

Guidance on financial capability

Before a permit is granted under the Crown Minerals Act 1991 (the Act), New Zealand Petroleum and Minerals (NZP&M) must be satisfied that the permit holder has the financial capability to undertake the proposed work programme and comply with the conditions of the permit.

Financial capability is also considered when NZP&M assesses applications for transfers of interest, changes of control and changes of permit operator.

This document provides guidance for applicants on how to demonstrate financial capability.

WHAT IS FINANCIAL CAPABILITY?

The applicant needs enough funding to do the proposed work

Clause 5.3(3) of the Minerals Programme for Minerals (Excluding Petroleum) 2013 sets out what is meant by financial capability. It states an applicant “will normally be required to demonstrate that it has sufficient funding available to undertake the proposed work programme”.

Typically, this means that NZP&M will consider the applicant’s ability to meet the cost of the first stage of the work programme. For prospecting and exploration permits, the first stage is usually two to three years. For mining permits, the first stage is the period until revenue supports the operation.

The applicant needs to estimate the work programme cost

The applicant needs to include the following when calculating the annual work programme cost:

- permit fees ([Minerals permit fees, royalties and ERLs - New Zealand Petroleum and Minerals \(nzpam.govt.nz\)](http://nzpam.govt.nz))
- prospecting and exploration budgets (usually annual averages by stage), and
- establishment and operational costs (including consenting, bonds, infrastructure, mobilisation and buying equipment).

NZP&M will consider other financial commitments and permits

Where an applicant (or related entity) has existing permits or permit applications in New Zealand and internationally, NZP&M will consider the financial commitments across the entire permit portfolio. The applicant must demonstrate it (and/or the related entity) has the financial capability to meet these obligations.

HOW TO DEMONSTRATE FINANCIAL CAPABILITY

The level of detail required will depend on the value of the operation

The expected level of detail of information required to be submitted to NZP&M will depend on the value of the proposed work. The more costly the work programme, the greater level of information required.

Table 1 (page 3) provides guidance on the different types of information required to be submitted. What is required has been separated into three tiers based on the work programme cost. Further information may be required depending on the circumstances of the application.

Table 2 (page 4) provides guidance on additional types of information that can be submitted. These additional types of information could be submitted by new companies, and/or companies relying on future capital raising or cash flows to support their application.

Financial capability can be demonstrated in different ways

Different types of supporting information will need to be provided depending on whether the applicant is an individual (or group of individuals) or a company.

Regardless of what kind of information is provided, it must clearly demonstrate how the proposed work programme will be funded. Where a cashflow model is required, it should include the project development and setup costs until the end of the first stage of the work programme.

If the applicant is an individual, and their net worth (evidenced by a certified personal statement of financial position) is significantly greater than the costs of the proposed work programme, evidence of that worth will normally be sufficient proof of financial capability.

If the applicant owns or has access to suitable equipment, rather than having to lease or purchase it, the applicant should demonstrate evidence of this (for example, including a schedule of equipment).

NZP&M will place greater weight on evidence of liquid assets that can be readily utilised to fund work programme activities. Non-liquid assets (for example, property) may be considered as equity for loans, especially where supported by loan pre-approvals.

Relying on financial support from a third party

If an applicant is relying on financial support from a third party (like an individual shareholder or parent company) it should typically provide a guarantee or a letter of financial support from the third-party funder. The third-party funder then needs to prove financial capability as if they were the applicant.

Contact us

If you have any questions about these guidelines, you can contact us at NZPAM@mbie.govt.nz or freephone (within New Zealand) at 0508 263 782.

Table 1: Commonly accepted ways to demonstrate financial capability

This table summarises the types of evidence of financial capability that are commonly submitted to and accepted by NZP&M. What is required will depend on the circumstances of your application. To assist the timely processing of your application, you should submit as much information as you can as detailed below.

Cost of Work Programme Commitments (including permit portfolio)			
	Less than \$50k	Over \$50k – less than \$1.25m	More than \$1.25m
All applicants	An explanation of the expected running costs of the operation, for example: labour; machinery running costs; machinery hire costs; land access fees.	An annual budget of the expected running costs of the operation, for example: labour; machinery running costs; machinery hire costs; land access fees.	A detailed budget (quarterly) of the expected running costs of the operation. For example: labour; machinery running costs; machinery hire costs; land access fees.
	A list of the equipment to be used and how that equipment will be sourced (i.e., owned by the applicant; leased; to be purchased).	A description of the equipment and how it will be used. If the applicant owns equipment, this should be supported by evidence (such as an asset schedule). If the applicant holds multiple permits, they should include an equipment utilization plan to show how equipment will be distributed across operations.	A description of the equipment and how it will be used. If the applicant owns equipment, this could be supported by evidence (such as an asset schedule). If the applicant holds multiple permits, they should include an equipment utilisation plan to show how equipment will be distributed across operations.
Individuals	A bank statement covering a period of one month, which NZP&M will use to calculate an average balance of working accounts. The applicant is expected to have a good financial history.	A bank statement covering a period of three months, which NZP&M will use to calculate an average balance of working accounts. The applicant is expected to have a good financial history.	A personal statement of financial position signed by an accountant. The applicant is expected to have a good financial history.
Companies	A company bank statement covering a period of one month, which NZP&M will use to calculate an average balance of working accounts. The applicant is expected to have a good financial history.	A full set of financial accounts for the company. These must cover one year of trading and be no older than 18 months at the time the application is submitted. The financial accounts should include statements of income, financial position, and cashflow. NZP&M will be looking for the following financial metrics for the previous financial year: <ul style="list-style-type: none"> • Liquidity >1.10 • Solvency <0.5 The applicant is expected to have a good financial history.	A full set of financial accounts for the company signed by an auditor. These must cover one year of trading and be no older than 18 months at the time the application is submitted. The financial accounts should include statements of income, financial position, and cashflow. NZP&M will be looking for the following financial metrics for the previous two financial years: <ul style="list-style-type: none"> • Liquidity >1.25 • Solvency <0.3 The applicant is expected to have a good financial history.

Not all applicants will be able to submit the types of information discussed here. Table 2 (on the following page) lists additional ways to demonstrate financial capability, which can be used by new companies, or companies relying on future capital raising to fund their proposed work programme.

Table 2: Additional ways to demonstrate financial capability

Component	Cost of Work Programme Commitments (including any permit portfolio held or proposed)		
	Less than \$50k	Over \$50k – less than \$1.25m	More than \$1.25m
Future debt	A personal statement of financial position.	An explanation of how debt will be sourced and repaid. A personal statement of financial position.	A copy of a pre-approved loan.
Future capital	Not applicable to operations <50k.	A description of a capital raising plan.	A description of a capital raising plan, and evidence of previous capital raising experience.
Future cash flows	Not applicable to operations <50k.	A cashflow model from existing cashflow sources.	A cashflow model from existing cash flow sources and sensitivity analysis.
Third party financial support	A signed letter of financial support AND Evidence of financial capability of the third party.	A signed letter of financial support AND Evidence of financial capability of the third party.	A deed of guarantee AND Evidence of financial capability of the third party.

Definition of key terms

ASSETS

Assets are items of property owned by the permit participant that are available to meet debts and other commitments. This includes assets to undertake the work programme proposed under the application.

AVERAGE BALANCE OF WORKING ACCOUNTS

This is calculated as the (lowest balance of an account plus the highest balance of an account) divided by 2.

CASHFLOW

A statement of cashflow shows all cash inflows a permit participant receives from both its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments within a given period.

EQUIPMENT UTILISATION PLAN

A plan showing, by permit, where equipment is located, and the indicative time used at each location.

EQUITY

Equity represents the value of the owners' investment in the permit participant. It is usually made up of capital injected into the entity, plus asset revaluation reserves, plus or minus retained profits or losses.

GOOD FINANCIAL HISTORY

For an individual, this means not having been declared bankrupt within the last three years. For directors, this means not having been a director (or a shareholder) of a company that has gone into liquidation or administration and subsequently not paid out all creditors.

INCOME STATEMENT

An income statement showing the revenues, costs and expenses incurred during a specific period of time – usually a financial year. These records provide information that shows the ability of the permit participant to generate profit by increasing revenue and reducing costs. The income statement is also known as a “statement of profit and loss”, “income and expense statement” or a “statement of financial performance”.

LIQUIDITY

Liquidity measured as “current assets / current liabilities”.

PERSONAL STATEMENT OF FINANCIAL POSITION

A personal statement of financial position is a summary of an individual's regular income and expenses. It allows an estimate to be made of surplus income. Surplus income could be used to pay for the work programme costs as they are incurred. Surplus income could also be used to repay any loans used to purchase work programme equipment or other upfront costs. The personal statement of financial position also shows an individual's assets (what is owned) and liabilities (what is owed). The resulting surplus assets could also be used to fund the work programme.

SOLVENCY

Solvency measured as “total debt / (total debt + equity)”.

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

A statement of financial position summarises a company's assets, liabilities, and equity at a specific point in time. This gives NZP&M an idea as to what the permit participant owns and owes, as well as the equity (net value) of the permit participant.