FLEX LNG Group

Consolidated and Company Annual Report and Financial Statement 2012

General Information, FLEX LNG Ltd

Directors

David McManus (Chairman)
Christopher Pittinger
Ian Beveridge
Eiji Wakiwaka
Aoki Hiromichi

Company Secretary

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FLEX LNG

Chairman's Statement

The Path Ahead

During 2012 the Company was engaged in negotiations with Samsung Heavy Industries Co Ltd to apply the funds, net of agreed deductions, to alternative purposes. Unfortunately the parties were unable to agree on the level of costs that would be applied against the paid-in instalments. Once it became clear that the gap between the parties could not be closed on an agreed basis, the Company concluded that it was no longer willing to have Samsung holding its invested funds indefinitely. In December 2012 the Company requested that Samsung refund the paid-in instalments, net of a Company calculation of the sums to be offset, in an amount in excess of $300m (inclusive of interest). Subsequently Samsung has disputed this, so the Company is now instigating arbitration proceedings against Samsung.

The Company has, however, continued to keep a dialogue open with Samsung throughout and there remains the potential to reach a commercial agreement between the two parties before the conclusion of the arbitration. The Company remains optimistic as to the redeployment opportunities should an agreement be reached with Samsung, for the benefit of the Company's shareholders.

David McManus

Chairman

BOARD OF DIRECTOR'S REPORT 2012

Business update

The Company has been engaged in discussions with Samsung Heavy Industries ("Samsung") in relation to the funds previously paid by the Company to Samsung, including how they might be applied for alternative purposes. The plan was to apply an amount of paid-in instalments, net of deductions, to the construction of LNG carriers and/or regasification vessels (the "Alternative Deployment"). However the parties have not been able to agree on the terms of such Alternative Deployment, including the level of paid-in instalments that are to be carried over to the Alternative Deployment.

Given that the parties have not reached agreement on the amount of capital to be redeployed the Company, in December 2012, requested that the remaining capital be refunded by Samsung. The refund amount requested was after credit was given for costs properly and reasonably incurred by Samsung on the Company's behalf. To date, no refund has been made, with Samsung disputing the Company's position. Following the completion of certain contractual requirements for meetings between the parties' representatives prior to the commencement of arbitration proceedings, the Company has commenced the steps required to initiate arbitration proceedings to secure the repayment of the paid-in funds. The Company has appointed leading international law firm Pinsent Masons LLP to assist in this regard. It is not possible to predict, with certainty, the outcome of the arbitration proceedings with Samsung, nor the time or costs involved in completing such legal proceedings.

In the 2011 statutory accounts, the Group recognised an impairment write-down on the new build assets, under IAS 36, of $112.3m. IAS 37 covers the recognition criteria and measurement applied to contingent assets. It is the view of the Company that the valuation basis for the new building assets now falls within the definition of a contingent asset. Contingent assets are only recognised where realisation is virtually certain. Where the realisation of the asset is probable, the asset should not be recognised in the statement of financial position. In 2012, the new building assets have therefore been written down by $285.0m. The final valuation will either depend on the arbitration process or a possible agreement between the parties. Once the outcome of the legal position with Samsung is virtually certain, the resultant asset value will be reinstated in the financial statements. In addition, a calculation of the recoverable amount for the Topside capitalised costs has been completed under IAS 36 and a further $16.4m impairment write down has been incurred, refer to note 8 for more details.

Funding and Going Concern

Given the expected arbitration costs in 2013 the Company believes that, based upon forecast levels of cash utilisation, it will have sufficient working capital to operate throughout 2013 and into 2014.

There can of course be no assurance that arbitration costs will be as forecast or that any agreement will be reached with Samsung. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all.

Considering the above and the risks noted below, the Board believes that the going concern assumption currently remains appropriate for the Group.

BOARD OF DIRECTOR'S REPORT 2012 (Continued)

Risks

The Company was founded in 2006 and since its inception was focused on the engineering and construction of LNG Producer units. The Company subsequently endeavored to reach agreement with Samsung for the Alternative Deployment of the invested capital (LNG carriers and/or regasification vessels), but as no agreement was reached the Company initiated steps to commence arbitration proceedings to secure the repayment of the paid-in funds. The Group is exposed to a variety of commercial, operational and financial risks, including market risks, credit risks and liquidity risks.

The uncertainties and risks include those detailed in the 2012 accounts and as summarised below. These include: the final calculation of the recoverable amount for the paid-in instalments with Samsung; the arbitration process; agreeing the level of paid-in instalments available for redeployment with Samsung, should a commercial agreement be reached, including the economics of such Alternative Deployment (which include being able to secure employment contracts on reasonable terms for any alternative vessel constructed by Samsung); potential Samsung claims on the Company; and obtaining finance and working capital on reasonable terms.

The Company has historically funded its operation from equity. Obtaining such financing may be subject to market risks and other risks that may influence the availability, structure and terms of such financing.

There can be no assurance that arbitration costs will be as forecast or that any agreement will be reached with Samsung. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all. Additional detail on working capital requirements and analysis of risks to the Company are provided in accounts notes 1.4, 8, 14, 16, 18, 19, and 20 and Corporate Governance section 10.

Income Statement and Balance Sheet

The Group cash balances at 31 December were $6.2m (2011: $14.8m). In the twelve months in 2012 the operating cash outflow was $8.6m (principally the operating loss less the non cash income statement entries). The retained loss for the year was $298.8m (2011: $136.0m), which has been transferred to reserves. The loss for the year included an impairment write down of $301.4m (2011: $112.3m), following the review of the asset carrying values, given steps taken to initiate the commencement of the arbitration process with Samsung, additional details note 8.

During the year the Company has continued to hold the investments in its subsidiaries and managed the strategic direction of the Group. The cash balances at 31 December were $6.1m (2011: $14.4m). In the twelve months in 2012 the operating cash outflow was $12.5m (principally the operating loss less the non cash income statement entries) and investing activities inflow $4.2m (loans to subsidiaries). The retained loss for the year was $329.3m (2011: $119.7m), which has been transferred to reserves. The loss for the year includes an impairment write down of $328.3m (2011: $109.4m) on the inter group loans and investments following the impairment of the subsidiary assets values, additional details note 2. The Directors do not recommend the payment of a dividend.

FLEX LNG

BOARD OF DIRECTOR'S REPORT 2012 (Continued)

The Board
There have been changes in the composition of the Board during the financial year. At the 2012 AGM Scott Pearl and Philip Fjeld did not stand for re-election and we thank them for their significant contribution to Board discussions.

Environmental Reporting
The Company has an objective that all activities that are performed are to be carried out so as to minimise negative impacts to people and the environment. Given the pre-commercial nature of the operations there is currently minimal corporate impact on the environment.

Working Environment and Personnel
At the end of 2012, FLEX LNG and its subsidiaries had in total 13 employees and consultants, 11 men and 2 women, and there have been further staff reductions in 2013. All personnel are employed either by FLEX LNG Management Limited, FLEX LNG Management (Norway) AS or FLEX LNG Management (Singapore) Pte Ltd. There have not been any serious injuries or accidents in the current or prior year and total absence due to sickness has been minimal during the accounting year. FLEX LNG's Board of Directors currently consists of 5 men. The Company's policy prohibits unlawful discrimination against employees, on account of ethnic or national origin, age, sex or religion. Respect for the individual is the cornerstone of this policy and the Group also aims to treat its employees with dignity and respect.

Post Balance Sheet Events
There have been no significant post balance sheet events, other than those listed in note 17.

Corporate Governance
The Group is committed to good corporate governance; additional details may be found in the corporate governance report.

Board of Directors of FLEX LNG Ltd
24 April 2013

David McManus (Chairman)

Aoki Hiromichi	Ian Beveridge
Eiji Wakiwaka	Christopher Pittinger

Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2012 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the entity and the Group.

Board of Directors of FLEX LNG Ltd
24 April 2013

David McManus (Chairman)

Aoki Hiromichi	Ian Beveridge
Eiji Wakiwaka	Christopher Pittinger

FLEX LNG

Corporate Governance Report

1) Implementation and reporting on corporate governance

As a company incorporated in the British Virgin Island ("BVI"), the Company is subject to BVI laws and regulations. Additionally, as a consequence of being listed on Oslo Axess, the Company must comply with section 3-3b) of the Norwegian Accounting Act and certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance (the "Code of Practice") on a "comply or explain" basis. Further, the Company has in place a Memorandum and Articles of Association, which set forth certain governance provisions. The Norwegian Accounting Act is found on www.lovdata.no and the Code of Practice is found on www.nues.no.

The Group is committed to ensuring that high standards of corporate governance are maintained and is committed to high ethical standards in dealings with all stakeholders, including shareholders, debtors, customers, vendors and employees. Strong corporate governance principles help to ensure that the Groups' standards are applied to all its operations, and the Board has furthermore implemented a Code of Conduct and Ethics and the Company will also look to comply with the material aspects of the Code of Practice for Reporting IR Information. Additionally policies have been put in place to cover health and safety, quality and environment commitment. The Company believes that these policies broadly set out the Company's corporate social responsibility. Further information in this respect is available on www.flexlng.com.

The Board of Directors has based its corporate governance practices on the principles set out in the Code of Practice. However, since the Company is governed by BVI laws and regulations, and given the pre commercial nature of the Group's activities, certain practices are applied which deviate from some of the recommendations of the Code of Practice.

In the following sections, the Company's corporate governance policies and procedures will be explained, with reference to the principles of corporate governance as set out in the sections identified in the Code of Practice. This summary does not purport to be complete and is qualified in its entirety by the Company's Memorandum and Articles of Association, BVI and Norwegian law.

2) Business

FLEX LNG was established with the objective to be a leading owner and operator of Floating LNG production units and associated activities, including LNG transportation. The objectives are within the framework of the Company's Memorandum and Articles of Associations, which may be reviewed at www.flexlng.com. The objectives stipulated in the Memorandum and Articles of Associations are as follows: 'commercial activity relating to securing hydrocarbon feed stock for floating liquefaction projects, constructing, owning and operating floating liquefaction vessels and/or LNG vessels and sales and marketing of hydrocarbons and business in connection therewith, including investing in other companies.'

The Group operates principally through its subsidiaries. The vision of FLEX LNG had been to become a leader in owning and operating floating LNG production units and associated activities. More recently, the Company has focused on Alternative Deployment and subsequently to obtain a net refund of the paid-in instalments made to Samsung. The business principles are as follows;

- Protection of human lives and the environment and servicing our customers are the top priorities. By working with clients to jointly explore business opportunities FLEX LNG intends to develop long lasting relationships based on trust and a goal of creating economic value
- FLEX LNG will strive to provide superior shareholder returns
- FLEX LNG will aim to attract and retain highly qualified individuals through compensation packages that align employees and shareholders' interest
- Creativity and innovation spearheads the commercial and technical work conducted by FLEX LNG. In an effort to stay ahead of competition FLEX LNG will relentlessly drive for continuous improvements that permeate the FLEX LNG culture
- FLEX LNG emphasises integrity and honesty in the way it does business

3) Equity and dividends

Equity

The appropriate level of equity for the Group is evaluated by the Board on an ongoing basis, via reviews at the Board meetings. Total share capital at 31 December 2012 was USD 1,254,126.22, divided into 125,412,622 shares of USD 0.01 each. The directors believe this is currently satisfactory given the Group's business and objectives, but will be increased if the Company raises additional funds.

Dividend policy

As the Group has yet to produce stable cash flow, or to secure a commercial contract, dividends will not be considered in the near term.

FLEX LNG

Corporate Governance Report (continued)

3) Equity and dividends (continued)

Equity mandates

As a BVI company it has a 200m maximum for the authorised number of shares per its Memorandum and Articles of Association. To issue new shares or increase the authorised number of shares, it requires an ordinary shareholder resolution. The authorised and issued share capital for the Group is detailed in the annual and quarterly reports which may be viewed at www.flexlng.com.

In connection with issuance of shares in the Company, the shareholders have (except to the extent they are waived) pre-emptive rights to the new share on a pro-rata basis. Currently, the Board has not resolved and does not intend for the Company to acquire its own shares.

4) Equal treatment of shareholders and transactions with close associates

The Company has only one share class, with identical voting rights. All shareholders are treated equally and the Articles of Association do not contain any restrictions on voting rights. Where there is a need to waive the pre-emption rights of existing shareholders this will be justified at the time of approval or where based on an existing mandate justified in the stock exchange announcement in relation to the increase.

All transactions between the Group and its close associates as defined by the Group's Code of Conduct are at arm's length and market prices. The Memorandum and Articles of Associations require Board members to disclose interests in transactions entered into with the Group. Where appropriate the Group ensures third party independent evaluation, where defined by the Code of Conduct. Any transactions between the Group and close associates will be detailed as related party transactions in note 15 to the financial statements.

5) Freely negotiable shares

With limited exception, all shares in the Company are freely negotiable, and the Articles of Association contain no form of restriction on the negotiability of the shares.

However, as a BVI company, and to protect existing Norwegian shareholders from adverse tax consequences in Norwegian Controlled Foreign Corporations Regulations, the Group may, in accordance with the Articles of Association, deny the transfer of shares which would lead to Norwegian ownership being deemed a Controlled Foreign Company. This type of restriction is normal for British Virgin Islands and other low-tax jurisdiction companies listed on the Oslo Axess.

The founders of FLEX LNG have personally and through their wholly owned company Hansa LNG Ltd. entered into a lock-up agreement with the Company in respect of shares in the Company or financial interest therein, and have agreed not to directly or indirectly pledge, sell, or otherwise dispose of shares (or financial interest therein) held directly or indirectly by the founders personally or through Hansa LNG Ltd. until the later of (i) the delivery of the second vessel from Samsung and (ii) 30 June 2011 (the "Lock-up Period"). The Shares held by the founders personally or through Hansa LNG Ltd. or the financial interest therein cannot be pledged, sold or otherwise disposed of during the Lock-up Period without the written consent of the shareholders representing two-thirds of the total number of issued shares of FLEX LNG.

Furthermore, the shareholders of the Company have on the Annual General Meeting in 2012 and 2011 resolved that at least half of all of the remuneration for the directors for the two years shall be paid by the issue of new shares in the Company, that are to be subject to a lock-up. The shares issued as board remuneration for the 2012 year shall become unlocked either on the first or second anniversary after their grant.

6) General meetings

The Annual General Meeting ("AGM") is the forum for the Company's shareholders to participate in major decisions, and is held each year. The Company's Articles of Associations require 14 days notice for Annual and Extraordinary General Meetings, rather than 21 days. Currently, given that the Company is pre-commercial, this shorter period is considered to be sufficient for shareholders to consider the matters being voted on. The notice for Annual and Extraordinary General Meetings shall include relevant material to enable the shareholders to make an informed decision. All shareholders are entitled to speak and vote at the General Meetings. The Board of Directors shall take steps to ensure that as many shareholders as possible can exercise their rights by participating in General Meetings, for instance by setting deadlines for shareholders to give notice of their intention to attend the meeting (if any) close to the date of the meeting as possible and by giving shareholders who are not able to attend the option to vote by proxy. The Board of the Company shall make arrangements for shareholders voting by proxy to give voting instructions on each matter to be considered at the meeting. The Board of Directors and the Chair of the meeting will ensure appropriate arrangements for the General Meeting to vote separately on each candidate nominated for election to the Company's corporate bodies.

Corporate Governance Report (continued)

6) General meetings (continued)

The AGM shall be organised in such a way as to facilitate dialogue between shareholders and the officers of the Company. Thus, the Board of Directors will ensure that a member of the Board and the auditor will be available to answer questions. The Board of Directors has not made arrangements for an independent Chairman for each AGM; it believes that the Board Chairman can act independently and in the interests of shareholders. The notice of the General Meeting as well as supporting documents will be made available on the website www.flexlng.com as well as www.newsweb.no where the decisions from the general meetings will also be made available.

FLEX LNG strives to maintain an open and fair dialogue with its shareholders through the publishing of information, presentations and responding to questions from shareholders. The Company has not, however, taken specific measures for obtaining shareholders' proposals for matters to be proposed to the shareholders' meeting. In the view of the Company, the current shareholder structure, the shareholder representation, the policy to communicate with shareholders is sufficient to ensure that shareholders may communicate their points of view to the executive management and the Board. In addition, given the Company's current development and given the good communications with shareholders, it does not believe that it is necessary for all Directors, Nomination Committee and auditor to be physically present at the General Meetings, or for there to be an independent Chairman, and that 14 days notice is sufficient for the AGM. The Chairman and CEO will participate, at a minimum.

7) Nomination Committee

The Company operates a nominating committee, which is responsible for identifying, recommending board candidates to the AGM and shall justify the recommendation to shareholders against the requirements in 8) below. The committee's obligations and responsibilities are established in the Company's Articles of Association and via procedures for the nomination committee, as approved by the AGM. Currently George Linardarkis, David McManus and Marcus Hansson comprise the members of the Nomination Committee, and all members are independent of the Board and the executive management, apart from David McManus. All members are elected by the shareholders for a period until the 2014 AGM and their remuneration was approved at the AGM.

8) Corporate assembly and Board of Directors: composition and independence

As a BVI registered company with 13 employees and contractors at 31 December 2012, the Company does not have a corporate assembly. Given the size of the Company this is not believed to be necessary.

The Company's Board of Directors currently comprises five directors, of whom all are considered independent of executive management. Of the five members, one director is also associated with a shareholder with a holding exceeding 10%; Mr. A. Hiromichi. The composition of the Board of Directors, including the controls to avoid conflicts of interest, is in accordance with BVI company law, the Memorandum and Articles of Association and good corporate governance practice.

The Company endeavours to ensure that it is constituted by directors with a varied background and the necessary expertise, diversity and capacity to ensure that it can function effectively. The directors are elected by the General Meeting, for service periods of two years or such shorter period as stated in the relevant resolution. Directors may be re-elected and there is no limit on the number of terms that any one director may serve. Re-election of the current directors is due at the AGM in 2013. They may be removed by a majority vote at any time. Currently the Board has elected the Chairman, rather than the shareholders, given the Company's current development status the Company believe that this is satisfactory and that the Chairman can ensure that the board is effective in its tasks of setting and implementing the Company's direction and strategy.

The Directors are encouraged to hold shares in the Company, which the Board believes promotes a common financial interest between the members of the Board and the shareholders of the Company. In accordance with the General Meeting's resolution, the Directors received between 50% and 100% of their remuneration in shares for 2012.

All Directors participated in the physical Board meetings in 2012, apart from one Director who was unable to join the meeting.

Corporate Governance Report (continued)

8) Corporate assembly and Board of Directors: composition and independence (continued)

The current Board members are listed below:

Mr. David McManus, Chairman (59)
Mr. McManus has served on the Board since August 2011, and was elected as chairperson in September 2011. An exceptionally experienced international business leader in the Energy Sector, with strong technical and commercial skills currently serving as Executive Vice Present and Head of International Operations for Pioneer Natural Resources, with offices in London, Tunis and Cape Town, focusing on exploration and commercialisation of reserves. Concurrently serving as Non Executive Director for two UK listed companies; Cape plc an energy service company, which has been involved as a contractor in more than 50% of the world's LNG facilities, including Sakhalin, RasGas, Qatargas, Damietta, Idku, North West Shelf, Pluto, Arzew and floating regasification in Italy; and Rockhopper Exploration plc an exploration company with assets in the Falkland Islands. 36 years experience in Technical, Commercial, Business Development, General management and Executive roles across all aspects of the oil and gas business, spanning the world, including; BG Group, ARCO, Ultramar, Shell and Fluor corporation. Mr. McManus is a graduate of Heriott Watt University, Edinburgh.

Mr. Ian Beveridge, Board member (49)
Mr. Beveridge has served on the Board since October 2007. Mr. Beveridge is the CEO of the Schulte Group and has been associated with the Schulte group for 16 years, until 2006 as Managing Director. Before that Mr. Beveridge worked 3.5 years with Coopers & Lybrand in Johannesburg, leaving as Senior Supervisor. Mr. Beveridge obtained a Bachelor of Commerce (Honours) in 1987 and qualified as a chartered accountant in South Africa. Mr. Beveridge is also member of the Gard Board of Directors and the German Committee of Det Norske Veritas.

Mr. Aoki Hiromichi, Board member (54)
Mr. Hiromichi has served on the Board since July 2008. Mr. Hiromichi is a Managing Executive Officer of Kawasaki Kisen Kaisha, Ltd. ("K"Line) and is responsible for the Energy Transport Sector including natural gas, FPSO, offshore support vessels, MODU and other floating units. During his 27-years career with "K"Line, he has been a Project Manager for LNG transport projects such as Qatargas, RasGas, Snøhvit, Tangguh and many others. He was also a board member of EnerSea Transport LLC until June 2008 having pursued the project development of CNG. Before joining LNG Group of "K"Line, he served "K"Line as Resident Representative in Rio de Janeiro and CarCarrier Group besides studying under a corporate scholarship in the Business School of Syracuse University, NY, and the Law School of Tulane University, LA. He holds a Bachelor of Business Administration in 1981 from Shinshu University.

Mr. Christopher Pittinger, Board member (53)
Mr. Pittinger has served on the Board since August 2011. He is a private businessman and an independent strategic advisor to various entities in Abu Dhabi, U.A.E. Previously he was a partner in the law firm of Shearman & Sterling, LLP, where he worked for 20 years. At Shearman & Sterling he specialised in oil and gas joint ventures, project development and financings, asset acquisitions and dispositions, upstream production sharing and concession arrangements, oil and gas taxation and regulation, transport arrangements and downstream projects in the petrochemicals and refining sectors. He is a graduate of Boston College and holds a Juris Doctor Degree from the University of Virginia, School of Law.

Mr. Eiji Wakiwaka, Board member (63)
Mr. Wakiwaka has served on the Board since August 2011. He has extensive LNG marketing and project execution experience in Asia. He is currently a Program Director for the Clinton Climate Initiative. Previously he was the President for BP Japan where he had overall responsibility for sales of BP and Castrol lubricants, Oil and Gas trading and strategic account management. He was also responsible for the BP Gas business in North Asia, covering the FID for the Tangguh project, LNG marketing and partner relationship management and other projects worldwide (Abu Dhabi LNG, Northwest Shelf, Bontang BTC pipeline and TKN BP). Mr. Wakiwaka holds a MBA from Harvard University and Bachelor of Commerce from Waseda University.

Corporate Governance Report (continued)

8) Corporate assembly and Board of Directors: composition and independence (continued)

The Executive Management are listed below:

Mr. Philip Eystein Fjeld, Chief Executive Officer (38)
Mr. Fjeld is the co-founder of FLEX LNG, which was established in August 2006 and is the CEO of FLEX LNG Management. Prior to joining FLEX LNG he held the position of Commercial Manager at Höegh LNG in Oslo, where he had responsibility for the commercial budget for two LNG carriers on long-term charters to gas majors. Mr. Fjeld's business development work at Höegh LNG encompassed pre-qualification and offers in connection with standard LNG shipping tenders, structuring and negotiating LNG time charter parties and ship management contracts, ship-sale negotiations and marketing of FSRU conversions and regasification vessel projects. Mr. Fjeld has a nautical degree and has served at sea as a deck officer in the Royal Norwegian Coast Guard and in the Merchant Navy. Mr. Fjeld earned his Master's Degree in Strategy and Management from the Norwegian School of Economics and Business Administration.

Mr. Trym Tveitnes, PhD, Chief Technical Officer (40)
Mr. Tveitnes is the co-founder of FLEX LNG, which was established in August 2006 and is the CTO of FLEX LNG Management. Mr. Tveitnes joined FLEX LNG from a consultancy in Bergen, Norway, specialising in onshore gas transportation and distribution. Prior to this he worked for the shipping company Höegh LNG in Oslo, focusing on concept development and technical specifications in connection with the Neptune SRV project as well as within Arctic LNG transportation. Mr. Tveitnes also has experience as Senior Engineer at Det Norske Veritas working on technological qualifications of containment systems for large LNG carriers and floating LNG import terminals. Mr. Tveitnes holds a MSc. in Naval Architecture and a PhD in Hydrodynamics from the University of Glasgow.

Jostein Ueland, Chief Financial Officer (33)
Mr. Ueland is the co-founder of FLEX LNG, which was established in August 2006 and is the CFO of FLEX LNG Management. Mr. Ueland has worked within the Investment Management Division of Goldman Sachs International in London and as an Equity Research Analyst in Enskilda Securities ASA in Oslo. He has first class experience in valuing companies and was responsible for the IPO research in relation to the listing of APL ASA, Sevan Marine ASA and Odfjell Invest LTD. Mr. Ueland earned his Master's Degree in Finance from the Norwegian School of Economics and Business Administration.

9) The work of the Board of Directors

The Board approves an annual budget plan for the business. In addition, policies have been approved that cover the responsibilities of the Board and those of the CEO and of FLEX LNG Management Limited. Through the establishment of the Compensation, Audit, and Commercial Committees, the Board has delegated some of its work to these committees, yet it has retained the responsibility for overall decision making. The composition of the committees is as follows; Compensation – David McManus and Eiji Wakiwaka; Audit – Ian Beveridge and David McManus; and Commercial - David McManus, Christopher Pittinger and Eiji Wakiwaka. The committees perform the following roles: Compensation – to review and recommend remuneration for senior management; Audit – to review the financial reporting and controls for the Group; and Commercial – to review commercial agreements at an early stage and to then advise Management and the Board. The Board is scheduled to meet in person between one and two times a year, and additionally approximately eight times by telephone conferences, but the schedule is flexible to react to operational or strategic changes in the market and Group circumstances. In the 12 months in 2012 the Board has convened more often, but has only met on one occasion.

The main responsibilities of the Board cover the following main areas; strategic planning and decision making for the executive management to implement; ensure Board instructions are complied with; remain well informed on the Company's and Group financial position; production of an annual work plan; ensure the adequacy of executive management and their roles are clearly defined; annually to review the most important areas of risk exposure, including risks and controls related to financial reporting; ensuring an appropriate system of direction, risk management and internal control is established and maintained; adopt guidelines for the frequency and policy for external financial reporting; and to agree on the dividend policy.

The Chairman of the Board of Directors carries a particular responsibility for ensuring that the Board of Directors performs its duties in a satisfactory manner and that the Board is well organised. The Board has the overall responsibility for the management of the Group and has delegated the daily management and operations to the CEO, Mr. P. Fjeld, who is appointed by and serves at the discretion of the Board, and also reports to the Board. Further, the CEO of the management company is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are properly managed. His powers and responsibilities are defined in more detail by the Board of Directors.

FLEX LNG

Corporate Governance Report (continued)

9) The work of the Board of Directors (continued)
The CEO is supported by the other members of the executive management team that consists of Mr. J. Ueland (Chief Financial Officer) and Mr. T. Tveitnes (Chief Technical Officer). The executive management team has the collective duty to implement the Company's strategic, technical, financial and other objectives, as well as to protect and secure the Group's organisation and reputation.

In the event that the Chairman of the Board cannot attend a meeting or is conflicted in leading the work of the board, an alternate chairman will lead the meeting.

10) Risk management and internal control
The Board, in conjunction with the executive management, evaluates the risks inherent in the operations of FLEX LNG. Principal among these risks currently are; the evaluation of the recoverable amount from the paid-in instalments with Samsung; the outcome of the envisaged arbitration process; agreeing the level of paid instalments available for redeployment with Samsung, should a commercial agreement be reached, including the economics of such Alternative Deployment (including being able to secure employment contracts on reasonable terms for any alternative vessel constructed by Samsung); potential Samsung claims on the Company; obtaining finance and working capital on reasonable terms; retaining key staff, and general business, and financial risk. In addition, the following risks inherent in the business plan are monitored: commodity prices, exchange rates, competition, the political and regulatory environment, counterparty performance, potential growth of the business and the proposed application of new technology. The Board, working with the Audit Committee and through the annual audit process, ensures that FLEX LNG has reliable internal control and systems for risk management.

The Board is presented an annual budget at the end of the preceding financial year. Thereafter, the Board is presented with regular updates and a quarterly report identifying material variations from the approved budget. Explanations are obtained for material variances. The Audit Committee has the responsibility to evaluate risk exposure and internal control on an annual basis. The Board is also presented financial statements on a quarterly basis, which are reviewed with the executive management. FLEX LNG's annual accounts provide information on internal control and risk management systems as they relate to its financial reporting.

11) Remuneration of the Board of Directors
The remuneration of the members of the Board of Directors is determined annually by the General Meeting, on the basis of the Board's responsibility, expertise, time commitment and the complexity of the Group's operations, and is disclosed in note 3 to the financial statements. Through the Company's remuneration of directors, part of which has historically been in stock, the Company has encouraged directors to own shares in the Company. The remuneration is not linked to the Company's performance. No non-executive directors have been granted share options and no directors are part of the incentive programs available for the executive management and/or other employees, details in section 12 below.

As a general rule, no directors (or companies with which they are associated) shall take on specific assignments for the Company in addition to their appointment as director. If such assignments are made, it shall be disclosed to the full Board and the remuneration shall be approved by the Board. Further, all remuneration paid to each of the directors shall be described in the Annual Report. Such description shall include details of all elements of the remuneration and benefits of each member of the Board, any remuneration paid in addition to normal director's fees included.

12) Remuneration of the executive personnel
The executive management's remuneration shall be determined by a convened meeting of the Board of Directors. The Board is advised by the Remuneration Committee as to the appropriate level of salary and benefits to pay. The committee shall when preparing the guidelines take into account the location of the management, the level of remuneration normal within the business of the Group, the phase of the Group's business and special characteristics of the different positions within the executive management. The guidelines shall include a summary of the characteristics of employee option schemes and bonus schemes applicable to the Group. The process aims to link the performance related element of the remuneration, (options, warrants and bonus) to value creation for shareholders. The current option program has been approved by shareholders with the allocation to staff determined by the Remuneration Committee prior to approval by the Board. The scheme was designed to align employees with shareholder value creation and to retain persons within the Group. The guidelines for the remuneration of the executive management were communicated at the 2011 AGM.

Further information on the remuneration of the executive management is contained in note 3, and options granted in note 13 to the financial statements.

Corporate Governance Report (continued)

13) Information and communications

FLEX LNG will ensure that the shareholders receive accurate, clear, relevant and timely information in accordance with legal requirements. Publication methods will be selected to ensure simultaneous and equal access for all equity shareholders; the information is mainly provided in English. Before the start of the year the Company publishes a summary of the key reporting and meeting dates for the following year.

The Board of Directors has adopted guidelines for the Company's reporting of financial and other information based on openness, equal treatment of all shareholders and participants in the securities market, and restrictions imposed by law. The guidelines also include information requirements to the internal treatment of important information and insider trading instructions and for the Company's contact with shareholders other than through General Meetings.

14) Take-overs

The Board of Directors has established guiding principles for how it will act in the event of a take-over bid. During the course of a take-over process, the Board has an independent responsibility to help ensure that shareholders are treated equally, and that the Company's business activities are not disrupted unnecessarily. The board of the target company has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view of the offer. The Board of Directors and the executive management will not seek to hinder or obstruct take-over bids for the Company's shares or activities. In the event of any possible take-over or restructuring situation the Board of Directors will take particular care to protect shareholder value and the common interests of the shareholders. If an offer is made for the Company's shares, the Board of Directors shall issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. The Board will consider the appropriateness of arranging for a valuation by an independent expert. If the Board finds itself unable to give a recommendation to shareholders on whether or not to accept the offer, it will explain the background for not making such a recommendation. The Board of Directors will not exercise mandates or pass any resolutions to obstruct the take-over bid unless approved by the General Meeting following announcement of the bid. Any transaction that is a disposal of the Company's activities should be decided by the General Meeting. Any agreement with a bidder that acts to limit the Company's ability to arrange other bids for the Company's shares shall only be entered into where it is self-evident that such an agreement is in the common interest of the Company and its shareholders. Additionally any financial compensation should be limited to the costs the bidder has incurred in making the bid. Where agreements are entered into between the Company and the bidder that are material to the market's evaluation of the bid they will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published. According to the Norwegian Securities Trading Act, a mandatory offer for the remaining shares will be triggered if a shareholder becomes the owner of more than 1/3 of the shares in the Company.

15) Auditors

The auditor submits the main features of the plan for the audit of the Company to the Audit Committee on an annual basis. The auditor does not participate in meetings of the Board of Directors that deal with the annual accounts. Via the Audit Committee the auditor reviews any material changes in the Company's accounting principles, comments on any material accounting estimates and reports all material matters on which there has been disagreement between the auditor and the executive management of the Company. The Company believes the auditor does not need to be physically present at the Company's AGM given the pre-commercial nature of the Group. Annually the auditor presents to the Audit Committee a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement. The Audit Committee, rather than the full Board, holds a meeting with the auditor at least once a year at which no member of the executive management is present. At present, the Company believes this is sufficient given its size and enables the auditor to communicate with members of the Board.

The Board of Directors have established guidelines in respect of the use of the auditor by the Company's executive management for services other than the audit. The Board of Directors shall report the remuneration paid to the auditor at the AGM, including details of the fee paid for audit work and any fees paid for other specific assignments.

Income Statement - FLEX LNG Group & Company

Year ended 31 December

(USD, 000)

	Note	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Operating revenues		**0**	0	**0**	0
Other income		**0**	0	**0**	0
Gross revenues		**0**	0	**0**	0
Administrative expenses	*3*	**(3,053)**	13,433	**1,099**	2,596
Other operating costs	*8/2*	**301,372**	112,291	**328,264**	109,398
Operating loss		**(298,319)**	(125,724)	**(329,363)**	(111,994)
Finance income	*4*	**88**	77	**77**	76
Finance cost	*4*	**(510)**	(10,224)	**0**	(7,817)
Loss before tax		**(298,741)**	(135,871)	**(329,286)**	(119,735)
Income tax expense	*7*	**57**	88	**0**	0
Loss after tax		**(298,798)**	(135,959)	**(329,286)**	(119,735)
Loss for the year		**(298,798)**	(135,959)	**(329,286)**	(119,735)
Attributable to:					
Equity holders of the parent		**(298,798)**	(135,959)	**(329,286)**	(119,735)

Earnings per share (USD):		**Group 2012**	Group 2011	**Company 2012**	Company 2011
- Basic	*5*	**(2.39)**	(1.13)	**(2.63)**	(1.00)
- Diluted	*5*	**(2.39)**	(1.13)	**(2.63)**	(1.00)

Registered Address: Craigmuir Chambers, PO Box 71, Road Town, Tortola, BVI

Statement of Comprehensive Income - FLEX LNG Group & Company

Year ended 31 December

(USD, 000)

	Note	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Loss for the year		**(298,798)**	(135,959)	**(329,286)**	(119,735)
Exchange differences on translation		**43**	(14)	**0**	0
Other comprehensive profit / (loss)		**43**	(14)	**0**	0
Total comprehensive loss for the period		**(298,755)**	(135,973)	**(329,286)**	(119,735)
Attributable to equity holders of the parent		**(298,755)**	(135,973)	**(329,286)**	(119,735)

FLEX LNG

Statement of Financial Position – FLEX LNG Group & Company

As at 31 December (USD, 000)	Note	Group 2012	Group 2011	Company 2012	Company 2011
ASSETS					
Non-current assets					
New building assets	*8*	**0**	342,412	**0**	0
Plant and equipment	*9*	**77**	178	**0**	0
Loans and investments	*2*	**0**	0	**0**	342,462
Total non-current assets		**77**	342,590	**0**	342,462
Current assets					
Other current assets	*10*	**483**	1,049	**32**	320
Cash and cash equivalents	*11*	**6,246**	14,754	**6,115**	14,431
Total current assets		**6,729**	15,803	**6,147**	14,751
TOTAL ASSETS		**6,806**	358,393	**6,147**	357,213
EQUITY AND LIABILITIES					
Equity					
Issued capital	*12*	**1,254**	1,248	**1,254**	1,248
Share premium	*12*	**562,288**	561,946	**562,288**	561,946
Other equity		**(557,857)**	(246,788)	**(559,294)**	(217,694)
Equity attributable to equity holders of the parent		**5,685**	316,406	**4,248**	345,500
Total equity		**5,685**	316,406	**4,248**	345,500
Non-current liabilities					
Other financial liabilities	*14*	**0**	29,238	**0**	0
Total non-current liabilities		**0**	29,238	**0**	0
Current liabilities					
Accounts payable		**86**	198	**0**	64
Accruals and other payables	*14*	**1,035**	12,551	**1,899**	11,649
Total current liabilities		**1,121**	12,749	**1,899**	11,713
Total liabilities		**1,121**	41,987	**1,899**	11,713
TOTAL EQUITY AND LIABILITIES		**6,806**	358,393	**6,147**	357,213

Board of Directors of FLEX LNG Ltd 24 April 2013

David McManus (Chairman)

Aoki Hiromichi | Ian Beveridge

Eiji Wakiwaka | Christopher Pittinger

FLEX LNG

Consolidated Statement of Changes in Equity – FLEX LNG Group

(figures in USD,000)

For the year ended 31 December 2012	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent
At 01.01.12	**1,248**	**561,946**	**(268,875)**	**(314)**	**22,401**	**316,406**
Loss for the period			(298,798)			**(298,798)**
Other comprehensive income				43		**43**
Total comprehensive income			(298,798)	43		**(298,755)**
Shares issued	6	342			(348)	**0**
Share-based payment (options / warrants)					(12,381)	**(12,381)**
Share-based payment (shares)					415	**415**
At 31.12.12	**1,254**	**562,288**	**(567,673)**	**(271)**	**10,087**	**5,685**

For the year ended 31 December 2011	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent
At 01.01.11	1,130	552,490	(132,916)	(300)	10,091	430,495
Loss for the period			(135,959)			(135,959)
Other comprehensive income				(14)		(14)
Total comprehensive income			(135,959)	(14)		(135,973)
Expenses related to share issue		(43)				(43)
Shares issued	118	9,499			7,545	17,162
Share-based payment (options / warrants)					4,265	4,265
Share-based payment (shares)					500	500
At 31.12.11	1,248	561,946	(268,875)	(314)	22,401	316,406

FLEX LNG

Statement of Changes in Equity – FLEX LNG Ltd

(figures in USD,000)

For the year ended 31 December 2012	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent
At 01.01.12	**1,248**	**561,946**	**(240,095)**	**0**	**22,401**	**345,500**
Loss for the period			(329,286)			**(329,286)**
Total comprehensive income			(329,286)			**(329,286)**
Shares issued	6	342			(348)	**0**
Share-based payment (options / warrants)					(12,381)	**(12,381)**
Share-based payment (shares)					415	**415**
At 31.12.12	**1,254**	**562,288**	**(569,381)**	**0**	**10,087**	**4,248**

For the year ended 31 December 2011	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent
At 01.01.11	1,130	552,490	(120,360)	0	10,091	443,351
Loss for the period			(119,735)			(119,735)
Total comprehensive income			(119,735)			(119,735)
Expenses related to share issue		(43)				(43)
Shares issued	118	9,499			7,545	17,162
Share-based payment (options / warrants)					4,265	4,265
Share-based payment (shares)					500	500
At 31.12.11	1,248	561,946	(240,095)	0	22,401	345,500

FLEX LNG

Consolidated Statement of Cash Flows - FLEX LNG Group

Year ended 31 December

(USD, 000)

Group	**Note**	**2012**	2011
Cash flow from operating activities			
Loss before tax		**(298,741)**	(135,871)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	*4*	**(88)**	(77)
Finance expense	*4*	**510**	10,224
Option and warrant costs		**(12,381)**	4,444
Share based payment expense		**415**	323
Depreciation	*9*	**116**	146
Impairment charge	*8*	**301,372**	112,291
FX revaluation		**450**	(139)
Lease provision		**(69)**	(70)
P&L on asset disposal	*3*	**8**	(1)
Working capital adjustments:			
Decrease in prepayments		**49**	124
Decrease / (increase) in trade and other receivables		**513**	(329)
(Decrease) / increase in trade and other payables		**(689)**	9,602
		(8,535)	667
Income taxes paid		**(85)**	(140)
Interest received		**92**	69
Net cash flow from operating activities		**(8,528)**	596
Cash flows from investing activities			
Purchase of plant and equipment	*9*	**(23)**	(57)
Proceeds from sale of fixed assets		**0**	1
Payment on new building assets & capitalised expenditure		**0**	(4,961)
Net cash flow used in investing activities		**(23)**	(5,017)
Cash flows from financing activities			
Proceeds from issue of share capital		**0**	9,343
Costs of share issue		**0**	(43)
Net cash flow from financing activities		**0**	9,300
Net currency translation effect		**43**	(14)
Net (decrease) / increase in cash and cash equivalents		**(8,551)**	4,879
Cash and cash equivalents at beginning of period		**14,754**	9,889
Cash and cash equivalents at end of period	*11*	**6,246**	14,754

Statement of Cash Flows - FLEX LNG Ltd

Year ended 31 December

(USD, 000)

Company	Note	2012	2011
Cash flow from operating activities			
Loss before tax		**(329,286)**	(119,735)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	*4*	**(77)**	(76)
Finance expense	*4*	**0**	7,817
Impairment charge	*2*	**328,264**	109,398
Option and warrant costs		**(12,381)**	4,444
Share based payment expense		**415**	323
Working capital adjustments:			
Decrease in prepayments		**14**	56
Decrease / (increase) in trade and other receivables		**270**	(209)
Increase in trade and other payables		**186**	10,904
		(12,595)	12,922
Interest received		**81**	67
Net cash flow from operating activities		**(12,514)**	12,989
Cash flows from investing activities			
Loans and investments in subsidiaries	*2*	**4,198**	(16,923)
Net cash flow used in investing activities		**4,198**	(16,923)
Cash flows from financing activities			
Proceeds from issue of share capital		**0**	9,343
Costs of share issue		**0**	(43)
Net cash flow from financing activities		**0**	9,300
Net (decrease) / increase in cash and cash equivalents		**(8,316)**	5,366
Cash and cash equivalents at beginning of period		**14,431**	9,065
Cash and cash equivalents at end of period	*11*	**6,115**	14,431

FLEX LNG

Note 1: General information and significant accounting policies

1.1 Basis for preparation

FLEX LNG Ltd is a limited liability company, incorporated in the British Virgin Islands, and listed on the Oslo Axess exchange. The Group includes eight 100% owned active subsidiaries. The Group produces consolidated accounts incorporating these companies and its activities which are focused on developing production, transportation and/or storage of liquefied natural gas and related activities. The Company accounts for FLEX LNG Ltd relate to the parent company only and in the following notes it is specified when the detail relates to the consolidated group or the parent company only. Company accounts are produced to comply with the Oslo listing requirements. Reported values are rounded to the nearest thousand (USD 000) except when otherwise indicated.

The financial statements for the period ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and valid as of 31.12.12. The financial statements were approved by the Board of Directors on 24.04.13 for issue on 26.04.13. The financial statements have been prepared on an historical cost basis, except for the valuation of warrants and options, which are accounted for at fair value and where certain assets which have been valued on the basis of recoverable amount. The financial statements have also been prepared on a going concern basis; additional information is included in notes 18 and 19.

The following standard was implemented in 2012;

IFRS 7 - New disclosures for de-recognition of financial instruments. The adoption of this amendment has had no material impact on the financial position or performance of the Group.

At the end of 2012, some new standards, changes in existing standards and interpretations have been issued, but have not yet become effective:

IFRS 1 - Amendment: Severe hyperinflation and removal of fixed dates for first time adopters; IFRS 7 - Amendment: New disclosure requirements - Offsetting of Financial Assets and Financial Liabilities; IFRS 10 – Consolidated Financial Statements; IFRS 11 - Joint Arrangements; IFRS 12 - Disclosure of Interests in Other Entities; IFRS 13 - Fair Value Measurement; IAS 1 – Amendment Presentation of Items of Other Comprehensive Income; IAS 12 - Amendment: Deferred tax- Recovery of underlying assets; IAS 19 – Amendment Employee Benefits;; IAS 27 Revised Separate Financial Statements; IAS 28 Revised Investments in Associates and Joint Ventures; IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities; IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine; IFRS 1 - Amendment: Government Loans; IFRS 9 - Financial Instruments; IFRS 10, IFRS 11, IFRS 12 - Amendments - Transition Guidance; IFRS 10, IFRS 12, IAS 27 - Amendments: Investment Entities; and Improvements to IFRSs (2009-2011) - Amendment to IFRS 1 - Repeated application and borrowing costs, IAS 1 - Clarification of the requirements for comparative information, IAS 16 - Classification of servicing equipment, IAS 32 - Tax effect of distributions to holders of equity instruments and IAS 34 - Interim financial reporting and segment information for total assets and liabilities.

The Group and Company intends to adopt those standards when they become effective. Currently the Group and Company estimate that the implementation will have no impact, or are unable to determine the impact.

Note 1: General information and significant accounting policies (continued)

1.2 Functional currency and Presentation currency
The Group's presentation currency is USD. This is also the functional currency of all companies in the Group, apart from FLEX LNG Management (Norway) AS which is NOK based. Subsidiaries with a different functional currency are translated using the period end rate for balance sheet items and an average rate for the income statement. Translation differences are charged against other comprehensive income. When a foreign subsidiary is partially or completely disposed of or sold, translation differences connected to the subsidiary are recognised in the income statement.

1.3 Basis of consolidation
The Group's consolidated financial statements comprise FLEX LNG and companies in which it has a controlling interest. A controlling interest would normally be attained if FLEX LNG owned, either directly or indirectly, more than 50% of the shares in the company and is capable of exercising control over the company, including call options over shares. Non-controlling interests are included in the Group's equity. Details on subsidiaries are provided in note 2. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, FLEX LNG Ltd, using consistent accounting principles.

The acquisition of an asset, group of assets or entity that does not constitute a business is not a business combination. In such cases the acquirer will identify and recognise the individual identifiable assets acquired and liabilities it assumes. The cost of the acquisition should be allocated to the individual identifiable assets and liabilities on the basis of their relative fair value at the date of purchase.

Intragroup transactions and balances, including internal profits and unrealised gains and losses, have been eliminated in full. Unrealised gains from transactions with associated companies are eliminated in the FLEX LNG's share of the associated companies. Correspondingly, unrealised losses are eliminated, but only if there are no indications of any impairment in the value of the asset that is sold internally. The consolidated financial statements have been prepared under the assumption of uniform accounting principles for equal transactions and other events under equal circumstances.

1.4 Use of estimates and judgements when preparing the annual financial statements
The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). This means that management has used estimates and assumptions that have affected assets, liabilities, revenues, expenses, cash flows and information on potential liabilities. Future events may lead to these estimates being changed. Changes to accounting estimates are included in the financial statements for the period in which the change occurs. If the changes also apply to future periods, the impact is spread over the current and future periods. The estimates and underlying assumptions are based on past experience and other factors perceived to be relevant and probable when the judgements were made. The judgements affect the carrying amounts of assets and liabilities when no other sources have been applied in the valuation.

Note 1: General information and significant accounting policies (continued)

1.4 Use of estimates and judgements when preparing the annual financial statements (continued)

Estimates are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised. The inputs to the fair value calculations are based on observable market data when available, but where this is not achievable; a degree of judgement is required in establishing fair values. The judgements include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in these assumptions could impact the reported fair value.

Significant accounting judgements – new build assets

Costs are capitalised as per note 1.8 and 1.11. In determining amounts that are capitalised, management makes assumptions regarding future cash generation from these assets. Costs are split between the different vessels based on management's view on benefits derived from the expenses incurred. The carrying value (payments less previous impairments) has been calculated on both a value in use basis and as contingent assets. An impairment exists when the carrying value of the asset exceeds its recoverable amount (the higher of fair value less cost to sell and value in use), or where there is a contingent asset and there is not a virtually certain expectation as to the recoverable amount, no asset is recognised. The assumptions behind the calculation are detailed in note 8.

1.5 Currency transactions

Foreign currency transactions are translated into the functional currency using the average exchange rates prevailing at the dates of the transactions. Monetary items are retranslated at the period end exchange rate, non-monetary items that are measured at historical cost are translated at the rate in effect on the original transaction date, and non-monetary items that are measured at fair value are translated at the exchange rate in effect at the time when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such cash transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.6 Segments

The Group is operating only one segment with respect to products and services. Segment reporting is thus currently not relevant. Until a Group company concludes a final investment decision, all non-current assets are located in the country of domicile. The M-FLEX entities are incorporated in the Isle of Man.

1.7 Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantively enacted by the balance sheet date.

The Group consists of two legal entities incorporated in the British Virgin Islands, five entities in the Isle of Man, one in Norway, one in Singapore.

Note 1: General information and significant accounting policies (continued)

1.8 Non-current assets

Non-current assets are carried at cost less accumulated depreciation and impairment adjustments. When assets are sold or disposed of, the gross carrying amount and accumulated depreciation are derecognised, and any gain or loss on the sale or disposal is recognised in the income statement.

The depreciation period and method will be reviewed annually to ensure that the method and period used are in accordance with the financial realities of the fixed asset. This applies correspondingly to the scrap value.

The gross carrying amount of non-current assets is the purchase price, including duties/taxes and direct acquisition costs related to making the non-current asset ready for use. Subsequent costs, such as repair and maintenance costs, are normally recognised in the income statement as incurred. Where increased future economic benefits as a result of repair/maintenance work can be proven, such costs will be recognised in the balance sheet as additions to non-current assets.

In accordance with IAS 16, the carrying value also includes capitalised expenses directly attributable to the asset in order to bring it to the location and condition for use in the intended manner. Such expenses include compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, plus other costs that are directly attributable to the assets. Capitalisation would cease once the asset is in the location and condition necessary for it to be able to operate in the manner consistent with its intended design.

On delivery the total expenditure of the vessel would be decomposed to groups of components that have different expected useful lives. The different groups of components would be depreciated over their expected useful lives.

Intangible assets are measured on initial recognition at cost. Following recognition they are carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period is reviewed on an annual basis, with any amortisation or impairment charge is recognised in the income statement.

Depreciation on plant and equipment is calculated using the straight-line method to depreciate assets over their useful life. The following periods have been used:

IT Equipment: 2 years
Furniture and Fittings: 5 years

Shares in the subsidiaries and loans provided to subsidiaries are evaluated at the lower of cost and fair value. When the value of estimated future cash flows is lower than the carrying value in the subsidiaries, the Company recognises impairment charges on investments in subsidiaries and intercompany loan receivables. If and when estimated recoverable amounts increase, impairments charges are reversed. There is currently no repayment schedule on the intercompany loans and no interest charged on outstanding balances.

Note 1: General information and significant accounting policies (continued)

1.9 Impairment of assets

Financial instruments

Financial instruments are reviewed at each balance sheet date in order to discover any decrease in value.

Financial assets which are valued at amortised cost are written down when it is probable that the Company will not recover all the amounts relating to contractual issues for loans, receivables or hold-to-maturity investments. The amount of the impairment loss is recognised in the income statement as a finance cost. Any reversal of previous impairment losses is recognised when a reduction in the need to write down the asset can be related to an event after the impairment loss has been recognised. Such a reversal is presented as income. However, an increase in the carrying amount is only recognised to the extent that it does not exceed what the amortised cost would have been if the impairment loss had not been recognised.

Other and non-current assets

An assessment of impairment losses on other assets is made when there is an indication of a fall in value. If an asset's carrying amount is higher than the asset's recoverable amount, an impairment loss will be recognised in the income statement. The recoverable amount is determined separately for all assets but, if this is impossible, it is determined together with the entity to which the assets belong. An impairment loss occurs when the carrying amount exceeds the recoverable amount, which is the higher of value in use or the net sales price. The value in use is calculated using the present value of estimated future cash flows. The calculation is performed at the individual vessel level. During the year an impairment review was completed on the new building assets and capitalised costs, to determine their recoverable amount, additional details note 8.

Trade receivables

Trade receivables would be carried at amortised cost. The interest element is disregarded if it is insignificant. Should there be objective evidence of a fall in value, the difference between the carrying amount and the present value of future cash flows is recognised as a loss, discounted by the receivable amount's effective interest rate.

1.10 Cash and cash equivalents

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be converted into cash within three months and to a known amount, and which contain insignificant risk elements.

The cash and cash equivalent amount in the cash flow statement include overdraft facilities. The cash flow statement has been prepared in accordance with the indirect method.

Note 1: General information and significant accounting policies (continued)

1.11 Provisions, contingent liabilities and assets

Provisions are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Provisions are recognised when, and only when, the Company has an existing liability (legal or assumed) as a result of events that have taken place, it can be demonstrated as probable (more likely than not) that a financial settlement will be made as a result of the liability, and the amount can be measured reliably. Provisions are reviewed at each balance sheet date and the level reflects the best estimate of the obligation. When the time factor is insignificant, the size of the provisions will be equal to the size of the expense required for redemption from the obligation. When the time factor is significant the provisions will be equal to the net present value of future payments to cover the obligation. Increases in provisions due to the time factor will be presented as interest expenses.

Contingent liabilities are defined as;

i. Possible obligations resulting from past events whose existence depend on future events.
ii. Obligations that are not recognised because it is not probable that they will lead to an outflow of resources.
iii. Obligations that cannot be measured with sufficient reliability.

Significant contingent liabilities are stated, with the exception of contingent liabilities where the probability of the liability occurring is remote.

Contingent asset are defined as;

i. A possible asset that arises from past events, and
ii. Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity

A contingent asset is not recognised in the annual financial statements unless realisation is virtually certain, but is disclosed if there is a certain level of probability that a benefit will accrue to the Group.

New information on the Group's positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the Company's position at the balance sheet date, but which will affect the Group's position in the future are stated if significant.

FLEX LNG

Note 1: General information and significant accounting policies (continued)

1.12 Warrants and share based payments – equity settled transactions

The fair value of the warrants is estimated at the grant date and recognised as an expense over the vesting period. The Quanto-Barrier Option pricing model has been used to calculate the fair value of the warrants.

Fair value of warrants granted for consulting services fees is measured at the fair value of the services received.

The fair value of the share options has been calculated using the Black-Scholes-Merton option pricing model and a Monte Carlo simulation model for the 2012 award.

The cost of the options and warrants is recognised over the period in which the performance is fulfilled, ending at the date on which the relevant employees become entitled to the award. This includes an assessment of the implicit future service requirement of the award. The expense at each reporting date is based on the Group's best estimate of the number of equity instruments that will vest. The income statement reflects the movement in the cumulative expense recognised as at the beginning and the end of the period.

Directors of the Company received part of their remuneration in the form of share-based payment transactions. The value of the services is recognised at the fair value of the shares received.

1.13 Borrowing costs

Where borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset they are capitalised as part of the qualifying asset.

Note 2: Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Country of registration	Main operations	Ownership share	Voting share
M-FLEX 1 Limited	Isle of Man	Shipping	100%	100%
M-FLEX 2 Limited	Isle of Man	Shipping	100%	100%
M-FLEX 3 Limited	Isle of Man	Shipping	100%	100%
M-FLEX 4 Limited	Isle of Man	Shipping	100%	100%
FLEX LNG Management Limited	Isle of Man	Management services	100%	100%
FLEX LNG Management (Norway) AS	Norway	Management services	100%	100%
FLEX LNG Management (Singapore) PTE LTD	Singapore	Management services	100%	100%
FLEX Petroleum Limited	British Virgin Islands	Holding company	100%	100%

FLEX LNG

Note 2: Subsidiaries (continued)

FLEX LNG Ltd – Loans and investments in subsidiaries

Company (USD 000)	2012	2011
M-FLEX 1 Limited	**249,518**	262,498
M-FLEX 2 Limited	**99,991**	100,407
M-FLEX 3 Limited	**99,227**	99,644
M-FLEX 4 Limited	**99,421**	99,838
FLEX Petroleum Limited	**3,774**	3,742
Impairment provision	**(551,931)**	(223,667)
	0	342,462

Loans to 100% subsidiaries are unsecured, interest free and repayable on 30 days notice. It is currently not the intention of FLEX LNG to call in these loans. The loans have been used to cover stage and other payments to Samsung, capitalised costs, running costs and an allocated share of the management recharge.

Following the impairment write down on the vessel assets, note 8, and the investments in Minza, note 2, the Company has reviewed the carrying value of the loans to the four M-FLEX entities and FLEX Petroleum Limited. The valuation has been based on the reported recoverable amount $nil ($342.4m), and the investments $nil ($nil). The loan amounts in excess of this have been recognised as an impairment loss in the Company income statement $328.3m ($109.4m). This adjustment has no impact at a consolidated level.

Note 3: Administrative expenses

As detailed in note 1.8 capitalised costs, in 2011, include expenses covering compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, plus other costs that are directly attributable to the assets. The amounts in tables 3.1 to 3.3 are prior to this capitalisation, however, no costs were capitalised in 2012.

3.1 Included in administration expenses USD,000	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Depreciation	**116**	146	**0**	0
P&L on disposal of assets	**8**	(1)	**0**	0
Net foreign exchange differences	**504**	(172)	**5**	(65)
Calculated fair value of warrants	**(8,546)**	1,847	**(8,546)**	1,847
Calculated fair value of options	**(3,835)**	2,597	**(3,835)**	2,597

3.2 Auditors

Expensed fee to the auditors is divided into the following services (exclusive of VAT):

USD,000	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Audit	**105**	102	**70**	68
Tax and other assistance	**58**	47	**22**	0
Total Auditor's fees	**163**	149	**92**	68

FLEX LNG

Note 3: Administrative expenses (continued)

3.3 Remuneration

During 2012 FLEX LNG had between five and seven Directors, but no employees. All employees are engaged by the three management companies.

Staff costs USD,000	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Wages and salaries	**2,262**	4,030	**0**	0
Social security costs	**213**	429	**25**	11
Pension costs	**92**	163	**0**	0
Total employee benefit expenses	**2,567**	4,622	**25**	11

Share based payments are covered in note 13. Employees are offered a fixed base salary. The management company contributes to a defined contribution pension scheme for staff. UK and Singapore based staff are offered additional health insurance. The number of man-labour years in 2012 was 24 (2011 – 35). The Company has incurred social security costs in relation to the payment of Directors fees in the Isle of Man.

Directors fees FLEX LNG, USD,000	**Company 2012**	Company 2011
Current Directors		
David McManus	**200**	70
Ian Beveridge	**70**	57
Aoki Hiromichi	**70**	57
Christopher Pittinger	**70**	25
Eiji Wakiwaka	**70**	25
Ex. Directors		
Philip E. Fjeld	**63**	57
Scott Pearl	**63**	57
James A. MacHardy	**0**	39
James D.A. Van Hoften	**0**	32
Anders Westin	**0**	32
Katherine Eisbrenner	**0**	19
Keith Meyer	**0**	36
Total Directors' fees	**606**	506

Between 50% and 100% of the remuneration listed above is paid via the issue of shares by the Company.

Where directors have taken on directorships of subsidiary companies, they have received an annual fee of $2k per company on a pro rata basis. The 2012 cost for the services provided by Mr. Fjeld, Mr. Beveridge, Mr. Pittinger and Mr. Hiromichi was $40k in the year (2011: $40k). All earnings and shares for Mr. Beveridge are assigned to Bernhard Schulte Investment Holding, Mr. Wakiwaka to Masters K.K, and for Mr. Hiromichi to Kawasaki Kisen Kaisha Ltd.

Note 3: Administrative expenses (continued)

3.3 Remuneration (continued)

Executive Management USD,000	Salary and bonus	Sundry benefits	Pension	Option costs	**Group Total**
Philip Fjeld	265	15	13	(37)	**256**
Jostein Ueland	265	6	13	(37)	**247**
Trym Tveitnes	265	0	13	(37)	**241**
Gary Baron [1]	271	65	0	(17)	**319**
2012	**1,066**	**86**	**39**	**(128)**	**1,063**
2011	1,025	21	50	422	1,518

Note [1]: Left the Group on 28/02/13.

The Executive Management receive remuneration via the management companies FLEX LNG Management Limited, FLEX LNG Management Norway AS and FLEX LNG Management (Singapore) Pte Ltd. In 2012 Mr. Fjeld, and Ueland do not have contracts of employment and their termination rights are determined by statute. Mr. Baron and Tveitnes have contracts of employment that give a three month notice period. Options and warrants have been granted as follows Mr. Fjeld, Ueland and Tveitnes 46,800 options (issued 22/07/08) and 400,000 options (issued 07/11/12) each held personally, and warrant and options via Hansa LNG Limited as detailed in note 13 and 15. Mr. Baron holds 180,000 options, issued over the last four years. The net credit on the option costs reflects that the majority are not expected to vest by 31/12/2016 giving a reversal of part of the historical cost.

Note 4: Finance costs and revenue

Finance cost	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Option cost for shares issued	**0**	7,817	**0**	7,817
New building assets	**510**	0	**0**	0
Write-off of financial assets	**0**	2,407	**0**	0
Total financial cost	**510**	10,224	**0**	7,817

Finance revenue	**Group 2012**	Group 2011	**Company 2012**	Company 2011
Interest income	**88**	77	**77**	76
Total financial revenue	**88**	77	**77**	76

Note 5: Earnings per share

Basic earnings per share amounts are calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss by the weighted average number of shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential shares.

FLEX LNG

Note 5: Earnings per share (continued)

The following reflects the loss and share data used in the earnings per share calculation.

Earnings per share:	**2012**	2011
Loss attributable to shareholders – Group $'000	**(298,798)**	(135,959)
Loss attributable to shareholders – Company $'000	**(329,286)**	(119,735)
Weighted average number of ordinary shares	**125,173,030**	120,240,027
Effect of dilution:		
Share options [1]	**0**	0
Warrants [2]	**0**	0
Weighted average number of shares, adjusted for dilution	**125,173,030**	120,240,027

[1] the options are out of the money
[2] the warrants are out of the money

Note 6: Management fees

There are no employees in FLEX LNG Ltd. A contract for management services has been entered into with FLEX LNG Management Limited ("FLML") and its subsidiaries. According to this agreement, FLML will render services to the Group relating to general administration and contract management. FLML is entitled to compensation covering all its expenses plus a mark-up. The total compensation for 2012 was $6,646k (2011: $10,970k).

Note 7: Income tax

The Group consists of two legal entities incorporated in the British Virgin Islands (BVI), and five entities in the Isle of Man, one entity in Norway, and one entity in Singapore. Income or capital gains are not subject to taxation in the BVI, or the Isle of Man. The profits in the Norwegian and Singapore entities and the profit attributable to the UK are taxable.

(USD,000)	**Group 2012**	Group 2011
Current income tax charge	**56**	84
Adjustments in respect of current income tax of previous years	**1**	4
Income tax expense reported in the income statement	**57**	88

(USD,000)	**Company 2012**	Company 2011
Current income tax charge	**0**	0
Adjustments in respect of current income tax of previous years	**0**	0
Income tax expense reported in the income statement	**0**	0

Note 7: Income tax (continued)

A reconciliation between the tax expense and the product of the accounting profit multiplied by the British Virgin Islands (BVI) domestic tax rate for the year ended 31 December 2012 and 2011 is as follows:

(USD,000)	**Group 2012**	Group 2011
Accounting loss before income tax	**(298,741)**	(135,871)
Income tax at 0% (2011:0%)	**0**	0
Effect of higher UK, Singapore and Norway tax rates	**57**	88
Effective income tax rate of 0.0% (2011: 0.1%)	**57**	88

(USD,000)	**Company 2012**	Company 2011
Accounting loss before income tax	**(329,286)**	(119,735)
Income tax at 0% (2011:0%)	**0**	0
Effective income tax rate of 0% (2011: 0%)	**0**	0

Note 8: New Building Assets and Capitalised Costs

(USD,000) – **Group**	**2012**	2011
At 1 January – Impaired payments on account	**326,000**	375,997
Offset - Samsung loan	**(10,000)**	0
Offset - Samsung liabilities	**(31,040)**	0
Impairment (IAS 37 / 36)	**(284,960)**	(49,997)
At 31 December	**0**	326,000
At 1 January – Impaired topside design	**11,715**	37,363
Additions	**0**	18,818
Impairment (IAS 36)	**(11,715)**	(44,466)
At 31 December	**0**	11,715
At 1 January – Impaired capitalised internal cost	**4,697**	17,872
Additions	**0**	4,653
Impairment (IAS 36)	**(4,697)**	(17,828)
At 31 December	**0**	4,697
At 1 January – Total	**342,412**	431,232
Offset	**(41,040)**	0
Additions	**0**	23,471
Impairment	**(301,372)**	(112,291)
At 31 December	**0**	342,412

No finance costs were capitalised in the current year (2011: $661k).

Note 8: New Building Assets and Capitalised Costs (continued)

Historically the carrying values for the capitalised development costs and instalment payments have been valued under IAS 36, impairment of assets. Additional information is given in the 2011 statutory accounts. The view of the Company is that the position between the Company and Samsung will only be resolved following the commencement of an arbitration process between the two parties. In December 2012 the Company wrote to Samsung, noting that the contracts were abandoned and requesting the return of funds, after the deduction of sums properly and reasonably incurred. Samsung has not accepted this position. Given Samsung's position, the Company has now initiated steps to commence arbitration proceedings against Samsung.

IAS 37 covers the recognition and measurement criteria applied to provisions, contingent liabilities and contingent assets. A contingent asset is defined as a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. It is the view of the Company that the valuation basis for the new building assets falls within this definition. Given this, the Company has netted the liabilities due to Samsung against the previous carrying value for the new building assets and has then written off the remaining carrying value to impairment costs in the income statement, $285.0m. The final value of the return of paid-in instalment payments made to Samsung will either depend on the outcome of the arbitration process or a possible future agreement between the two parties. It is not possible with any certainty to predict the outcome of arbitration proceedings with Samsung, nor the time or costs involved in completing such legal proceedings. Once the outcome of the arbitration proceedings or the commercial position with Samsung is virtually certain, the Company will reinstate the resultant asset value to the statement of financial position.

The remaining capitalised costs relating to the near and off shore LNGP designs have been impaired by $16.4m based on a calculation of its recoverable amount under IAS 36.

In the current year the Company has recognised total impairment write downs of $301.4m (2011: $112.3m). The resultant recoverable value for the asset carrying value after the impairment write down is $nil (2011: $342.4m).

FLEX LNG

Note 9: Plant and Equipment

(USD,000) - Group

Cost	2012	2011
1 January	**801**	766
Additions	**23**	57
Disposals	**(27)**	(22)
31 December	**797**	801

(USD,000) - Group

Depreciation	2012	2011
1 January	**623**	499
Depreciation charge for the year	**116**	146
Disposals	**(19)**	(22)
31 December	**720**	623
Net book value	**2012**	2011
At 31 December	**77**	178

Note 10: Other current assets

	Group	Group	**Company**	Company
(USD 000)	**2012**	2011	**2012**	2011
Debtors	**89**	490	**8**	282
Prepayments	**208**	257	**24**	38
Other receivables	**186**	302	**0**	0
Total other current assets	**483**	1,049	**32**	320

Note 11: Cash and cash equivalents

	Group	Group	**Company**	Company
(USD 000)	**2012**	2011	**2012**	2011
Cash at the bank and in hand	**6,246**	14,754	**6,115**	14,431
Cash and cash equivalents in the balance sheet and cash flow statement	**6,246**	14,754	**6,115**	14,431
Overdraft facility	**0**	0	**0**	0

FLEX LNG

Note 12: Share capital, shareholder information and dividend

Group & Company	**2012**	2011
Ordinary shares, nominal amount USD 0.01	**125,412,622**	124,778,313
Total number of shares	**125,412,622**	124,778,313

Group & Company	**Shares** ('000)	**Share Capital** (USD'000)	**Share Premium** (USD'000)
Ordinary shares - Issued and fully paid:			
At 1 January 2012	**124,778**	**1,248**	**561,946**
Issued in lieu of remuneration	**634**	**6**	**342**
31 December 2012	**125,412**	**1,254**	**562,288**

Group & Company	**Shares** ('000)	**Share Capital** (USD'000)	**Share Premium** (USD'000)
Ordinary shares - Issued and fully paid:			
At 1 January 2011	113,043	1,130	552,490
Expenses related share issue	0	0	(43)
New shares issued	11,315	113	9,230
Issued in lieu of remuneration	420	5	269
31 December 2011	124,778	1,248	561,946

Nominal value per share is USD 0.01. All issued shares have equal voting rights and are equally entitled to dividends. During the year shares were allotted to directors of FLEX LNG to cover between 50% and 100% of their remuneration for the year. The Directors' shares for the remuneration, covering the period 01/07/2012 to 31/12/12, had not been issued at 31/12/12 and are recorded in the option, warrant and share reserves, $210k (2011: $144k). Computation of earnings per share and diluted earnings per share is shown in note 5.

Other reserves: FLEX LNG has in the year recognised under other equity a credit of $(12,315)k (2011: $4,494k - cost) in relation to the warrants, options and shares issued by the Company.

Note 12: Share capital, shareholder information and dividend (continued)

Main Group shareholders at 31.12.12 are: Shareholder:	Number of shares:	Ownership interest:
KAWASAKI KISEN KAISHA LTD	17,085,836	13.6%
JP MORGAN CLEARING CORP. [1]	16,226,543	12.9%
STATE STREET BANK AND TRUST CO. [1]	13,486,167	10.7%
INTEROIL FINANCE INC.	8,938,913	7.1%
DEUTSCHE BANK AG LONDON [1]	7,978,079	6.4%
SIX SIS AG [1]	6,672,734	5.3%
B SCHULTE INVESTMENT HOLDING	6,094,756	4.9%
JP MORGAN SECURITIES LIMITED	4,989,500	4.0%
INVESCO PERP BNY MELLON SA/NV	4,874,383	4.0%
GOLDMAN SACHS & CO [1]	3,487,450	2.8%
LBIE IN BNY MELLON SA/NV [1]	2,931,086	2.3%
KISTEFOS INVESTMENT SD	2,075,324	1.6%
BNY MELLON (LUX) [1]	2,032,296	1.6%
KISTEFOS SKOG AS	1,630,000	1.3%
SKANDINAVISKA ENSKIL [1]	1,285,398	1.0%
DEUTSCHE BANK AG LONDON [1]	1,250,000	1.0%
VENTOR AS	1,200,000	1.0%
JP MORGAN BANK LUXEMBOURG [1]	1,138,000	0.9%
BOASSON	1,122,846	0.9%
DEUTSCHE BANK AG [1]	1,000,000	0.8%
OTHER	19,913,311	15.9%
Total	125,412,622	100.0%

Note[1] - Nominee account.

FLEX LNG

Note 13: Share based payments

Share-Based Payment - Group & Company
During the period ended 31 December 2012, FLEX LNG had share-based payment arrangements, which are described below.

Plan	**Warrant Plan**	**Option Plan**
Type of arrangement	Equity Based	Equity Based
Date of Grants	19.03.2007 and 07.09.2007	22/07/2008, 27/10/2008, 11/12/2008, 01/01/2009, 01/01/2010, 22/03/2010, 21/06/2010, 01/07/2010, 01/08/2010, 15/07/2011, 07/11/2012
Warrants and options granted (less forfeited) as of 31.12.2012	6,631,455	3,813,900 (168,350 vested)
Remaining contractual life	Average 4 years	Average 4.1 years
Vesting conditions	25% vest on at shore completion of the first vessel from Samsung, 25% vest on at shore completion of the second vessel from Samsung and 50% vest 31.12.2014, subject to the first two criteria being met.	2008/9 Allocations Staff: 25% vest on 15/03/2012, 25% vest on 15/03/2013, 25% vest on at shore completion of the first vessel from Samsung, and 25% vest on at shore completion of the second vessel from Samsung. 2008 Allocation Founders: 50% vest at the first LNG vessel's first commercial cargo of LNG, and 50% vest at the second LNG vessel's first commercial cargo of LNG. 2010 Allocations Staff: One third vest on the FID for the first vessel, one third vest at 30/06/2012, and one third vest at the first LNG vessel's first commercial cargo of LNG. 2011 Allocations Staff: 50% vest on 20/12/2012 and 50% vest no earlier than 24 months from the FID for the first vessel. 2012 Allocations Founders: Criteria linked to the Company share price exceeding a set price for 30 consecutive days. 25% 8 NOK, 25% 10 NOK, 25% 12 NOK and 25% 14 NOK.
Expiry date	31/12/2016	31/12/2016 and 30/07/2017

Note 13: Share based payments (continued)

The fair values of the options are calculated using the Black-Scholes-Merton option pricing model and a Monte Carlo simulation model. During the year, the Board of Directors approved the issuance of 1,200,000 options to the Founders of the Company (Philip Fjeld, Jostein Ueland and Trym Tveitnes), at 400,000 per person. The issuance has performance criteria linked to the share price of the Company with the share price needing to exceed set criteria for 30 consecutive days prior to the expiry date. The share prices criteria are, 25% of the options at 8 NOK, 25% at 10 NOK, 25% at 12 NOK and 25% at 14 NOK.

The exercise rights as to certain options and warrants are based on vesting criteria linked to LNGP commercial targets. Given the Company's view that the contracts with Samsung are abandoned, the expectation is that the commercial targets related to FLNG contracts will not be achieved by 31/12/2016. This has led the Company to review the position on the options and warrants schemes, as they are now not expected to vest and be exercised by 31/12/2016, as follows; where the options have vested the historical charge remains in the income statement; where options and warrants have not vested, and where vesting is conditional on a performance condition, the historical charge is reversed back to the income statement; and where options have not vested, and where vesting is only conditional on employees rendering services to the Company until a certain date, amortisation of the grant date fair value continues, as is, until the vesting date.

The total expensed amount in 2012 relating from the share-based payment plan was a credit of $12,381k (2011: $4,265k - charge). The split of the 2012 credit between the warrants and options was $8,546k and $3,835k. The total expensed amount relating to remaining options and warrants at 31/12/2012 was $1,274k (2011: $13,655k).

Further details of the plan are as follows:

	01.01.12 - 31.12.12		01.01.11 - 31.12.11	
	Options & Warrants	**Weighted Average Exercise Price**	Options & Warrants	Weighted Average Exercise Price
Warrants / options outstanding at the beginning of year	**10,580,955**	**NOK 19.68**	10,716,455	NOK 21.57
Options granted	**1,200,000**	**NOK 0.06**	200,000	NOK 9.25
Vested	**(168,350)**	**NOK 18.85**	0	0
Terminated	**0**	**0**	0	0
Forfeited	**(1,335,600)**	**NOK 17.26**	(335,500)	NOK 27.93
Expired	**0**	**0**	0	0
Options & warrants outstanding at the end of year	**10,277,005**	**NOK 17.70**	10,580,955	NOK 19.68
Vested Option / warrants	**168,350**	**NOK 18.85**	0	0
Weighted average fair value of options granted during the year	**1,200,000**	**NOK 2.17**	200,000	NOK 3.17

None of the vested options have been exercised.

FLEX LNG

Note 13: Share based payments (continued)

Outstanding and vested Warrants as of 31 December 2012 are given in the table below.

	Outstanding			Vested	
Exercise price (NOK)	Outstanding Options & Warrants per 31.12.2012	Weighted average remaining contractual Life	Weighted Average Exercise Price NOK	Vested Options & Warrants 31.12.2012	Weighted Average Exercise Price
0.00 – 7.00	1,259,500	4.5	0.36	29,750	6.5
7.00 – 15.00	6,631,455	4.0	14.98	0	0
15.00 – 30.00	386,050	4.0	21.08	138,600	21.50
30.00 – 40.00	2,000,000	4.0	37.00	0	0
Total	**10,277,005**	**4.1**	**17.70**	**168,350**	**18.85**

Warrant holders are as follows;

Holder	Date	Warrants
Hansa LNG Limited	27th March 2007	2,000,000
Hansa LNG Limited	7th September 2007	4,631,455
Total		**6,631,455**
The expectation as to vesting is as follows;		
Not expected to meet vesting criteria		**6,631,455**

In 2008 FLEX LNG shareholders authorised the issue of up to 2,600,000 options to the employees of the management companies. At 31/12/2012 613,900 of the 2,600,000 options remained in issue. At the 2011 AGM meeting the shareholders approved the issuance of up to 2,500,000 options in the Company with the terms to be determined by the Compensation Committee. On 7 November 2012 the Board of directors approved the issuance of 1,200,000 options to the Founders of the Company. After this grant 1,150,000 remained to be issued.

Outstanding options were granted as follows;

Holder	Date	Options
Employees of the management companies	2008 grant	1,880,000
Hansa LNG Limited	2008 grant	2,000,000
Employees of the management companies	2009 grant	60,000
Employees of the management companies	2010 grant	909,000
Employees of the management companies	2011 grant	200,000
Forfeited, employees		(1,099,500)
Total - 2011		3,949,500
Grant, Founders	2012 grant	1,200,000
Vested employees		(168,350)
Forfeited, employees		(1,335,600)
Outstanding - 2012		**3,645,550**
The expectation as to vesting is as follows;		
Not expected to meet vesting criteria		2,336,700
Vesting criteria date related		108,850
Potential to meet vesting criteria		1,200,000
		3,645,550

None of the 168,350 vested options have been exercised.

Note 13: Share based payments (continued)

The inputs to the model for options granted to employees in 2012, from the 2011 scheme, are listed below:

1,200,000: 2012 allocation	Option
No. of options	1,200,000
Simulated expected life, minimum and maximum	1.7 to 4.7 years
Share price, spot (NOK)	3.10
Weighted average exercise price (NOK)	0.06
Volatility of underlying share	80%
Expected dividends	-
Asset drift	1.54%
Fair Value of options	NOK 2.17

The expected volatility has been based on historical volatilities for FLEX LNG shares and from similar listed shares.

The employee options, subject to certain customary exceptions, require staff to be employed by the company from the date of grant to the time of vesting. The objective of the options is to align the effort of employees with the future success of the Group.

The options and warrants held by Hansa LNG Limited do not have an employment requirement.

During the period ended 31 December 2012 FLEX LNG agreed to issue the directors with shares covering between 50% and 100% of their remuneration. The value of the shares is based on the fair value of the services received of $415k (2011 - $320k). At 31 December 2012 468,810 shares (2011: 280,761 shares) with a value of $210k had not yet been issued to the directors.

The split of shares by director was as follows;

Director	2012	2011
Current directors		
D McManus	**268,976**	99,466
I Beveridge[1]	**126,258**	64,934
A Hiromichi[1]	**126,072**	64,803
E Wakiwaka[1]	**72,416**	26,779
C Pittinger	**72,416**	26,779
Ex directors		
P Fjeld	**91,868**	40,669
S Pearl	**64,352**	40,669
K Eisbrenner	**0**	8,158
K Meyer	**0**	15,378
J MacHardy	**0**	16,457
J van Hoften	**0**	13,890
A Westin	**0**	13,890
Total	**822,358**	431,872

Note[1]: These shares are issued to the company they represent rather than the individual. In addition at 31/12/12 468,810 of these shares have not been issued.

Note 14: Other financial liabilities

The Company's view is that the contracts with Samsung have been abandoned. Under historical arrangements Samsung has covered certain costs for the Group, including the FEED related costs for the Gulf LNG Project. At 31 December 2012, it is estimated that up to $31,040k (2011: $30,079k) of such cost had been incurred by Samsung. The position between the parties in this regard will depend upon the outcome of the arbitration process or a possible future agreement between the parties. Given this, the Company does not believe these amounts are due to be paid to Samsung where the final concluded position will be on a net basis, with agreed costs and liabilities being offset against paid-in funds. The $31,040k has therefore been offset against the new building assets, prior to the IAS 37 valuation adjustment.

In 2011 current liabilities included a $10.0m short term loan repayable in Q1 2012. In April 2012 the Company notified Samsung to set off the amount against the shipbuilding instalments paid by the Company. The Company has also offset the $10.0m loan against the new building assets and capitalised costs.

Details on the two offsets are contained in note 8.

In addition non-current liabilities included a $nil (2011: $69k) provision for the property lease liabilities is included, based on a fair value allocation on the lease acquired by FLEX LNG Management Limited.

Note 15: Related parties

15.1 Options and warrants
Hansa LNG Limited, a company controlled by the founders, has been issued with options and warrants as detailed in note 13. The 2012 P&L credit was: warrants $8,546k (2011- $1,847k, cost) and options $857k, (2011 - $262k, cost).

15.2 Shares held by current members of the Board, as at 31/12/2012

Board Member	2012	2011
David McManus	**223,406**	0
Ian Beveridge	**250,000**	250,000
Aoki Hiromichi	**0**	0
Eiji Wakiwaka	**60,147**	0
Christopher Pittinger	**60,147**	0
Total	**593,700**	250,000

Note: These amounts exclude the shares that had not been issued as at 31/12/2012, per note 17.

Note 16: Commitments and contingencies

16.1 Guarantees
On 8 August 2008 FLEX LNG Management Limited entered into a ten year lease agreement on a property lease in London, which is denominated in GBP. The Company has guaranteed to cover the provisions of the lease should FLEX LNG Management Limited fail to comply with the obligations under the lease. The future rental payments under the lease are $1.4m (2011: $1.6m).

FLEX LNG

Note 16: Commitments and contingencies (continued)

16.1 Guarantees (continued)
The Company considers the four shipbuilding contracts and the EPCIC that were entered into with Samsung in 2008, to have been abandoned, and no amounts are due under the guarantees in these previous agreements. The Company believes that the final concluded position will be on a net basis, where agreed or determined costs and liabilities are offset against paid in funds.

16.2 Operating lease commitments, lessee
The UK subsidiary has entered into a lease on commercial property. The lease has an average remaining life of 5.6 years and is denominated in GBP. The lease is non-cancellable, with an upward only review due five years before expiry. The previous leases for property in Oslo and Singapore have been terminated in 2012. The future rental payable under the leases as at 31 December 2012 is as follows;

(USD 000)	**Group 2012**	Group 2011
Within one year	**250**	432
After one year but not more than five years	**999**	956
More than five years	**151**	383
Total	**1,400**	1,771

Lease payments made during the year were $476k (2011: $493k).

16.3 Capital commitments - Samsung
The Company believes that no payments are due to Samsung. Given the arbitration process that is being initiated by the Company, the Company believes that the final concluded position will be on a net basis, where agreed or determined costs and liabilities are offset against paid-in funds.

Note 17: Subsequent events / after balance sheet date

Shares
In February 2013 the Company issued 468,810 additional shares to cover between 50% and 100% of the Director's remuneration from 1 July 2012 to the 2012 year end.

Note 18: Financing

Given the expected arbitration costs in 2013 the Company believes, based upon forecast levels of cash utilisation, that the Company will have sufficient working capital to operate throughout 2013 and into 2014. The Company is however considering alternative options and the timing for raising additional working capital.

In all cases where the Company requires additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all.

Note 19: Going Concern

The financial statements have been prepared based on the going concern assumption, which contemplates the realisation of assets and liabilities as part of the normal course of business.

Given the expected arbitration costs in 2013 the Company believes, based upon forecast levels of cash utilisation, that the Company will have sufficient working capital to operate throughout 2013 and into 2014.

There can of course be no assurance that arbitration costs will be as forecast or that any agreement will be reached with Samsung. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all.

Considering the above, the Board believes that the going concern assumption currently remains appropriate for the Group, and expects, based upon current levels of cash utilisation, to have sufficient working capital to last through 2013.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed in the report.

Note 20: Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme considers the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Currency risk
The value of monetary assets and liabilities denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. The Company has historically raised its funding in USD, with the share price denominated in NOK, but with the proceeds being fixed into USD.

In early 2013 a number of USD/WON and USD/EUR hedges were closed, which according to Samsung, it had originally entered into in relation to the SBC 1-4 and EPCIC contracts. The Company and Samsung are discussing the extent of the Company's liability, if any, for these foreign currency hedges. Apportionment of such liability has not yet been agreed between the parties and if no such agreement is reached, the split of the parties' respective liability will be determined via the arbitration process.

Additionally, the Group incurs some overhead costs in GBP, SGD and NOK. Historically these exposures have not been hedged. The Company's shares are traded in NOK. The NOK trading price is impacted by the underlying activities of the Group, which are primarily denominated in USD. Currency fluctuations of an investor's currency of reference relative to the NOK may also adversely affect the value of an investor's investments.

Note 20: Financial risk management objectives and policies (continued)

Interest rate risk

The Group currently has interest bearing assets. Amounts are placed on deposit for periods to secure higher returns, while balancing the need to access funds as required.

Liquidity risk

The Group monitors its risk to a shortage of funds using a cash modelling forecast. This model considers the maturity of payment profiles and projected cash flows required to fund the operations. Historically funds have been raised via equity issuance. Market conditions can have a significant impact on the ability to raise equity finance, while new equity financing may be dilutive to existing shareholders.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the raising of finance from investors. The Group does not currently have any bank overdrafts and bank loans. Liquidity management services are provided to the Group under the management agreement.

There can be no assurance that agreement will be reached with Samsung in 2013. The Company will therefore need to consider alternative options open to it as well as the timing for raising additional working capital.

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Currently the main exposure to credit risk comes from the paid-in instalments made to Samsung. Cash funds are currently placed with HSBC, Lloyds TSB and Barclays.

Operational risk

Currently the Group has not reached FID for any contracts. Operational risks therefore mainly relate to expenditure being higher than forecast, risks to the environment and risks to the safety of staff. At a commercial level it also includes the settlement of the envisaged arbitration with Samsung including; the final calculation of the recoverable amount from the paid-in instalments; the arbitration process; agreeing the level of paid instalments available for redeployment with Samsung, should a commercial agreement be reached, including the economics of such Alternative Deployment (including being able to secure employment contracts on reasonable terms for any alternative vessel constructed by Samsung); potential Samsung claims on the Company; and obtaining finance and working capital on reasonable terms.

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To the Annual Shareholders' Meeting of
FLEX LNG Ltd

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of FLEX LNG Ltd, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and the Group comprise the statement of financial position as at 31 December 2012, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' responsibility for the financial statements

The Board of Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion

In our opinion, the financial statements of FLEX LNG Ltd have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2012 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bergen, April 25th 2013
ERNST & YOUNG AS

Jørund Haga Indrehus
State Authorised Public Accountant (Norway)