirement obligations	35.2	36.6
Deferred income tax liabilities	109.9	137.5
	2,088.0	2,008.3
Commitments and contingencies (Note 12)		
Shareholders' equity		
Common stock, no-par, 171,214,297 and 168,726,984 shares issued and outstanding as of June 30, 2013 and December 31, 2012, respectively	1,027.9	1,017.9
Additional paid-in capital	227.2	233.8
Retained earnings	74.0	92.3
Accumulated other comprehensive (loss) income	(16.0)	57.9
	1,313.1	1,401.9
	$3,401.1	$3,410.2

See accompanying notes to condensed consolidated financial statements.

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THOMPSON CREEK METALS COMPANY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES				
Molybdenum sales	$112.7	$109.6	$217.4	$219.2
Tolling, calcining and other	5.1	3.9	9.1	7.9
Total revenues	117.8	113.5	226.5	227.1
COSTS AND EXPENSES				
Cost of sales				
Operating expenses	73.8	110.6	142.4	210.2
Depreciation, depletion and amortization	17.5	11.5	30.3	31.1
Total cost of sales	91.3	122.1	172.7	241.3
Selling and marketing	2.7	2.2	5.0	4.1
Accretion expense	0.6	0.6	1.4	1.1
General and administrative	5.5	6.4	12.6	14.1
Exploration	0.5	0.6	0.6	1.4
Total costs and expenses	100.6	131.9	192.3	262.0
OPERATING INCOME (LOSS)	17.2	(18.4)	34.2	(34.9)
OTHER EXPENSE (INCOME)				
Change in fair value of common stock purchase warrants	—	(1.9)	—	(1.8)
Loss on foreign exchange	34.8	7.9	54.2	1.3
Interest and finance fees	0.1	1.5	0.2	3.0
Interest income	(0.3)	(0.2)	(0.5)	(0.4)
Other	(0.2)	(0.1)	(0.2)	(0.4)
Total other expense	34.4	7.2	53.7	1.7
Loss before income and mining taxes	(17.2)	(25.6)	(19.5)	(36.6)
Income and mining tax expense (benefit)	2.0	(10.8)	(1.2)	(22.9)
NET LOSS	$(19.2)	$(14.8)	$(18.3)	$(13.7)
COMPREHENSIVE LOSS				
Foreign currency translation	(47.8)	(35.0)	(73.9)	(7.6)
Total other comprehensive loss	(47.8)	(35.0)	(73.9)	(7.6)
Total comprehensive loss	$(67.0)	$(49.8)	$(92.2)	$(21.3)
NET LOSS PER SHARE				
Basic	$(0.11)	$(0.09)	$(0.11)	$(0.08)
Diluted	$(0.11)	$(0.09)	$(0.11)	$(0.08)
Weighted-average number of common shares				
Basic	171.1	168.2	170.4	168.1
Diluted	171.1	168.2	170.4	168.1

See accompanying notes to condensed consolidated financial statements.

THOMPSON CREEK METALS COMPANY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
OPERATING ACTIVITIES				
Net loss	$(19.2)	$(14.8)	$(18.3)	$(13.7)
Items not affecting cash:				
Change in fair value of common stock purchase warrants	—	(1.9)	—	(1.8)
Depreciation, depletion and amortization	17.5	11.5	30.3	31.1
Accretion expense	0.6	0.6	1.4	1.1
Amortization of finance fees	—	0.5	—	1.2
Stock-based compensation	1.9	1.8	3.3	3.3
Product inventory write downs	6.9	12.6	11.6	20.9
Deferred income tax benefit	(3.6)	(11.4)	(10.3)	(22.7)
Unrealized loss on derivative instruments	—	0.5	—	2.1
Unrealized foreign exchange loss (gain)	34.7	3.7	54.3	(1.4)
Change in working capital accounts (Note 16)	6.4	(23.5)	(11.8)	(37.4)
Cash generated by (used in) operating activities	45.2	(20.4)	60.5	(17.3)
INVESTING ACTIVITIES				
Capital expenditures	(119.5)	(193.3)	(274.6)	(381.2)
Capitalized interest payments	(27.5)	(13.1)	(35.4)	(13.1)
Restricted cash	(0.2)	9.2	11.2	11.9
Disposition of assets	0.2	—	0.2	—
Reclamation refunds	0.2	19.1	—	24.3
Cash used in investing activities	(146.8)	(178.1)	(298.6)	(358.1)
FINANCING ACTIVITIES				
Proceeds from the Gold Stream Arrangement	37.0	45.0	99.0	90.0
Proceeds from senior unsecured note issuance	—	200.0	—	200.0
Proceeds from tangible equity units	—	220.0	—	220.0
Proceeds from sales leaseback transactions	10.5	—	37.8	—
Down payments on capital lease transactions	(1.9)	(0.4)	(4.6)	(0.4)
Repayments of sale leaseback obligations	(3.1)	—	(4.1)	—
Repayments of capital lease obligations	(1.5)	(0.8)	(4.0)	(0.8)
Repayments of long-term debt	(4.3)	(0.7)	(8.2)	(2.2)
Issuance costs related to equity portion of tangible equity units	—	(6.4)	—	(6.4)
Debt issuance costs	—	(8.2)	—	(8.2)
(Costs) proceeds from issuance of common shares, net	(0.2)	(1.4)	0.2	(0.9)
Cash generated by financing activities	36.5	447.1	116.1	491.1
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1.4)	(1.8)	(2.0)	(0.7)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(66.5)	246.8	(124.0)	115.0
Cash and cash equivalents, beginning of period	469.3	162.7	526.8	294.5
Cash and cash equivalents, end of period	$402.8	$409.5	$402.8	$409.5

Supplementary cash flow information (Note 16)
See accompanying notes to condensed consolidated financial statements.

THOMPSON CREEK METALS COMPANY INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Six Months Ended June 30, 2013
(UNAUDITED)

(in millions, except share data in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balances at December 31, 2012	168,727	$1,017.9	$233.8	$92.3	$ 57.9	$1,401.9
Amortization of stock-based compensation	—	—	3.1	—	—	3.1
Shares issued under stock-based compensation programs	378	2.9	(2.6)	—	—	0.3
Settlement of prepaid common stock purchase contracts	2,109	7.1	(7.1)	—	—	—
Comprehensive loss:						
Net loss	—	—	—	(18.3)	—	(18.3)
Foreign currency translation	—	—	—	—	(73.9)	(73.9)
Total comprehensive loss	—	—	—	—	—	(92.2)
Balances at June 30, 2013	171,214	$1,027.9	$227.2	$74.0	$ (16.0)	$1,313.1

See accompanying notes to condensed consolidated financial statements.

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THOMPSON CREEK METALS COMPANY INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. In compliance with those instructions, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”) have been condensed or omitted. This report should be read in conjunction with Thompson Creek Metals Company Inc.'s (“TCM” or the “Company”) consolidated financial statements and notes contained in its Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”) filed with the Securities and Exchange Commission (“SEC”). The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. TCM bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions. Certain comparative information has been reclassified to conform to the current year's presentation.

The condensed consolidated financial statements include the accounts of TCM and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. Financial amounts are presented in United States (“US”) dollars unless otherwise stated. References to C$ are Canadian dollars.

2. Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Accounts receivable included trade receivables of $54.2 million and other receivables of $7.7 million as of June 30, 2013. Accounts receivable as of December 31, 2012 included trade receivables of $34.6 million and other receivables of $18.3 million. Other receivables primarily consisted of $4.4 million of Canadian Goods and Services Tax refundable to TCM as of June 30, 2013 and $12.9 million of Canadian Harmonized Sales Tax refundable to TCM as of December 31, 2012.

3. Inventory

The carrying value of product inventory was as follows:

(in millions)	June 30, 2013	December 31, 2012
Finished product	$36.1	$53.5
Work-in-process	27.9	32.3
Stockpiled material	25.0	25.0
	$89.0	$110.8

As of June 30, 2013, the carrying value of TCM's in process and finished product inventory was $89.0 million net of lower-of-cost-or-market write downs. Total write downs were $8.3 million and $13.9 million for the three and six months ended June 30, 2013, respectively. Inventory write downs in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2013 included $6.9 million and $11.6 million, respectively, of inventory write downs in operating expenses and $1.4 million and $2.3 million, respectively, of inventory write downs in depreciation, depletion and amortization.

As of June 30, 2012, the carrying value of TCM's in process and finished product inventory exceeded the market value. Total write downs were $16.6 million and $27.7 million for the three and six months ended June 30, 2012, respectively. Inventory write downs in the accompanying Condensed Consolidated Statements of Operations and

Comprehensive Loss for the three and six months ended June 30, 2012 included $12.6 million and $20.9 million, respectively, of inventory write downs in operating expenses and $4.0 million and $6.8 million, respectively, of inventory write downs in depreciation, depletion and amortization.

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Notes to Condensed Consolidated Financial Statements - (Continued)
(Unaudited)

4. Property, Plant, Equipment and Development
Property, plant, equipment and development was comprised of the following:

(in millions)	June 30, 2013	December 31, 2012
Mining properties and mineral reserves	$976.4	$978.0
Mining and milling equipment and facilities	481.4	467.5
Processing facilities	166.0	165.8
Construction-in-progress	1,251.1	1,089.0
Other	18.7	18.2
	2,893.6	2,718.5
Less: Accumulated depreciation, depletion and amortization	(208.0)	(179.6)
	$2,685.6	$2,538.9

The construction-in-progress balance included $1,239.7 million and $1,079.8 million related to TCM's Mt. Milligan project currently under construction in British Columbia ("Mt. Milligan") as of June 30, 2013 and December 31, 2012, respectively. Capitalized assets related to the Endako Mine, an open pit molybdenum mine in British Columbia in which TCM owns a 75% joint venture interest (the "Endako Mine"), were subject to an asset impairment during the year ended December 31, 2012. See Note 6 of TCM's 2012 Form 10-K for further discussion of the asset impairment. Allowances, which will be used to offset future taxable income, generated from qualifying new mine development costs were included as reductions to construction-in-progress in the Condensed Consolidated Balance Sheets by $69.0 million and $55.4 million as of June 30, 2013 and December 31, 2012, respectively.

5. Derivative Financial Instruments

TCM enters into various derivative financial instruments in its normal course of operations, including, but not limited to, provisionally-priced and fixed-price contracts to buy or sell molybdenum, commodity forward contracts, forward currency contracts and common stock purchase warrant contracts. None of TCM's derivative instruments were treated as hedges for accounting purposes and all were recorded in the Condensed Consolidated Balance Sheets at fair value with changes in fair value recorded in the Condensed Consolidated Statements of Operations and Comprehensive Loss, except those contracts for which TCM has elected to apply the normal purchases and normal sales scope exception.

TCM is exposed to credit loss when counterparties with which it has entered into derivative transactions are unable to pay. To reduce counterparty credit exposure, TCM deals primarily with large, credit-worthy financial institutions and companies and limits credit exposure to each. TCM believes the counterparties to the contracts to be credit-worthy entities, and therefore, TCM believes credit risk of counterparty non-performance is relatively low.

The fair value of TCM's assets and liabilities measured at fair value on a recurring basis was immaterial to TCM's Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012.

For the three and six months ended June 30, 2013, the impact of derivative instruments was immaterial to TCM's Condensed Consolidated Statements of Operations and Comprehensive Loss.

For the three and six months ended June 30, 2012, TCM recorded $4.4 million and $3.0 million, respectively, of losses within Loss on foreign exchange and $1.9 million and $1.8 million, respectively, of gains within Change in fair value of common stock purchase warrants in the Condensed Consolidated Statements of Operations and Comprehensive Loss. The impact of other derivative instruments was immaterial to TCM's Condensed Consolidated Statements of Operations and Comprehensive Loss.

6. Fair Value Measurement

US GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards establish a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources

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Notes to Condensed Consolidated Financial Statements - (Continued)
(Unaudited)

(observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth TCM's liabilities measured at fair value by level within the fair value hierarchy. As required, liabilities were classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(in millions)	Fair Value at June 30, 2013			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Senior secured notes	$361.9	$—	$361.9	$—
Senior unsecured notes	479.6	—	479.6	—
Tangible equity units (tMEDS) (see Note 10)	19.5	—	—	19.5
	$861.0	$—	$841.5	$19.5

(in millions)	Fair Value at December 31, 2012			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Senior secured notes	$363.5	$—	$363.5	$—
Senior unsecured notes	478.9	—	478.9	—
tMEDS	27.8	—	—	27.8
	$870.2	$—	$842.4	$27.8

The sensitivity to changes in the unobservable inputs and their impact on the fair value measurement of senior secured and unsecured notes can be significant. The significant unobservable inputs for the senior secured notes, unsecured notes and tMEDS are risk-free interest rates and credit spread assumptions. The risk-free interest rate and the credit spread are negatively correlated to the fair value measure. An increase (decrease) in risk-free interest rates or the credit spread will decrease (increase) the fair value measure. TCM determined the fair value of senior secured and unsecured notes using a discounted cash flow valuation model, consisting of inputs such as risk-free interest rates and credit spreads. TCM determined the fair value of the debt component of tMEDS using a discounted cash flow model by obtaining yields for comparably-rated issuers trading in the market, considering the market yield of existing TCM debt and the credit rating of TCM.

There were no transfers into or out of Level 3 during the three and six months ended June 30, 2013. TCM's policy is to recognize transfers into and out of Level 3 as of the actual date of the event or change in circumstances.

7. Leases

Capital Leases

On March 30, 2011, TCM entered into an equipment financing facility, as amended from time to time (the "Equipment Facility"), pursuant to which Caterpillar Financial Services Limited ("Caterpillar") agreed to underwrite up to $132.0 million in mobile fleet equipment financing for the Mt. Milligan project. Each borrowing under the Equipment Facility represents a capital lease and has a term of 48 or 60 months. Interest on the amounts borrowed under the Equipment Facility is payable at either floating or fixed rates, at TCM's option. TCM's ability to borrow under the Equipment Facility terminates in December 2013 (or such later date as may be agreed upon by Caterpillar), and any unused commitments under the Equipment Facility will

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Notes to Condensed Consolidated Financial Statements - (Continued)
(Unaudited)

then terminate and no longer be available to TCM. At the end of each 48- or 60-month lease period, TCM has the option to purchase the underlying equipment for a nominal sum.

The Equipment Facility includes non-financial covenants, and as of June 30, 2013, TCM was in compliance with these covenants. As of June 30, 2013, TCM had $93.2 million in outstanding borrowings under the Equipment Facility and an additional $4.0 million in borrowings that were related to certain equipment at the Endako Mine ("Endako Sale-Leaseback") for a total of $97.2 million in outstanding borrowings. As of December 31, 2012, TCM had $72.1 million in outstanding borrowings under the Equipment Facility.

Interest pertaining to the Equipment Facility is allocable to the cost of developing mining properties and to constructing new facilities and is capitalized until assets are ready for their intended use. For the three and six months ended June 30, 2013, TCM capitalized $1.5 million and $2.8 million, respectively, of the interest and debt issuance costs associated with the Equipment Facility, and paid $1.2 million and $2.1 million, respectively, of interest related to the Equipment Facility.

During the three and six months ended June 30, 2012, TCM capitalized $0.3 million of interest and debt issuance costs associated with the Equipment Facility and paid $0.2 million of interest related to the Equipment Facility.

During the first half of 2013, TCM entered into three sale-leaseback transactions with Caterpillar with respect to certain equipment. Two of these transactions were pursuant to the Equipment Facility, while the other related to the Endako Sale-Leaseback. As of June 30, 2013, TCM had received $37.8 million in cash from Caterpillar for the sale of equipment, which was subsequently leased back. Interest payments are based on a fixed rate. The leases are considered capital leases resulting in an increase to TCM's capital lease obligation of $33.2 million after upfront payments of $4.6 million.

TCM's total capital lease obligations consisted of the following:

(in millions)	June 30, 2013	December 31, 2012
Equipment capital leases	$26.7	$29.8
Equipment facility sales-leaseback	66.5	42.3
Total obligation under equipment facility	93.2	72.1
Endako sale-leaseback	4.0	—
Total capital lease obligation	$97.2	$72.1

8. Debt

TCM's total debt consisted of the following:

(in millions)	June 30, 2013	December 31, 2012
Senior secured notes, net of discount	$347.0	$346.8
Senior unsecured notes	550.0	550.0
tMEDS	25.2	30.6
Equipment loans	8.0	10.6
Other	0.2	0.4
Total debt	930.4	938.4
Less: current portion	(16.0)	(16.6)
Total long-term debt	$914.4	$921.8

9.75% Senior Secured Notes

On November 27, 2012, TCM issued $350.0 million of 9.75% senior secured notes (the “2017 Notes”). The proceeds received in the offering were $336.8 million, net of financing fees of $10.0 million and a discount of $3.2 million. TCM is utilizing the net proceeds from the 2017 Notes offering to fund the development of Mt. Milligan and for general working capital purposes. The 2017 Notes are guaranteed on a senior basis by substantially all of TCM's subsidiaries and are secured by a first priority lien subjected to permitted liens on substantially all of the Company's and the guarantors' property and assets.

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Notes to Condensed Consolidated Financial Statements - (Continued)
(Unaudited)

The 2017 Notes mature on December 1, 2017 and accrue interest from November 27, 2012 until maturity at a fixed rate of 9.75% per year. Interest on the 2017 Notes is payable on February 1 and August 1 of each year, and the first interest payment occurred on February 1, 2013. Interest is payable to the holders of record at the close of business on the January 15 and July 15 prior to each interest payment date. For the six months ended June 30, 2013, TCM paid $6.1 million of interest. For the three and six months ended June 30, 2013, TCM capitalized $9.2 million and $18.3 million, respectively, of the interest, discount amortization and debt issuance costs related to the 2017 Notes. See Note 10 of TCM's 2012 Form 10-K for further discussion.

For purposes of the fair market value disclosed in Note 6, the carrying value of the 2017 Notes as of June 30, 2013 was lower than the fair value of approximately $361.9 million.

12.5% Senior Unsecured Notes

On May 11, 2012, TCM issued $200.0 million of 12.5% senior unsecured notes (the “2019 Notes”). The proceeds received in the offering were $193.1 million, net of financing fees of $6.9 million. The net proceeds from the 2019 Notes offering were used to fund the development of Mt. Milligan and for general working capital purposes. The 2019 Notes are guaranteed on a senior basis by substantially all of TCM's subsidiaries.

The 2019 Notes mature on May 1, 2019 and accrue interest from May 11, 2012 until maturity at a fixed rate of 12.5% per year. Interest on the 2019 Notes is payable on May 1 and November 1 of each year, and the first interest payment occurred on November 1, 2012. Interest is payable to the holders of record at the close of business on the April 15 and October 15 prior to each interest payment date. For the three months ended June 30, 2013, TCM paid $12.5 million of interest. For the three and six months ended June 30, 2013, TCM capitalized $6.5 million and $13.0 million, respectively, of interest and debt issuance costs associated with the 2019 Notes. See Note 10 of TCM's 2012 Form 10-K for further discussion.

For purposes of the fair market value disclosed in Note 6, the carrying value of the 2019 Notes as of June 30, 2013 was higher than the fair value of approximately $191.5 million.

7.375% Senior Unsecured Notes

On May 20, 2011, TCM issued $350.0 million of 7.375% senior unsecured notes (the "2018 Notes"). The proceeds received in the offering were $339.9 million, net of financing fees of $10.1 million. TCM used the net proceeds from the 2018 Notes offering to fund the development of Mt. Milligan and for general working capital purposes. The 2018 Notes are guaranteed on a senior basis by substantially all of TCM's subsidiaries.

The 2018 Notes mature on June 1, 2018 and accrue interest from May 20, 2011 until maturity at a fixed rate of 7.375% per year. Interest is payable on June 1 and December 1 of each year, and the first interest payment occurred on December 1, 2011. Interest is payable to the holders of record at the close of business on the May 15 and November 15 prior to each interest payment date. For the three months ended June 30, 2013, TCM paid $12.9 million of interest. For the three and six months ended June 30, 2013, $6.8 million and $13.6 million, respectively, of interest and debt issuance costs related to the 2018 Notes was capitalized. See Note 10 of TCM's 2012 Form 10-K for further discussion.

For purposes of fair market value disclosed in Note 6, the carrying value of the 2018 Notes as of June 30, 2013 was higher than its fair value of approximately $288.1 million.

Mobile Mining Equipment Loans

On December 8, 2010, TCM executed an equipment financing agreement with Caterpillar in the amount of $12.8 million secured by six units of mobile mining equipment purchased by TCM during 2010. This fixed-rate loan bears interest at 3.6%, is scheduled to mature no later than December 8, 2015 and has an outstanding payable amount of $6.7 million as of June 30, 2013. TCM has an additional fixed-rate loan with Caterpillar bearing interest at 5.9% that is scheduled to mature no later than October 31, 2013 and has an outstanding payable amount of $1.3 million as of June 30, 2013.

9. Gold Stream Arrangement

Pursuant to an agreement dated October 2010, as subsequently amended in December 2011 and August 2012, with a subsidiary of Royal Gold, Inc. ("Royal Gold") (referred to as the "Gold Stream Arrangement"), TCM agreed to sell Royal Gold 52.25% of the refined gold production from Mt. Milligan for a total upfront payment of $781.5 million plus $435 per ounce, or the prevailing market rate if lower than $435 per ounce, when the gold is delivered. Pursuant to this Gold Stream Arrangement, through June 30, 2013, TCM has received total cash payments of $768.6 million from Royal Gold, comprised of a payment of

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$37.0 million on June 1, 2013, $62.0 million on March 4, 2013, and payments of $305.0 million in 2012, $138.1 million in 2011 and $226.5 million in 2010. The final scheduled payment of $12.9 million by Royal Gold is scheduled to be paid on September 1, 2013.

TCM must maintain a deposit record during the term of the Gold Stream Arrangement wherein TCM reduces the $781.5 million paid by Royal Gold by the difference between the current market price, if higher than $435 per ounce at the time of sale of refined gold to Royal Gold, and $435 per ounce, multiplied by the amount of refined gold sold in such sale. If, at the end of the initial 50-year term of the agreement, the total deposit amount reflected in the deposit record has not been reduced to nil, TCM must pay to Royal Gold the remaining balance reflected in the deposit record.

Royal Gold has a security interest in all of the Mt. Milligan assets until its total deposit amount has been reduced to nil. Royal Gold's security interest is subject to subordination to project or corporate financings by TCM, except that, in such circumstances, Royal Gold retains a first priority interest in 52.25% of the refined gold from Mt. Milligan. The agreement with Royal Gold also restricts TCM's ability to incur debt in excess of $350 million that is secured by the Mt. Milligan assets until the earlier of the date upon which 425,000 ounces of refined gold have been sold and delivered to Royal Gold pursuant to the agreement or the date upon which the aggregate dollar amount of the difference between the market price for the gold delivered to Royal Gold under the agreement and the price actually paid by Royal Gold pursuant to the terms of the agreement exceeds $280 million. After the total deposit amount has been reduced to nil, Royal Gold's security will consist solely of its first priority interest in 52.25% of the refined gold.

The cash payments received under the Gold Stream Arrangement are recorded as deferred revenue and classified as a long-term liability in TCM's Condensed Consolidated Balance Sheets. Once Mt. Milligan is in production and begins delivering gold to Royal Gold, the liability will be amortized over the life of the mine based on the amount of gold delivered.

In the event of any default under the Gold Stream Arrangement, Royal Gold could require TCM to repay the deposits received from Royal Gold, which amounts totaled $768.6 million as of June 30, 2013.

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10. Tangible Equity Units (tMEDS)
On May 11, 2012, TCM completed a public offering of 8,800,000 tMEDS with a stated value of $25.00 each. Each tMEDS unit consists of a prepaid common stock purchase contract and a senior amortizing note due May 15, 2015. The prepaid common stock purchase contracts were recorded as additional paid-in-capital (a component of shareholders' equity), net of issuance costs, and the senior amortizing notes, which bear interest at 11.68% per annum, were recorded as long-term debt. Issuance costs associated with the debt component were recorded as deferred financing costs within Prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets, and are being amortized using the straight-line method over the term of the instrument to May 15, 2015. The unamortized deferred financing costs related to the tMEDS were $0.8 million as of June 30, 2013. For the three and six months ended June 30, 2013, TCM paid $0.8 million and $1.7 million, respectively, in interest and capitalized interest and debt issuance costs of $0.9 million and $1.8 million, respectively, associated with tMEDS. For the three and six months ended June 30, 2012, TCM capitalized interest and debt issuance costs of $0.6 million associated with tMEDS.
At any time prior to the third business day immediately preceding May 15, 2015, the holder may settle the purchase contract early. Purchase contracts settled prior to November 10, 2012 were settled at 4.3562 shares, which is 95% of the minimum settlement rate. Purchase contracts settled on or after November 11, 2012 but prior to the third business day preceding May 15, 2015 will be settled for 4.5855 shares, subject in either case to certain adjustments. During the three and six months ended June 30, 2013, holders settled 100,000 and 460,000 purchase contracts, respectively, and TCM issued 458,550 and 2,109,330 shares of common stock, respectively. No purchase contracts were settled and no shares of common stock were issued relating to the tMEDS during 2012.
For purposes of the fair market value disclosed in Note 6, the carrying values of the tMEDS as of June 30, 2013 were higher than the fair values of approximately $19.5 million.
11. Stock-Based Compensation
Long-Term Incentive Plan
On May 6, 2010, TCM's shareholders approved the 2010 Long-Term Incentive Plan ("LTIP"). The LTIP allows TCM to grant stock options, share appreciation rights, restricted shares, restricted share units ("RSUs"), performance share units ("PSUs") or shares granted as bonus compensation. As of June 30, 2013, TCM has granted stock options, PSUs and RSUs under the LTIP, as discussed below.
TCM does not realize a tax benefit for stock-based awards granted to Canadian employees under the current Canadian tax law.
i) Stock Options
The expiration date and vesting provisions of stock options granted are established at the time an award is made. Stock options generally vest over three years and are exercisable over a period of time not to exceed 10 years from the grant date but generally expire five years from the grant date. When an option is exercised, TCM issues the requisite shares from authorized but unissued common stock. The exercise price of options granted prior to March 1, 2011 is equal to the greater of: (i) the volume weighted-average trading price of the underlying shares on the Toronto Stock Exchange over the five consecutive trading days immediately before the grant date and (ii) if the award date occurs in a trading black-out period, the weighted-average trading price over the five consecutive trading days immediately after the black-out period has been lifted. The exercise price of options granted after March 1, 2011 is equal to the volume weighted-average trading price of the underlying shares over the five consecutive trading days immediately before the grant date.
The following table summarizes stock option activity during the six months ended June 30, 2013:

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(options in thousands)	Options	Weighted-Average Exercise Price
	(000's)	(a)
Stock options outstanding at January 1, 2013	2,459	$ 11.50
Granted	291	3.41
Exercised	—	—
Canceled/expired/forfeited	(122)	9.80
Stock options outstanding at June 30, 2013	2,628	$ 10.69

(a) The weighted-average exercise price of options outstanding is shown in US dollars as the majority of the options granted starting in 2011 have an exercise price denominated in US dollars. Options with a Canadian dollar strike price have been converted to US dollars for disclosure purposes using the exchange rates on the respective date of grant.

For the three and six months ended June 30, 2013, TCM recorded compensation expense related to stock options of $0.2 million and $0.4 million, respectively.

For the three and six months ended June 30, 2012, TCM recorded compensation expense related to stock options of $0.3 million and $0.6 million, respectively.

ii) Performance Share Units

The following table summarizes the PSU activity during the six months ended June 30, 2013:

(units in thousands)	Units	Weighted-Average Fair Value
	(000's)	
Outstanding at January 1, 2013	845	$ 11.95
PSUs granted	933	4.21
Canceled/expired/forfeited	(242)	11.89
Outstanding at June 30, 2013	1,536	$ 7.26

The vesting of the PSUs granted prior to January 1, 2012 is contingent upon employee service and the performance of TCM's share price relative to the established award price. At each anniversary date during the vesting period, if the per share closing price of TCM's common stock on such date is at or higher than the award price, then the awards will vest one-third on each anniversary date, and the requisite shares will be issued from authorized but unissued common stock. If the closing price is less than the award price, and therefore, the market condition is not achieved, then those PSUs do not vest and are carried forward to the following anniversary date. PSUs not vested at the end of the three-year vesting period will expire.

The vesting of the PSUs granted during 2013 and 2012 is contingent upon two performance metrics: 1) TCM's Total Shareholder Return (TSR) relative to the Russell 2000 Index during the three-year performance period and 2) the proven and probable mine reserves replaced by TCM during the three-year performance period. The PSUs cliff vest three years from the date of issuance upon achievement of the above metrics.

All PSUs granted are accounted for at fair value using a Monte Carlo simulation valuation model on the date of grant. The Monte Carlo model is based on random projections of stock price paths. Expected volatility is calculated using a weighted average of historical daily volatilities and implied volatility and represents the extent to which TCM's stock price performance is expected to fluctuate during each of the three calendar-year periods of the award's anticipated term.

For the three and six months ended June 30, 2013, TCM recorded compensation expense related to the PSUs of $0.7 million and $1.3 million, respectively.

For the three and six months ended June 30, 2012, TCM recorded compensation expense related to the PSUs of $0.7 million and $1.3 million, respectively.

iii) Restricted Stock Units

The following table summarizes RSU activity during the six months ended June 30, 2013:

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	Units	Weighted-Average Fair Value
	(000's)	
Outstanding at January 1, 2013	534	$9.30
RSUs granted	965	3.31
RSUs vested and common shares issued	(259)	9.35
Canceled/expired/forfeited	(60)	6.62
Outstanding at June 30, 2013	1,180	$4.52

TCM accounts for RSUs at fair value, which is based on the market value of TCM's common shares on the day of grant and recognized over the vesting period of three years. Upon vesting, TCM will issue the requisite shares from authorized but unissued common stock.

For the three and six months ended June 30, 2013, TCM recorded compensation expense related to the RSUs of $0.7 million and $1.3 million, respectively.

For the three and six months ended June 30, 2012, TCM recorded compensation expense related to the RSUs of $0.7 million and $1.1 million, respectively.

12. Commitments and Contingencies

Legal Matters

Below are descriptions of certain legal actions that involve certain properties of TCM. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions is not likely to have a material adverse effect on TCM's future consolidated financial position, results of operations or cash flows.

In May 2010, the Stellat'en First Nation filed a petition in the Supreme Court of British Columbia against the British Columbia Minister of Energy, Mines and Petroleum Resources and TCM alleging that the Endako Mine and the mill expansion project at the Endako Mine represent infringements of the aboriginal title of the petitioners and impacts to their aboriginal rights, and that the government breached its duty to consult with the Stellat'en First Nation in relation to the impacts of the Endako Mine and the mill expansion. The petitioners sought a declaration that the Provincial Crown did not fulfill its duty to consult with them in relation to the mill expansion project, a declaration that the mining permits and/or tenures held by TCM are invalid, an order quashing or setting aside the decision to issue a permit amendment to TCM and an injunction prohibiting further construction or alterations relating to the mill expansion project. The matter was heard by the Supreme Court of British Columbia in a hearing that took place in the first quarter of 2011. In August 2011, the Court dismissed the petitioners' claims in full. The Stellat'en First Nation subsequently filed a notice of appeal from that decision to the Court of Appeal of British Columbia seeking to have the decision of the Supreme Court of British Columbia set aside and seeking an order staying the permit amendment and any future permitting until the Province has engaged in further consultation. The government and TCM filed materials in response to the notice of appeal, and the matter was heard by the Court of Appeal in a hearing that took place in early November 2012. The timing of the release of the Court's decision in this matter is unknown.

In April 2012, the Stellat'en First Nation filed a new petition in the Supreme Court of British Columbia against the British Columbia Minister of Energy, Mine and Petroleum Resources and TCM making similar allegations to those discussed above in relation to a new permit amendment and new water license granted to TCM in March 2012 for the Endako Mine. In April 2012, the parties agreed to put this matter into abeyance. No date for hearing the new petition has been set.

Molybdenum Purchases

In the normal course of operations, TCM enters into agreements for the purchase of molybdenum. As of June 30, 2013, TCM had commitments to purchase approximately 9.7 million pounds of molybdenum sulfide concentrate throughout the remainder of 2013 to 2016, to be priced at a discount to the market price for molybdenum oxide at the time of purchase.

Molybdenum Sales

In the normal course of operations, TCM enters into certain molybdenum sales contracts where it sells future production at fixed prices. As of June 30, 2013, TCM had commitments to sell approximately 300,000 pounds of molybdenum oxide for the remainder of 2013 through 2015 at an average price of $12.74 per pound.

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Copper Concentrate Sales Agreements

In 2012, TCM entered into three copper concentrate sales agreements, whereby TCM, among other things, agreed to sell an aggregate of approximately 85% of the copper-gold-silver concentrate produced at Mt. Milligan during 2013 and 2014 and an aggregate of approximately 120,000 dry metric tons (“DMT”) in each of the two calendar years thereafter. Under one of the agreements, TCM has the option to sell to the counterparty, and the counterparty has the obligation to purchase from TCM, additional concentrate up to an amount equal to 40,000 DMT per year during each of 2015 and 2016. Pricing under these concentrate sales agreements will be determined by reference to specified published reference prices during the applicable quotation periods. Payment for the concentrate will be based on the price for the agreed copper, gold and silver content of the shipments delivered, less smelting and refining charges and certain other deductions, if applicable. The copper smelting and refining charges will be negotiated in good faith and agreed by the parties for each contract year based on terms generally acknowledged as industry benchmark terms. The gold and silver refining charges are as specified in the agreements.

Capital Purchase Commitments

As of June 30, 2013, TCM had open purchase orders, contracts and capital purchase commitments of $26.4 million for engineering and equipment related to the development of Mt. Milligan and open purchase orders, contracts and capital purchase commitments of $26.2 million for the development of the permanent operations residence at Mt. Milligan.

Other Commitments and Contingencies

In April 2010, TCM entered into a credit support agreement with British Columbia Hydro and Power Authority ("BC Hydro") related to the mill expansion project at the Endako Mine. Under this agreement, TCM is required to post financial assurance in an amount equal to BC Hydro's estimated out-of-pocket costs for work on the Endako mill expansion project. Subsequent to the commissioning of the new mill and subject to annual measurements of BC Hydro's incremental revenues following the mill's commissioning, some or all of this financial assurance may, thereafter, be released in amounts equal to the incremental revenues generated until such time as the full amount of financial assurance has been released or until such time as the expiration period has been reached. The amount of the financial assurance as of June 30, 2013 was approximately C$16.5 million. The financial assurance is comprised of a guarantee for C$5.3 million and a surety bond for approximately C$11.2 million. Sojitz Moly Resources, Inc. (“Sojitz”) has agreed to reimburse TCM for 25% of any amounts paid under the C$5.3 million guarantee. The surety bond can be drawn down in the event of a shortfall in incremental revenues after the commissioning of the new mill facility. At this time, TCM does not anticipate having to post any additional financial assurance with respect to the BC Hydro credit support agreement.

As of June 30, 2013, a shortfall in Endako's future electric power usage that would result in incremental payments to BC Hydro cannot be determined and is not deemed to be probable. As such, no accrual has been recorded. An accrual for any expected shortfall will be recorded if and when it is determined that a shortfall is probable and a reasonable estimate can be made.

In October 2012, in contemplation of the deferral of Phase 8 stripping activities, TCM entered into arrangements with certain employees of the TC Mine designed to retain and reward eligible employees for their contribution to the continued successful operation of the TC Mine through the end of Phase 7. Employees who are eligible for participation in these arrangements are to be paid within 60 days of the end of Phase 7, as determined by the Company. Because of the uncertainty surrounding the number of employees who may remain through such date as well as when that date may be, it is not possible for management to estimate the likely amount to be paid under these arrangements. Currently, management estimates that TCM could be obligated to pay up to approximately $3.3 million to such TC Mine employees under these arrangements.

13. Income and Mining Tax Expense (Benefit)

Income and mining taxes for the three months ended June 30, 2013 and 2012 was an expense of $2.0 million and a benefit of $10.8 million, respectively. Income and mining taxes for the six months ended June 30, 2013 and 2012 was a benefit of $1.2 million and $22.9 million, respectively. The tax expense and benefit for the three and six months ended June 30, 2013, respectively, differs from the tax that would result from applying the Canadian federal and provincial income tax rates primarily due to three items: the US percentage depletion benefit; the pre-tax Endako Mine book loss, which has no tax benefit as a result of a valuation allowance recognized, in part, as a result of the asset impairment in the fourth quarter of 2012; and the reduction of a valuation allowance, in part, as a result of the tax treatment of interest expense. The tax benefit for the three and six months ended June 30, 2012 differs from the tax that would result from applying the Canadian federal and provincial income tax rates primarily due to the US percentage depletion benefit and the pre-tax book loss, attributable primarily to

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Canadian operations. The tax benefit for the six months ended June 30, 2012 was also impacted by an immaterial correction of $1.8 million related to the British Columbia mineral tax associated with TCM's share of the expansion costs at the Endako Mine. The adjustment relates to the three months ended December 31, 2011.

14. Net Loss per Share

The following is a reconciliation of net income and weighted-average common shares outstanding for purposes of calculating diluted net loss per share for the three and six months ended June 30, 2013 and 2012:

(in millions, except per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	$(19.2)	$(14.8)	$(18.3)	$(13.7)
Basic weighted-average number of shares outstanding	171.1	168.2	170.4	168.1
Effect of dilutive securities				
Common stock purchase warrants	—	—	—	—
Share-based awards	—	—	—	—
Prepaid common stock purchase contracts	—	—	—	—
Diluted weighted-average number of shares outstanding	171.1	168.2	170.4	168.1
Net loss per share				
Basic	$(0.11)	$(0.09)	$(0.11)	$(0.08)
Diluted	$(0.11)	$(0.09)	$(0.11)	$(0.08)

For the three and six months ended June 30, 2013, approximately 2.6 million and 2.3 million, respectively, of options and 1.5 million of PSUs were excluded from the computation of diluted weighted-average shares as the exercise prices exceeded the price of the common stock. For the three and six months ended June 30, 2013, approximately 1.2 million and 0.2 million, respectively, of RSUs were excluded from the computation of diluted weighted-average shares as the effect would have been anti-dilutive under the treasury stock method. The issuance of 44.9 million shares for the settlement of the tMEDS purchase contracts were considered in the calculation of diluted weighted-average shares; however, due to the net loss position of the Company, they have not been reflected above as they would be anti-dilutive.

For the three and six months ended June 30, 2012, approximately 2.5 million stock options and 0.9 million PSUs were excluded from the computation of diluted weighted-average shares as the exercise prices exceeded the average price of TCM's common stock for the period.

15. Related Party Transactions

Total sales by TCM to Sojitz, TCM's Endako Mine joint venture partner, were $20.0 million and $35.3 million for the three and six months ended June 30, 2013, respectively. These sales represented 17.0% and 15.6% of TCM's total revenues for the three and six months ended June 30, 2013, respectively.

Total sales by TCM to Sojitz were $27.9 million and $45.2 million for the three and six months ended June 30, 2012, respectively. These sales represented 24.6% and 19.9% of TCM's total revenues for the three and six months ended June 30, 2012, respectively.

For the three and six months ended June 30, 2013, TCM recorded management fee income of nil and $0.1 million, respectively, and selling and marketing costs of $0.1 million and $0.3 million, respectively, from Sojitz.

For the three and six months ended June 30, 2012, TCM recorded management fee income of $0.1 million and $0.2 million, respectively, and selling and marketing costs of $0.2 million and $0.3 million, respectively, from Sojitz.

As of June 30, 2013 and December 31, 2012, TCM's related accounts receivable owing from Sojitz were $5.4 million and $6.4 million, respectively.

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16. Supplementary Cash Flow Information

(in millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Change in working capital accounts:				
Accounts receivable	$3.0	$(10.7)	$(2.9)	$9.5
Product inventory	3.8	(17.5)	4.4	(34.9)
Material and supplies inventory	(3.5)	(2.0)	(6.1)	(0.6)
Prepaid expenses and other current assets	(1.4)	2.8	(9.2)	0.6
Income and mining taxes receivable	3.8	(6.0)	8.4	(5.3)
Accounts payable and accrued liabilities	1.1	12.1	(6.0)	(5.7)
Income, mining and other taxes payable	(0.4)	(2.2)	(0.4)	(1.0)
	$6.4	$(23.5)	$(11.8)	$(37.4)
Cash interest paid	$27.5			