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ar son na hAeráide & Comhshaoil**  
Department of Communications,  
Climate Action & Environment

# Financial Capability Assessment for Offshore Oil & Gas Exploration and Appraisal Applications

Guidance Document - August 2019



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# 1. Purpose

1.1 The purpose of this document is to provide guidance on the process that the Department of Communications, Climate Action and Environment (“DCCAE”) will apply to assess the financial capability of Applicants for certain petroleum Authorisations in the context of;

- *The Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 2007*<sup>1</sup> (“Licensing Terms”), and *The Licensing Terms for Offshore Oil and Gas Exploration, Development 1992*<sup>2</sup>
- *The Petroleum and Other Minerals Development Act, 1960*<sup>3</sup> (the “Act”) (being the “Guidance”).

1.2 Section 3 of the Licensing Terms sets out the criteria which the Minister considers in an application for the award of a petroleum authorisation: *‘In considering an application the Minister will take the following into account having regard to the authorisation applied for:*

- *The work programme proposed by the applicant*
- *The technical competence and offshore experience of the applicant*
- *The financial resources available to the applicant;*
- *The applicant’s policy to health, safety and the environment*<sup>4</sup>
- *Where relevant, previous performance by the applicant under any authorisations to which the applicant has been a party.’*

Section 9A (1) of the 1960 Act states that “The Minister shall satisfy himself or herself as to the technical and financial capability of the prospective offshore petroleum authorisation holder to carry out the functions and obligations conferred by that offshore petroleum authorisation in determining whether to grant or transfer such an offshore petroleum authorisation”.

The Department considers that it is important to understand the Applicant’s financial capability with the view to being able to make a judgement as to the likelihood that the Applicant has the necessary financial resources to meet its Financial Commitments as set out within the Work Programme(s).

This Guidance is designed to ensure that the financial capability appraisal performed by the Department is:

- a) Robust, to ensure the State adequately addresses its risk
- b) Proportionate, to the risk presented to the State by the Applicant and its Work Programme
- c) Transparent, regarding the requirements of the Applicant
- d) Efficient, with information requirements being clear to the Applicant at the outset

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<sup>1</sup> The Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 2007 can be found here: <https://www.dccae.gov.ie/en-ie/natural-resources/topics/Oil-Gas-Exploration-Production/licensing/Pages/Licensing-Terms.aspx>

<sup>2</sup> The Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 1992 can be found here: <https://www.dccae.gov.ie/documents/LicensingTermsforOffshoreOilandGasExplorationandDevelopment1992.pdf>

<sup>3</sup> The Petroleum and Mineral Development Act, 1960: <http://www.irishstatutebook.ie/eli/1960/act/7/enacted/en/html>

<sup>4</sup> The Petroleum (Exploration & Extraction) Safety Act 2010 & 2015: <http://www.irishstatutebook.ie/eli/2015/act/26/enacted/en/html>

1.3 It is important to note that this Guidance:

- a) Is for guidance purposes only and the Department may, at its absolute discretion, elect to depart from the approach set out in this Guidance;
- b) Is supplementary to the Act and the Licensing Terms, both of which take precedence over this Guidance;
- c) Is not a substitute for any regulation or law and does not have binding legal effect;
- d) Is not a substitute for any other financial assessments that may be carried out by another regulator; and
- e) Is made specifically and exclusively for the purposes set out within.
- f) Will be kept under review by the Department and may be amended as deemed appropriate by the Department.

## 2. Introduction: Ireland's Offshore Oil and Gas Exploration and Appraisal System

- 2.1 The Act<sup>5</sup> is the primary legislation governing the exploration for and exploitation of petroleum in Ireland. As defined within the Act, ownership of oil and gas resources both onshore and offshore Ireland is vested in the Minister for Communications, Climate Action and Environment (the 'Minister').
- 2.2 The Department is charged with developing and maintaining an appropriate policy and regulatory framework to underpin oil and gas exploration and production activities<sup>6</sup>.
- 2.3 Ireland operates a concession system whereby exploration companies are given the exclusive right ("Authorisation") to explore for petroleum (typically within a defined acreage) in the 'Irish Offshore' which is divided into two areas:
- Open Areas: In Open Areas applications for exploration licences and licensing options may be made at any time.
  - Closed Areas: In Closed Areas applications for these authorisations may only be made during a Licensing Round when the area is opened for licensing by the Minister

Corporate entities, either incorporated under Irish Law or incorporated non-Irish companies, ("Applicants") that wish to carry out exploration and appraisal activities in an Open Area can submit applications for the appropriate authorisations at any time. An application to carry out activities in a Closed Area can only be submitted during a licensing round.

- 2.4 The Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 2007<sup>7</sup> and The Licensing Terms for Offshore Oil and Gas Exploration, Development 1992<sup>8</sup> (together being the "Licensing Terms") set out DCCAE's policy in respect of the grant of petroleum Authorisations, the key forms of which are summarised as follows:
- Petroleum Prospecting Licence:** Confers a general right to undertake exploration for petroleum in any part of the Irish Offshore (Closed and Open areas) which is not subject of an Exploration Licence, Reserved Area Licence or a Petroleum Lease (all of which are defined below) granted to another Applicant. This form of licence can be granted for a period of up to a maximum of three years (including any extensions).

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<sup>5</sup> The Petroleum and Other Minerals Development Act 1960 can be found here: <http://www.irishstatutebook.ie/eli/1960/act/7/enacted/en/html>

<sup>6</sup> [www.pad.ie](http://www.pad.ie)

<sup>7</sup> The Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 2007 can be found here: <https://www.dccae.gov.ie/en-ie/natural-resources/topics/Oil-Gas-Exploration-Production/licensing/Pages/Licensing-Terms.aspx>

<sup>8</sup> The Licensing Terms for Offshore Oil and Gas Exploration, Development 1992 can be found here: <https://www.dccae.gov.ie/documents/LicensingTermsforOffshoreOilandGasExplorationandDevelopment1992.pdf>

- b. **Licensing Option:** Confers on the option holder the first right to an Exploration Licence over all or part of the area covered by the option. The holder of a Licensing Option is also required to hold a Petroleum Prospecting Licence. The option can be granted for a period up to three years (including any extensions).
- c. **Exploration Licence:** which confers the exclusive right to search for petroleum in the area of the Exploration Licence. There are three forms of Exploration Licence:
- A Standard Exploration Licence is granted in respect of an area with water depths up to 200 metres. The licence has a duration of six years comprising of two phases of three years each, which includes a well commitment in the first phase.
  - A Deepwater Exploration Licence is granted in respect of an area where the water depth in any part of the area exceeds 200 metres. The licence has a duration of nine years comprising of three phases of three years each, with well commitments in the first and second phase.
  - A Frontier Exploration Licence is granted in respect of an area with special difficulties relating to physical environment, geology or technology and is classified as a 'Frontier Area' by the Minister. The licence has a duration not less than 12 years comprising of four phases with well commitments in the second and third phases.
- d. **Lease Undertaking:** the Minister, with the consent of the Minister for Public Expenditure and Reform, may enter into an undertaking with the holder of an Exploration Licence to grant a Petroleum Lease (as defined below) in relation to a part of the Exploration Licence where the licensee makes a discovery and is of the opinion, but cannot confirm, that the discovery is commercial. The Minister undertakes to grant a Petroleum Lease subject to establishment of commerciality within an effective date which in the case of a gas or oil discovery is six or four years respectively from the date of relinquishment or expiry of the Exploration Licence, or an earlier date proposed by the Applicant and agreed with the Minister.
- e. **Petroleum Lease:** On commercial discovery, the Minister may demise (transfer ownership of) petroleum under specified acreage by way of Petroleum Lease for such term, conditions and covenants as the Minister thinks proper. The Minister for Public Expenditure and Reform is a party to any such Petroleum Lease. The duration of the lease will factor in the likely production profile with the ability to extend the lease subject to ministerial approval.
- f. **Reserved Area Licence:** Confers a general right to reserve a specified area adjacent to or surrounding a leased area which is not subject to an authorisation, other than a Petroleum Prospecting Licence. The area must be contiguous with the existing lease area held by the Applicant. The Minister may grant the Reserved Area Licence on the terms and conditions identical to those in respect of an Exploration Licence.

- 2.5 For each authorisation and associated phases, the Applicant agrees to a number of licensing terms and conditions (Commitments) in particular the completion of a detailed description of the proposed work to be carried out, its duration and the estimated cost of undertaking the work (“Financial Commitment”) (together being the “Works Programme”).

## 3. Approach

### 3.1 Introduction

The financial capability of each Applicant will be assessed on a case-by-case basis using the financial criteria set out within this Guidance.

Applicants that meet all financial criteria set out within this Guidance will be deemed financially capable of meeting its Financial Commitments as set out within the Work Programme(s).

Where an Applicant does not meet any one of the financial criteria, the onus will be on the Applicant to demonstrate to the Minister that this does not impact upon its capability of meeting the Financial Commitments as set out within the Work Programme(s). In such a scenario, the Department will have the right to request further information and undertake a more detailed review of the Applicant's financial capability.

The output of this financial assessment will be considered together with other factors taken into consideration by the Minister in an application for the award of a petroleum Authorisation as set out within the Licensing Terms.

### 3.2 When this Guidance should be applied

This Guidance is applicable to the below listed Authorisations and will be applied at the commencement of each phase where a Work Programme is agreed between the Applicant and the Minister:

- a) Licensing Option
- b) Exploration Licence, including;
  - A Standard Exploration Licence
  - A Deepwater Exploration Licence
  - A Frontier Exploration Licence
- c) Reserved Area License
- d) Lease Undertaking

**Note;** *Petroleum Lease authorisations will undergo specific and tailored financial capability assessments which may vary from this Guidance.*

Other circumstances when this Guidance will be applied includes:

- a) Variations of phases and Work Programmes where the Department deems that the variation has a significant impact on the associated costs and/or risk profile of the Work Programme;
- b) Assignments or transfer of interests; and
- c) Significant changes to the shareholding or control of the Authorisation holder.



The circumstances highlighted above are not exhaustive and the Guidelines may be applied in other cases where financial resources are required by an Applicant to meet its commitment.

### 3.3 Form of the Applicant<sup>9</sup>

Applicants can be corporate entities, either incorporated under Irish Law or incorporated non-Irish companies. All Authorisations held by non-Irish companies, excluding a Petroleum Prospecting Licence or Licensing Option, must have permanent representation in Ireland which is fully authorised to act for the company or has the ability to enter into binding commitments in its name.

Where an application is submitted on behalf of another entity, the party committed to performing the Work Programme is deemed the Applicant for the purposes of the financial capability assessment.

### 3.4 Basis of financial capability assessment

In order to assess the Applicants financial capability the Department will assess both Financial Viability and Financial Capacity as summarised below;

- a) Financial Viability assesses an Applicants general financial standing and will include an assessment of :
  - **Going Concern:** the Department will review where statutory accounts contain the Auditors report and/or Director's opinion regarding the Going Concern status of the company
  - **Net Assets:** positive Net Assets means that the company's assets outweigh its liabilities and is an indicator that over time, the company has brought in more income than it has paid out in expenses
  - **Current Ratio:** the current ratio is a measure of a company's ability to pay its short-term obligations using its short-term assets
  - **Gearing:** Gearing measures a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders. If Gearing is high then the associated financial risk to the entity's viability is greater and it may be necessary to review the company's ability to service its debt obligations
  
- b) Financial Capacity considers the Applicants capacity to meet the the Financial Commitments of the Work Programme(s). The assessment will include:
  - **Investment Cover:** An entity's Tangible Net Worth relative to the cost of discharging the proposed Work Programme(s), indicates the Applicants ability to fund its commitments; and
  - **Cash Cover:** the Applicant's immediate access to cash reserves necessary to fund the Work Programme(s) indicates its ability to fund its commitments.

Refer to Sections 5 and 6 for further details on the financial capability assessments.

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<sup>9</sup> The Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 2007 can be found here: <https://www.dccae.gov.ie/en-ie/natural-resources/topics/Oil-Gas-Exploration-Production/licensing/Pages/Licensing-Terms.aspx>.

### **3.5 Self-assessment**

In order to ensure transparency and timely processing of applications, the Department requires all Applicants to perform the financial capability tests based on a self-assessment approach before submitting to the Department.

Included in the Appendices of this document are a number of templates which the Applicant is required to complete which includes a self-assessment against the financial criteria requirements of this Guidance. This approach allows Applicants to identify where further explanation/information will be required to demonstrate their financial capability.

### **3.6 Information requirements**

In order to perform the financial capability assessment the Applicant will be required to provide the financial information as set out in Section 4 of this Guidance. In cases where information is missing, the Department reserves the right not to accept the application.

### **3.7 Applicants with an Investment grade credit rating**

Where an Applicant or the Supporting Entity (as defined in Section 3.9) has an investment grade credit rating, the Department will take account of the rating when assessing the outputs from the financial capability assessment. Evidence of the rating should be provided in addition to the financial information requirements as set out in Section 4 of this Guidance.

The credit rating should be from a recognised rating agency and should fall within their investment grade classification, for example no lower than Baa3 for S&P, BBB- for Moodys, BBB- for Fitch etc.

### **3.8 Assignment or Change of Control**

Where an Authorisation holder retains a share in an existing Authorisation post an assignment of interest or change of control, a financial capability assessment will be performed on all parties which retain an interest in the Authorisation which may include the existing Authorisation holder.

### **3.9 Reliance on another entity**

An Applicant may, in order to prove its financial capability, rely on the resources of entities or undertakings with which it is directly or indirectly linked (the "Supporting Entity"). In such a scenario the Supporting Entity and not the Applicant will be subject to the financial capability assessment. Section 3.9 sets out additional requirements in relation to a Supporting Entity.

This support does not negate the need for all Applicants to provide the necessary documentation upfront as part of its original application.

### **3.10 Consortiums**

In the case where an authorisation has been submitted by a consortium consisting of multiple parties, each party whose resources are being relied upon will be deemed an Applicant. As a result, each consortium member whose resources are being relied upon will be required to provide the information outlined in Section 4 of this Guidance.

Each consortium member will be assessed based upon its financial capacity in relation to its proportion of the Work Programme(s).

Where one member of the Consortium may be challenged to evidence its financial capability the Department may request that each Applicant, as part of the consortium, agrees to be joint and severally liable to fulfil the Financial Commitments under an Authorisation and demonstrate how the Consortium will contract joint and several liability in a robust manner. Alternatively, a Guarantee from a suitable Supporting Entity may suffice as outlined in Section 3.9.

### **3.11 Newly Incorporated Entities**

The Department does not wish to exclude new entrants to the industry and acknowledges that some assessments may not be applicable to all Applicants.

In the case of newly incorporated entities, where Applicants have limited financial information and are unable to rely on a Supporting Entity, greater emphasis will be placed on the availability of funding and supporting information may be required as set out in Section 7.

### **3.12 Specific Financing Arrangements**

The Department will consider all types of credible financing arrangements and do not wish to unnecessarily deter any Applicants proposing specific or innovative funding methods. It is noted that certain financing arrangements may not be evidenced within the financial capacity criteria assessments detailed within Section 6 of this Guidance.

To assist Applicants, Section 7 of the Guidance sets out some of the potential funding arrangements which may represent extenuating circumstances in relation to the financial capacity criteria and the Department's general expectations as to the evidence that may be required in such circumstances. The onus will be on the Applicant to provide the necessary information and assurance

### **3.13 Multiple Applications from a single Applicant**

Where an Applicant has applied for and/or been awarded more than one Authorisation, the financial capacity assessment will be based upon the sum of the Total Outstanding Financial Commitments in relation to all associated Work Programmes (see Appendix F).

### **3.14 Post Balance Sheet Events**

Applicants are required to provide a written statement confirming that since the date of the latest submitted financial information in relation to this Application there has not been;

- a) Any material adverse change in financial or trading position which may impact the assessment of Financial Capability as set out within this Guidance
- b) Any material adverse post balance sheet event that which may impact the assessment of Financial Capability as set out within this Guidance
- c) Any contingent liabilities or significant losses which may impact the assessment of Financial Capability as set out within this Guidance which would require a disclosure

Where a material post balance sheet event has occurred, the impact on the Financial Capability assessment as set out within this Guidance will be included as part of the assessment of the application.

### **3.15 Insurances and contingent liabilities<sup>10</sup>**

Financial Commitment is defined for the purpose of this Guidance as being the financial cost of delivering the proposed Work Programme(s) and does not include any contingent liabilities.

The Department requires confirmations that an Applicant has the appropriate insurances in place for Higher Risk Work Programmes (such as those which involve drilling) which covers potential contingent liabilities that may be incurred in the event of an unforeseen scenario. Therefore the financial capability assessment contained within this Guidance does not consider these potential contingent liabilities. The assessment of insurance cover and contingent liabilities is outside the scope of the Guidance.

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<sup>10</sup> Department of Communications, Climate Action and Environment PAD indemnity/insurance:

## 4. Information requirements

### 4.1 Introduction

Section 3 of the Licensing Terms outlines the information which should be provided by the Applicant. The information requirements contained within are additional to the requirements of the Licensing Terms, where there is duplication, the information needs only to be provided once.

All Applicants (including where an Applicant is a consortium) are required to provide the information set out within.

Typically Work Programmes which include drilling (exploration, appraisal and commercial) are of a higher value and considered to carry a higher risk to the State ("Higher Risk Work Programmes"). Applicants whose Work Programmes are deemed to be a higher risk may be subject to additional information requirements as set out within this Guidance.

The provision of self-assessment templates included within the Appendices to this Guidance allows the Applicant to anticipate where additional information and explanations for extenuating circumstances may be required.

### 4.2 Source documentation

Applicants must submit financial statements for the last two financial periods. The financial statements should be:

- d)** Audited by an appropriate accounting professional
- e)** Contain balance sheets and profit and loss accounts for the current and a comparable prior period
- f)** Provided in or translated to English
- g)** Prepared under Irish GAAP, IFRS or GAAP of the jurisdiction in which the applicant is registered
- h)** Where a Non Irish incorporated Applicant has submitted accounts that have been reviewed and validated by an accounting professional in the applicant's jurisdiction, the professional should be a registered member of an applicable accounting body with proof of registration provided as part of the application

Where the Applicant does not have statutory audited financial statements or the latest filed audited financial statements are older than 12 months, the Department will require the Applicant to provide the latest available management financial statements which are either:

- a)** Accompanied by a letter of comfort from the directors of the Applicant stating that the accounts provide a true and fair statement of the Applicants financial position in the case of an application which is not a Higher Risk Work Programme
- b)** Reviewed and validated by a registered accountant in the case of a Higher Risk application

Note: If the Applicant is relying on a Supporting Entity the above requirements within 4.2.2 will only apply to the Supporting Entity.

### 4.3 Self-Assessment and other requirements

The name, address and contact details of the Applicant including information concerning the Applicants place of registration, its principal place of business and the year of establishment should be provided, refer to Appendix A.

Where an Applicant is relying on a Supporting Entity, the details of the Supporting Entity should be provided as set out in Appendix B.

Applicants that are Consortiums are required to provide details of all members of the consortium, their role within the consortium and the percentage of the Work Programme to be performed by each member, refer to Appendix C.

Applicants are required to provide details of the person who will serve as a liaison with the Irish authorities, refer to Appendix D.

A detailed costing of the Work Programme which the Applicant commits to carry out, refer to Appendix E.

The sum of the Total Outstanding Financial Commitments in relation to all associated Work Programmes were an Applicant has applied for and/or been awarded more than one Authorisation, refer to Appendix F.

A detailed description should be provided in Appendix G as to how Applicants will fund their Financial Commitments.

All Applicants will be required to detail the financial documentation being submitted which forms the basis for the financial capability assessments. Refer to Appendix H. The financial information requirements are set out further in Section 4.2.

Applicants are required to provide a written statement, with accompanying evidence, with regards to any material adverse changes in financial circumstances occurring post the balance sheet date of the latest financial information provided, refer to Appendix I.

If the Applicants financial statements (for either of the last two financial periods) are qualified with a disclaimer or adverse opinion. The Applicant should provide a written statement, with accompanying evidence demonstrating if rectification action has been taken and whether the qualification indicates a material concern in respect of the trading and financial performance, refer to Appendix J.

The provision of a self-assessment Financial Viability template in Appendix K and Financial Capacity template in Appendix L.

### 4.4 Information required when relying on a Supporting Entity

An Applicant may, in order to prove its financial capability, rely on the resources of entities or undertakings with which it is directly or indirectly linked to (the "Supporting Entity"). In such a scenario the Supporting Entity and not the Applicant will be subject to the financial capability assessment.

Applicants that are relying on the resources of Supporting Entities are still required to provide the Information as part of its application where the information is available, refer to 4.2.

Where the Applicant proposes to rely on a Supporting Entity, confirmation is required stating that the Supporting Entity will guarantee the obligations of the Applicant to complete the proposed Work Programme(s) in the event that the Applicant is unable to meet its Financial Commitments. To demonstrate this support the Supporting Entity is required to provide a legally binding guarantee, refer to Appendix M.

4.5 Where the Supporting Entity is a non-Ireland incorporated entity, a legal opinion should be submitted with the guarantee where required. The opinion should be provided by an authorised law firm able to act in the jurisdiction in which the Supporting Entity is incorporated and/or is domiciled in and state that the guarantee is enforceable.

## 5. Financial viability assessment criteria

5.1 The Financial Viability assessment will appraise the Applicants financial performance over two recent historic periods. The assessment will include confirmation of the Applicants going concern status, net assets, current ratio and its capital structure. The assessment aims to provide assurance to the Department that the Applicant is of good financial standing and solvent.

### 5.2 Going Concern

An established company with a strong track record of solvency is considered more likely to meet future commitments. A good indication of a company's solvency and financial health is its Going Concern status. Depending on the jurisdiction of the Applicant, the statutory accounts may contain an Independent Auditors report on the Going Concern status of an Applicant. The accounts may also include a Directors report outlining the performance of the Applicant and issues affecting it for the relevant period. As part of the viability assessment, the Department will review information which includes, but not limited to, the Auditor's and Directors report statement on Going Concern.

Expectation: Applicants are not expected to have going concern issues highlighted.

Evaluation Guidance: If there are extenuating circumstances, the Applicant is expected to provide detailed reasoning and evidence as to why the financial capability is not significantly impacted. It will be at the Department's sole discretion as to whether such reasoning and evidence is satisfactory.

### 5.3 Net Assets

The Net Assets calculation determines if a company's total assets exceed its total liabilities. Net Assets will be calculated as follows:

- $\text{Net Assets} = \text{Total Assets} - \text{Total Liabilities}$

A positive Net Asset value demonstrates that the Applicants business has excess assets compared to liabilities and is an indicator that over time, the company has brought in more income than it has paid out in expenses. The greater the excess of assets over liabilities, the better the Applicants financial position and potential to continue trading into the foreseeable future.

Expectation: Nets Assets greater than zero.

Evaluation Guidance: Where the Applicant has negative Net Asset value it could potentially indicate that the Applicant may find it difficult to handle any unforeseen financial shocks or contingent liabilities due to limited resources. If there are extenuating circumstances, the Applicant is expected to provide detailed reasoning and evidence as to why the financial capability is not significantly impacted (including evidence that the deficit is fully funded). It will be at the Department's sole discretion as to whether such reasoning and evidence is satisfactory.

### 5.4 Current Ratio

The Current Ratio is a measure of a company's ability to pay its short term obligations using its short term assets. The Current Ratio will be calculated as follows:

- $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

Achieving a rating of close to 1 indicates that the Applicant has sufficient current assets to cover its current liabilities.

Expectation: Current ratio greater than 0.75.

Evaluation Guidance: Where the Applicant has a Current Ratio of less than 0.75 it may highlight a liquidity issue for the Applicant in covering current liabilities and may be an indicator that the Applicant may not be financially capable. If there are extenuating circumstances the Applicant will be expected to provide detailed reasoning and evidence as to why the financial capability is not significantly impacted (including how working capital requirements are financed by adequate short term funding

arrangements). It will be at the Department's sole discretion as to whether such reasoning and evidence is satisfactory.

## 5.5 Gearing

As part of the financial viability assessment, it is important to understand the Applicant's capital structure to the extent that operations are funded by third parties (lending institutions) versus shareholders. A Gearing Ratio calculation will be used to determine the Applicants capital structure. The Gearing Ratio will be calculated as follows:

- $\text{Gearing} = \frac{\text{Total Debt}}{\text{Total Debt} + \text{Equity}}$

This ratio measures the proportion of debt against the total capital in the business which includes both debt and shareholder's equity. The ratio indicates the level of funding risk to which a business is exposed to. Applicants with a high level of debt, carry a greater risk as the debt will have to be serviced by the Applicant. Also, a high Gearing Ratio may suggest that the Applicant could have difficulty in raising additional funds in the future.

The Gearing Ratio assessed by the Department will take into account all of the debt owed by the Applicant. In some instances a proportion of the debt on the Applicants balance sheet could consist of intra group debt. Applicants may feel that the ratio used would misinterpret their true capital structure. In this instance the Applicant should specify the amount along with an explanation of any intra group debt that the Department should take into consideration when performing the assessment.

Expectation: Gearing of 75% or less.

Evaluation Guidance: Where the Applicant's Gearing Ratio is greater than 75%, the Department will expect additional information to evidence that the Applicant is able to service its debt obligations as and when they fall due without putting undue stress on the financial viability of the Applicant. This may include historic debt service cover ratios evidencing that the debt obligations can be met. It will be at the Department's sole discretion as to whether such reasoning and evidence is satisfactory.

## 6. Financial capacity assessment criteria

6.1 The Financial Capacity assessment aims to determine if the Applicant has sufficient financial resources to meet the expected costs of its commitment and is able to withstand reasonable cost fluctuations to these future commitments. The assessment will involve three calculations; Investment Cover, Tangible Net Worth and Cash Cover.

### 6.2 Investment Cover

The Investment Cover calculation assesses if an Applicant has a high tangible net worth compared to the total costs of the Work Programme(s). The Department will calculate the Applicants Investment Cover as follows:

- Investment cover =  $\text{Tangible Net Worth}^*/\text{Total Outstanding Financial Commitment}$
- \*Tangible Net Worth = Net Assets – Intangible Assets

The calculation provides an indication of the real value of the balance sheet excluding Intangible assets, were the Applicant to cease trading. Intangible assets are excluded from the calculation as their valuation can be subjective and the assets difficult to monetise. The Tangible Net Worth value also, demonstrates the quality of the Applicants credit worthiness and its ability to access cash to meet its future commitments.

Expectation: Investment Cover greater than 3.5X.

Evaluation Guidance: Where the Applicant has an Investment Cover ratio lower than 3.5 times it may be an indicator that the Applicant is not able to meet all its financial commitments. As a result, the Applicant will be expected to provide additional information to evidence its financial capability, this may include demonstrating its capacity with reference to specific funding arrangements as set out in Section 7. It will be at the Department's sole discretion as to whether such reasoning and evidence is satisfactory.

### 6.3 Cash Cover

The Cash Cover ratio assesses the level of available cash in the company to cover the cost of the proposed Work Programme(s). The Department will calculate the Applicants Cash Cover ratio as follows:

- Cash Cover =  $\text{Cash and Cash Equivalents}/\text{Total Outstanding Financial Commitment}$

An Applicant with a Cash Cover ratio greater than 1 would indicate that the Applicant currently has sufficient cash resources in the business to fulfil the cost of the proposed Work Programme(s). The higher the ratio the greater the comfort that can be drawn on the ability of the Applicant to meet its commitments. A low Cash Cover ratio would indicate that there is limited available cash to meet the costs of the proposed programme, requiring additional funding to be sourced.

The Department notes that depending on the date in which the calculation is performed, an Applicant may have certain or once off obligations due in that period which could have a negative effect on the ratio. In the event of this being applicable, the Applicant should highlight this in the calculation which may be taken into consideration by the Department during the financial assessment.

Expectation: Cash cover greater than 1X.

Evaluation Guidance: Where the Applicant has a Cash Cover ratio lower than 1X it may be an indicator that the Applicant is not able to meet all its financial commitments. As a result, the Applicant will be expected to provide additional information to evidence its financial capability, this may include demonstrating its capacity with reference to specific funding arrangements as set out in Section 7. It will be at the Department's sole discretion as to whether such reasoning and evidence is satisfactory.



## 7. Specific financing arrangements: additional information

The Department will consider all types of credible financing arrangements and do not wish to unnecessarily deter any Applicants proposing specific or innovative funding methods. It is noted that certain financing arrangements may not be evidenced within the financial capacity criteria assessments detailed within Section 5 and 6 of this Guidance.

To assist Applicants, this section of the Guidance sets out some of the potential funding arrangements which may represent extenuating circumstances in relation to the financial capacity criteria and the Department's general expectations as to the evidence that may be required. In such circumstances, the onus will be on the Applicant to provide additional information and provide the Department with the necessary assurance.

The additional information or proof of actions undertaken by an Applicant will be reviewed by the Department to ensure that the Applicant has the necessary financial resources in place to cover its Financial Commitments.

Examples of the funding arrangements and the associated expectations are provided below:

- a) **Issue of new Share Capital:** An Applicant may raise funds through the issuing of new share capital. It should be evidenced that the associated funds from the share issue are available to the Applicant on issue of the Authorisation. Arrangements with financial institutions or other financial firms whereby they undertake to raise equity on a 'best efforts' basis will not be considered as adequate evidence. Also, details should be provided on any proposed share issue to be underwritten by a financial institution or stock brokerage.
- b) **Farm-outs and Cost Carries:** An Applicant may intend to fund its commitment in full or part through a farm out or cost carry arrangement. Where this is the case, the Applicant should provide the applicable agreement. In line with Section 3.8, the counter party to the agreement will also be required to undergo the financial capability assessment along with the Applicant.
- c) **Cash Flow:** An Applicant may intend to fund its commitment using forecast cash flows. Where this is the case, the Applicant should evidence its historic track record of generating sufficient cash flows over recent periods.
- d) **Loan Arrangements:** A copy of an executed loan agreement between the Applicant and the lender along with an executive summary of the key terms should be provided. Agreements conditional upon an authorisation event may be acceptable. If the loan agreement requires interest and/or capital repayments during the Work Programme(s) then further information in relation to the Applicant's ability to service the debt will also be expected.
- e) **A Line of Credit:** An Applicant may provide or put in place a Line of Credit facility with a financial institution (normally a bank) which can be drawn on or repaid continually over a specified period of time. A borrower can avail of this type of facility at any time as long as the maximum amount of the facility is not exceeded.
- f) **Letter of Credit:** An Applicant may obtain or provide a Letter of Credit from a financial institution (normally a bank) guaranteeing the payment of the Work Programme(s) costs on time and for the correct amount. In the event that the Applicant is unable to pay for the associated costs, the bank will be required to cover the outstanding payments.

- g) Bonding:** An Applicant may be required to put in place appropriate bonding which provides assurance to the Department that the Work Programme(s) will be completed to the required specification and on time. In order to obtain a bond, an Applicant is likely to undergo extensive background and financial checks by a recognised Surety which backs the bond. In some cases where it is difficult for the Department to assess the Applicant, proof of bonding may suffice.
- h) An escrow agreement:** An Applicant may be requested to put in place an arrangement where it reserves/deposits cash equivalent to the full costs of the proposed Work Programme(s) with a third person (escrow agent) or in a reserve account. The cash can only be paid out to beneficiaries, if and when specific conditions are met, which in this case, costs relating to the Work Programme(s).

Where Applicants are providing evidence in relation to its financial capability to service its total commitments as a whole and not specific to the application Work Programme(s), depending on the scale and risk profile of the proposed Work Programme(s), the Department may request from the Applicant details on all of its current and future commitments compared to those committed to as part of the Application.

## 8. Queries and feedback

### 8.1 Queries

In order to facilitate the timely processing of applications and the avoidance of incomplete submissions, Applicants should direct queries relating to information requirements or any other requests to the Department (PADLicensing@DCCAE.gov.ie) as early as possible in the process.

### 8.2 Request for clarification

The Department reserves the right to request clarification of any matter set out in the Application. If this proves necessary, Applicants will be informed as soon as possible after receipt of the Application.

### 8.3 Feedback

The Department will inform Applicants in writing the outcome of the application. In the case of an unsuccessful application, the Department will endeavour to provide feedback at its discretion.

## 9. Glossary and reference material

Glossary	
Applicant(s)	Corporate entities incorporated under Irish Law and/or foreign companies wishing to obtain a Petroleum Authorisation (Section 3.3)
Authorisation(s)	An exclusive right to explore for Petroleum in the Irish Offshore
Cash Cover	Cash and Cash Equivalents/Total Outstanding Financial Commitment
Closed Areas	Areas where applications for exploration licenses and licensing options may only be made during a Licensing Round when the area is opened for licensing by the Minister
Commitments	The commitment required to complete the Work Programme (Section 2.5)
Consortium	A group of parties submitting a combined application for a licence authorisation
Current Ratio	Current Assets/Current Liabilities
DCCAE	The Department of Communications, Climate Action and Environment
Deepwater Exploration Licence	An Exploration Licence granted in respect of an area where the water depth in any part of the area exceeds 200 metres (Section 2.4)
Exploration Licence	Confers the exclusive right to search for petroleum in the area of the Exploration Licence (Section 2.4)
Financial Commitments	The financial cost of delivering the proposed Work Programme excluding contingent liabilities.
Frontier Exploration Licence	An Exploration Licence granted in respect of an area with special difficulties relating to physical environment, geology or technology (Section 2.4)
Gearing	Total Debt/(Total Debt + Equity)
Going Concern	An operating entity that is expected to continue to function as such and remain viable in the foreseeable future.
Guarantor	The parent or non-parent entity that provides a guarantee for the Applicant
The Guidance	This document, Financial Capability Assessment for Offshore Oil & Gas Exploration and Appraisal

Glossary	
Higher Risk Work Programme	Typically Work Programmes which include drilling (exploration, appraisal, commercial) are of a higher value and considered to carry a higher risk to the State
Investment Cover	Tangible Net Worth/Total Outstanding Financial Commitment
Licensing Option	Confers on the option holder the first right to an Exploration Licence over all or part of the area covered by the option (Section 2.4)
The Minister	Minister for Communications, Climate Action and Environment
Net Assets	Total Assets – Total Liabilities
Open Areas	Area where applications for explorations licences and licensing options may be made at any time
PAD	Petroleum Affairs Division, Department of Communications, Climate Action and Environment
Petroleum Prospecting Licence	Confers a general right to undertake exploration for petroleum in any part of the offshore which is not subject to other applicable licences (Section 2.4)
Standard Exploration Licence	An Exploration Licence granted in respect of an area with water depths up to 200 metres (Section 2.4)
Supporting Entity	Where an Applicant is relying on the resources of another entity/entities or undertakings with which it is directly or indirectly linked
Tangible Net Worth	Net Assets – Intangible Assets
Total Outstanding Financial Commitment	The Financial Commitment in relation to Work Programme associated to the Application plus any other outstanding financial commitments in relation to all other Authorisations applied for and/or awarded by the Department as declared in Appendix F.
Work Programme	Detailed break-down of the works that will be undertaken as per the Authorisation being applied for as set out in Appendix E.

## Reference material

<p>Petroleum (Exploration and Extraction) Safety Act 2010 &amp; 2015</p>	<p>Department Policy on health, safety and the environment in relation to Oil and Gas Exploration and Extraction</p>
<p>The 'Petroleum and Other Minerals Development Act 1960'</p>	<p>Primary legislation governing the exploration for and exploitation of petroleum in Ireland</p>
<p>The Licencing Terms</p>	<p>The Licensing Terms for Offshore Oil and Gas Exploration, Development 1992 and the Licensing Terms for Offshore Oil and Gas Exploration, Development and Production 2007</p>

## 10. Appendices

Appendix A	Applicant information
Appendix B	Supporting entity information
Appendix C	Applicants of a Consortium
Appendix D	Applicants authorised liaison
Appendix E	Detailed description of the work programme
Appendix F	Total Outstanding Financial Commitment
Appendix G	Details of funding arrangements
Appendix H	Documentation list
Appendix I	Post balance sheet events
Appendix J	Going Concern (Disclaimer or adverse opinion)
Appendix K	Viability self-assessment
Appendix L	Capacity self-assessment
Appendix M	Requirements for Supporting Entity Guarantee

## Appendix A Applicant information

All Applicant(s) are required to complete this template. Answers in all the applicable templates should be written in BLOCK LETTERS and where options are given, insert √ in the box(es) as appropriate.

Applicant information	
Name	
Address	
Contact number	
Email address	
Company registration number	
Place of registration	
Year established	

Legal Form of the Supporting Entity		
Is your company a:		
Private Limited Company	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Public Limited Company	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Other	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Please provide details of 'Other'		

Applicant structure		
Is the applicant a single bidder or is it a consortium	<input type="checkbox"/> Single	<input type="checkbox"/> Consortium
If a consortium, Will the Consortium be a single purpose entity formed solely to undertake the project?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
If a consortium, Is there a legal agreement that defines rights and liabilities of each member person or firm of the Consortium? (if yes please give details of the agreement)	<input type="checkbox"/> Yes	<input type="checkbox"/> No



## Appendix B Supporting entity information

Where an Applicant(s) has outlined that it will be relying on a Supporting Entity, the Applicant(s) will be required to complete this template.

Applicant information	
Name	
Address	
Contact number	
Email address	
Company registration number	
Place of registration	
Year established	

Legal Form of the Supporting Entity		
Is your company a:		
Private Limited Company	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Public Limited Company	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Other	<input type="checkbox"/> Yes	<input type="checkbox"/> No

Supporting entity structure		
Is the Supporting Entity a Parent Company or Non-Parent Company	<input type="checkbox"/> Parent	<input type="checkbox"/> Non-Parent
If a Non-Parent, is there a legal or binding agreement between the third party guarantor and the Applicant? (If yes please provide details of the agreement)	<input type="checkbox"/> Yes	<input type="checkbox"/> No

## Appendix C Applicants of a Consortium

If an Applicant(s) is part of a Consortium, please provide details of the name of each member, a description of the relationship between the participants and the percentage of the work programme each member will carry out.

Full name and address of member	Role within the consortium	% of work programme being completed

## Appendix D Applicants authorised liaison

Applicant(s) are required to provide details below of the authorised representative who will serve as a liaison with the Irish authorities.

Applicant's Authorised Liaison	
Name	
Address	
Contact number	
Email address	

## Appendix E Detailed description of the work programme

Applicant(s) are required to provide a detailed description of the Work Programme in which the Applicant is committing to undertake. Applicant(s) should outline:

- Details of the proposed work streams
- The expected work programme costs by work stream and by period

### Work programme description

Details of proposed work commitments

### Details of expected work programme cost

Work Programme costs should be broken down in sufficient detail including the estimated cost of each appropriate work stream and the period that the cost is expected to be incurred.

## Appendix F Total Outstanding Financial Commitment

Where an Applicant has applied for and/or been awarded more than one Authorisation from the Department, the financial capacity assessment will be based upon the Total Outstanding Financial Commitments in relation to all associated Work Programmes.

Authorisation	Financial Commitment	Costs incurred to date	Outstanding Financial Commitment
			[V]
			[W]
			[X]
			[Y]
			[Z]
<b>Total Outstanding Financial Commitment</b>			<b>[V+W+X+Y+Z]</b>

## Appendix G Details of funding arrangements

Applicant(s) are required to disclose how they intend to cover the costs of their commitments. Applicant(s) should specify below the type of funding arrangement being proposed along with a detailed description of the proposed arrangements, partners and the process to be undertaken before all conditions for funding are satisfied.

Type of funding arrangement

Details of the proposed funding arrangement

## Appendix H Documentation list

All Applicants are required to outline all financial documentation that has been provided by the Applicant to the Department. Applicants should include the document title along with indicating the year in which they relate to.

Document title	Financial period	Independent verification
[Example: Statutory Accounts filed with Companies House]	[1/1/2017-31/12/2017]	[Full Independent Audit]

## Appendix I Post balance sheet events

Applicants are required to provide a written statement confirming that since the date of the latest submitted financial information in relation to this Application there has not been;

- Any material adverse change in financial or trading position which may impact the assessment of Financial Capability as set out within this Guidance
- Any material adverse post balance sheet event that which may impact the assessment of Financial Capability as set out within this Guidance
- Any contingent liabilities or significant losses which may impact the assessment of Financial Capability as set out within this Guidance which would require a disclosure

Accompanying information should be provided where applicable.

Written statement



## Appendix J    Going Concern (disclaimer or adverse Opinion)

If the audited financial statements, provided by an Applicant(s), are qualified with a disclaimer or adverse opinion. State;

- Whether Rectification action has been taken
- Whether the underlying reason for the qualification will affect the Applicants ability to undertake the proposed works
- Is the qualification a material concern which would have an impact on the Applicants trading and financial performance

**Written statement**

## Appendix K Viability self-assessment

All Applicant(s) are required to complete the following viability self-assessment. The table below should be completed as follows:

- All calculations are to be shown in Euros
- Where relevant, reference the applicable exchange rate and source which should be taken from a reputable financial institution
- Perform each test as per the formula provided
- Clearly show workings behind all calculations
- Refer to the relevant Section(s) of the financial statements for each component part of a calculation i.e., Current Assets = €X. Reference: 20XX Annual Report – Pg XX – Line Description – Amount
- No adjustments should be made to the financial statements submitted with this application in performing the self-assessment

Viability Assessment				
Test	Formula	Workings	Reference	Comments
Net assets	Total Assets – Total Liabilities	Answer:	See above for example	
Current ratio	Current Assets – Current Liabilities	Answer:		
Gearings	$\frac{\text{Total debt}}{\text{Total debt} + \text{Equity}}$	Answer:		

## Appendix L Capacity self-assessment

All Applicant(s) are required to complete the following capacity self-assessment. The table below should be completed as follows:

- All calculations are to be shown in Euros
- Where relevant, reference the applicable exchange rate and source which should be taken from a reputable financial institution
- Perform each test as per the formula provided
- Clearly show workings behind all calculations
- Refer to the relevant Section(s) of the financial statements for each component part of a calculation i.e., Current Assets = €X. Reference: 20XX Annual Report – Pg XX – Line XX – Current Assets
- No adjustments should be made to the financial statements submitted with this

Capability Assessment				
Test	Formula	Workings	Reference	Comments
Tangible Net Worth	Net Assets – Intangible Assets	Answer:	See above for example	
Investment Cover	<u>Tangible Net Worth</u> Total Outstanding financial Commitments	Answer:		
Cash Cover	Cash and Cash <u>Equivalents</u> Total Work Programme Costs	Answer:		

## Appendix M Requirements for Supporting Entity Guarantee

The Guarantee should include wording to cover the following commercial requirements:

- Who the Guarantee has been prepared by [Parent/Non-Parent Company Name] ('Guarantor')
- Who the Guarantee is providing financial backing to [Name of Applicant]
- The purpose of the Guarantee is to ensure that the financial commitments outlined in the Work Programme of the authorisation applied for, will be discharged in full and on time.
- The Guarantee is valid from the [Start Date] until the [End Date].
- The Guarantor agrees to the following:
  - a) The Guarantor agrees as its own liability to fund, all amounts that are overdue and payable by [The Applicant] to discharge its commitment in full.
  - b) The Department is entitled to enforce the Guarantee to cover costs to complete a work programme or where the Applicant has been declared bankrupt.
  - c) The Guarantor can confirm that they have all necessary and appropriate powers and authority to execute the Guarantee. All notices and other communications required or permitted by the Guarantee or by law should be delivered to the following address: