



FLEX LNG Group

Consolidated and Company Annual Report and Financial Statement 2016

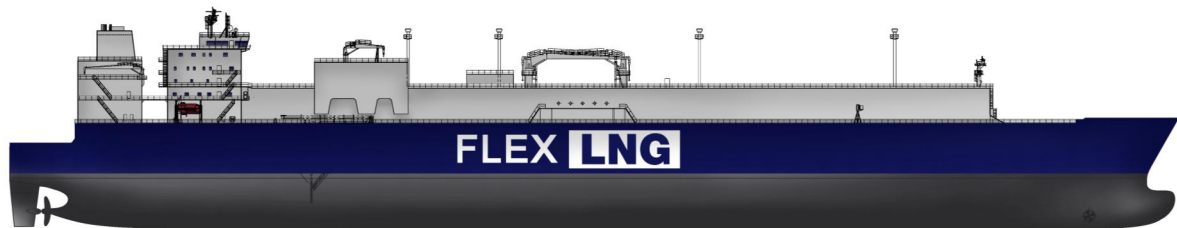


Illustration courtesy of Samsung Heavy Industries



General Information, FLEX LNG Ltd.

Directors

David McManus (Chairman)
Robin Bakken
Marius Hermansen

Company Secretary

Manx Secretarial Services Limited
Jubilee Buildings, Victoria Street
Douglas, IM1 2SH
Isle of Man

Registered Office

Craigmuir Chambers
P.O. Box 71
Road Town
Tortola
British Virgin Islands

Auditors

Ernst & Young AS
Thormøhlens gate 53 D, NO-5008 Bergen
P.O. Box 6163 Postterminalen
NO-5892 Bergen, Norway

Bankers

Barclays
Victoria Street
Douglas, IM99 1AJ
Isle of Man

HSBC
1st Floor, 60 Queen Victoria Street,
London, EC4N 4TR
United Kingdom

Lloyds
PO Box 328, Victory House
Douglas, IM99 3JY
Isle of Man

RBS
280 Bishopsgate,
London, EC2M 4RB
United Kingdom



Chairman's Statement

I believe that 2017 will be a transformative year for the FLEX LNG Group. In March 2017 the Group completed the acquisition of two new LNGC newbuilds and raised approximately \$100m of additional capital. This is an important first step into building FLEX into a leading player in the LNG market. The Group is well placed with four highly efficient state of the art vessels with delivery dates expected to match improvements in the chartering market.

I am also delighted to highlight the appointment of Mr. Jonathan Cook, as Chief Executive Officer, a highly regarded LNG industry figure, who will lead the Company forward over the coming years. The Company is also looking to grow both the business development, technical and ship management capabilities of the Group over the coming quarters. In February 2017, Mr. Thomas Thorkildsen joined to lead the business development activities of the Company. Mr. Thorkildsen comes to the Group with extensive Floating Storage and Regasification Unit (FSRU) and LNG commercial experience and knowledge.

In December 2016 the Company signed a Heads of Agreement to create a full value chain solution for customers looking to purchase LNG from the NextDecade Rio Grande LNG export project in Brownsville, TX. The parties will look to develop FSRU and dockside solutions for international customers of NextDecade's. The Company has significant FSRU competence internally, and through its sponsor organisation and is actively pursuing opportunities to leverage its experience towards the implementation of FSRU projects. The Company is positioned to target this market, which is expected to grow significantly over the next three to five years.

The Company has a proactive approach to further accretive structural transactions, with strong backing from its main shareholder to pursue transformational deals. The Company will look to leverage all financing options for the lowest possible capital costs. Its main shareholder has consistently demonstrated its strong access to the capital and financing markets.

The Group is working on several attractive growth opportunities both within LNGC and FSRU segments, which I look forward to providing further details on in the future.

David McManus

Chairman

BOARD OF DIRECTOR'S REPORT 2016

Business update

In the year the Company has commenced steel cutting and continues to monitor the construction of its LNG carriers. The Company has appointed Bernhard Schulte Shipmanagement for the technical management of the vessels. In addition to the appointment of Mr. Jonathan Cook, as Chief Executive Officer in March 2017, the Company expects to grow both the business development, technical and ship management capabilities of the Group over the coming quarters. In February 2017 Thomas Thorkildsen joined to lead the business development activities of the Group.

In February 2017 the Company entered into a transaction for the acquisition of two high-end MEGI LNGC newbuilds at Daewoo Shipbuilding and Marine Engineering ("DSME") with scheduled delivery in Q1 2018 (the "Transaction"). The two newbuilds were bought from affiliates of Geveran Trading Co. Ltd. ("Geveran"), the Company's largest shareholder. The Transaction gave the Company a uniform fleet of four LNG MEGI carriers with expected delivery in early 2018 with the most advanced propulsion and fuel efficiency technology compared to the existing LNG fleet.

Parts of the consideration payable for the newbuilds were settled by the Company through the issuance of 78 million new shares in the Company to Geveran. The remaining part of the consideration was settled by a USD 270 million credit structured as a revolving credit facility (the "\$270m Facility"). The Company also assumed responsibility for the remaining newbuilding instalments payable to DSME amounting to approximately \$20.4m, the remaining instalments on the Samsung deliveries are detailed in note 15.1. The \$270m Facility has an attractive fixed interest rate of 1.00% until delivery and is an indication of the strong support the Company is enjoying from its largest shareholder.

In connection with the Transaction, the Company raised the equivalent of approximately \$100m through the issuance of 72 million shares (the "Private Placement"). The Private Placement received strong interest from large institutional investors and was significantly over-subscribed.

The \$270m Facility is structured to allow draw and repay at Company's discretion, which give the Company growth capital while minimising interest cost during construction. The interest is be fixed until delivery and LIBOR + 300 bps with tenor of 3 years from delivery. The intention is to repay the \$270m Facility with bank debt when the vessels are delivered, but it will still be available, after delivery of the newbuilds, at the Company's discretion to pursue growth opportunities and to manage the cash position. The Company currently expects that this facility and anticipated bank debt will cover the Group's working capital needs for the following twelve months.

Following the receipt of the proceeds from the Private Placement, the Company repaid \$70m under the \$270m Facility (which was fully drawn upon closing of the Transaction) and repaid the \$7m Metrogas loan.

The Transaction consolidated all of Geveran's LNG assets and activities in FLEX, which now is well positioned to capitalise on the expected growth in demand for LNG shipping. The growth in shipping demand will be driven by the substantial increase in global LNG

BOARD OF DIRECTOR'S REPORT 2016 (continued)

Business update (continued)

production together with the future growth of global energy demand. The year 2016 saw a net increase of LNG imports compared to 2016 of 17 million tonnes. The growth in imports included four new LNG importing countries. Out of these four new importing countries, three chose their import terminal solution in the form of a floating storage and regasification unit (FSRU) (Jordan, Pakistan and Egypt). FLEX LNG expects the coming growth of LNG production and the expected growth in demand for natural gas in combination with the lack of ordering activity for LNG carriers to gradually tighten the shipping market in the near term. The timing of FLEX LNG's delivery position in 2018 should provide the Company with attractive alternatives for employment of the four vessels.

Most of the future growth in world energy demand is expected to come from rapid growing emerging economies, with a significant portion of this growth likely to stem from China and India. From the three commercial commodities (coal, oil and natural gas) natural gas is the only one that is expected to continue to grow its relative portion of their share of the primary energy portfolio. The significant LNG production coming to the market (especially from the US) is expected to maintain LNG as a competitively priced energy commodity. This will be a positive driver for down stream product demand as well as the demand for shipping. It will also be a significant driver for the interest in floating terminals to remain high, together with their general flexibility and fast track implementation. The floating terminals will continue to open up new markets for LNG, which will also have a positive effect for shipping demand.

As such, the Company remains well positioned with its four MEGI LNG carriers set for delivery in 2018. We believe the strengthening market sentiment and spot rates paid for LNG carriers will continue, and also believe that the market will prefer the improved efficiencies of these state of the art MEGI vessels. The Company is actively marketing the newbuild LNGCs in both the term and spot markets to be in the best position in the improving market.

In December 2016 FLEX LNG Shipping Limited, a subsidiary of the Company, entered into two separate LNGC time charters for 180 days with an option to extend for a further 180 days. The vessels are modern TFDE +170,000m³ and will be delivered in late Q1 2017. In addition, in 2017, FLEX LNG Shipping Limited entered into two further charters on similar terms. FLEX LNG Shipping Limited is actively marketing these LNGCs in the spot and short term charter market and has already chartered out one vessel for twelve months. In addition the chartering will allow the Group to establish a presence in the market and build an operational track record and chartering relationships.

In December 2016 the Company and NextDecade Global Solutions signed a Heads of Agreement to create a full value chain solution for customers looking to purchase LNG from NextDecade Rio Grande LNG export project in Brownsville, TX. Initially, NextDecade and FLEX LNG will develop FSRU and dockside solutions for international customers of NextDecade's, with the LNG supply also provided by NextDecade.

The Company has significant FSRU competence internally, and through its sponsor organisation. FSRU opportunities are actively being pursued to leverage its experience towards the implementation of FSRU projects. The CEO Jonathan Cook was co-founder of

BOARD OF DIRECTOR'S REPORT 2016 (continued)

Business update (continued)

Excelerate and Senior VP Thomas Thorkildsen was former head of business development at Höegh LNG. The Company will continue to have a proactive approach to further accretive structural transactions. It is constantly evaluating opportunities in the charter, newbuild and second-hand market and has strong backing from its main shareholder to pursue transformational deals. The Company will look to leverage the full array of financing options for the lowest possible capital costs. Its main shareholder has consistently demonstrated its strong access to the capital and financing markets.

Funding and Going Concern

The Board believes that the going concern assumption currently remains appropriate for the Group. Given the new \$270m Facility, the current high level of paid in equity, the support of its main shareholder and the debt finance expected to be raised when the vessels are delivered from the yards, the Company is expected to have working capital for the next twelve months.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed below, which could impact the carrying value of recognised assets.

Risks

The FLEX LNG Group is currently focused on becoming a leading owner of fuel efficient LNG carrier vessels and FSRU's. The Group is exposed to a variety of commercial, operational and financial risks, including market risks, credit risks, interest rate, capital risk and liquidity risks.

The uncertainties and risks include those detailed in the 2016 accounts and as summarised below. Risks associated with the ability to secure employment contracts on reasonable terms for the vessels under construction and the vessels chartered in by the Company, risks associated with newbuilding projects such as managing the design and construction process properly and counterparty risks, risks associated with obtaining delivery finance on reasonable terms, risks associated with the general LNG and LNG shipping market conditions and trends and risks of increased competition from the Group's competitors and oversupply of vessels.

Another key risk is the risk of lack of attractive funding. The Company has historically funded its operation from a combination of equity and loans from affiliated companies of the Company's key shareholder, Geveran. Although the Company now has available funds under the \$270m Facility, no assurance can be given that the Group will obtain such financing in the future and further funding (which is necessary to complete its planned growth strategies and to cover the remaining delivery instalments) is subject to market risks and other risks that may influence the availability, structure and terms of such financing.

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 an analysis of the risks to the Company are provided in accounts notes 1.4, 17, 18, and 19 and Corporate Governance section 10.

BOARD OF DIRECTOR'S REPORT 2016 (continued)

Income Statement and Balance Sheet

The Group cash balances at 31 December 2016 were \$1.4m (2015: \$3.7m) with a \$2.3m outflow year to date (2015: \$3.0m net outflow). In the twelve months in 2016 the operating cash outflow was \$1.1m (principally the operating loss after adjusting for the non cash, working capital movements and finance costs paid). In addition costs of \$1.2m were capitalised (2015: \$0.2m). The retained loss for the year 2016 was \$1.8m (2015: \$2.5m - loss), which has been transferred to reserves.

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 2016 were \$1.3m (2015: \$3.6m). In the twelve months in 2016 the operating cash outflow was \$1.6m (principally the operating loss less the non cash income statement entries, working capital movements and interest paid) and investing activities outflow \$0.8m (loans to subsidiaries). The retained loss for the year was \$1.6m (2015: \$1.7m - loss), which has been transferred to reserves. The Directors do not recommend the payment of a dividend.

The Board

There have been no changes in the composition of the Board during the financial year.

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 2016, FLEX LNG and its subsidiaries had in total 1 employee, 1 man and no woman. All personnel are employed by FLEX LNG Management Limited. 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. The FLEX LNG's Board of Directors currently consists of 3 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 16.



BOARD OF DIRECTOR'S REPORT 2016 (continued)

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
29 March 2017

David McManus (Chairman)

Robin Bakken

Marius Hermansen



Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2016 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
29 March 2017

David McManus (Chairman)

Robin Bakken

Marius Hermansen

Corporate Governance Report

1) Implementation and reporting on corporate governance

As a company incorporated in the British Virgin Islands (“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.lovdatab.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 current 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 is currently focused on becoming a leading owner of fuel efficient LNG carrier vessels and FRSUs. 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 Company is currently focused on the construction of the LNG carrier vessels on order, including obtaining commercial charter parties, and future FSRU projects. 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 2016 was USD 1,279,456.57, divided into 127,945,657 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.

Corporate Governance Report (continued)

3) Equity and dividends (continued)

Debt

As at year end 2016, the Company had borrowed \$7.0m from Metrogas for the provision of working capital. The Metrogas Loan was repaid in full upon closing of the Transaction and the receipt by the Company of the proceeds from the Private Placement. In connection with the Transaction, the company was granted the \$270m Facility, which was fully drawn upon completion of the Transaction (to part finance the acquisition costs of the newbuilds at DSME). On the receipt of the proceeds from the Private Placement, the Company repaid \$70m under the \$270m Facility, so approximately \$70m is currently available under the \$270m Facility. Once on charter the debt-to-equity leverage of the LNG carriers will be dependent upon the contract structure and the debt market at that point in time.

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.

Equity mandates

As a BVI company it has an unlimited maximum for the authorised number of shares per its Memorandum and Articles of Association. To issue new shares or amend the authorised number of shares, it requires an ordinary shareholder resolution and Board approval. Should the Company seek a mandate to increase the company's capital it will look to define the purpose for the mandate in line with the recommendations of the Code of Practice. Such mandates will ordinarily be given with effect only up until the next annual general meeting. The same applies with respect to mandates to repurchase the Company's own shares. The 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 the 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. Where the Company carries out a transaction in its own shares the intention is for this to occur through the stock exchange or at prevailing stock exchange prices, to ensure equal treatment of all shareholders. In situations where there is limited liquidity in the shares, the Company will seek other procedures to ensure that the equal treatment of shareholders is maintained.

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 and the Group's Code of Conduct require Board members and executive staff 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, or determines that the transaction is on an arm's length basis and at market prices. Any transactions between the Group and close associates will be detailed as related party transactions in note 14 to the financial statements. The costs incurred are, in the Company's opinion, made at market terms.

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, or on voting rights.

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.

Furthermore, the shareholders of the Company have on the Annual General Meeting in 2016 and 2015 resolved to issue up to 100% of the remuneration for the directors for the two years as new shares in the Company, that are to be subject to a lock-up. The two share issuances covering the board remuneration for the 2016 and 2015 year shall become unlocked either on the first or second anniversary after their respective grants.

Corporate Governance Report (continued)

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 other Shareholder Meetings, rather than 21 days, which is the recommendation of the Code of Practice. Currently, given the Company position, 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, including the recommendation of the nomination committee and to vote separately on each matter being considered, including the candidates nominated for election. The documentation will be sent to shareholders either electronically or on paper. Registration can be made in writing or by e-mail. 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) as 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 procedure to vote by proxy will be described in the notice of the AGM. 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 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, or for the nomination committee to be present; 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, executive management, and auditor will participate in the meeting 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 section 8) below, taking into account the interests of shareholders in general. 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. This includes the responsibility of proposing members to the Board of Directors and members of the Nomination committee. The Nomination committee shall also propose the fee payable to the members of the Board and the members of the Nomination committee. The recommendations of the Nomination Committee will be justified. Currently George Linardarkis and Marcus Hansson comprise the members of the Nomination Committee, are independent of the executive management and the Board. All members are elected by the shareholders for a period until the 2017 AGM and their remuneration was approved at the 2016 AGM. The Company and the Committee can be contacted, if shareholders wish to discuss nominations with the committee, or to submit proposals for candidates for election.

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

As a BVI registered company with 1 employee as at 31 December 2016, 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 shall comprise between 3 to 9 directors pursuant to the decision of the General Meeting. The Company's Board of Directors currently comprises 3 directors, of whom all are considered independent of executive management, the composition aims to ensure that the interests of all shareholders are represented. Of the three members, no directors are associated with a shareholder with a holding exceeding 10%, other than Marius Hermansen. 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.

Corporate Governance Report (continued)

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

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 2017. 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 0% and 80% of their remuneration in shares for 2016.

All Directors participated in the 2016 Board meetings.

The current Board members are listed below:

Mr. David McManus, Chairman (63) - Independent

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 and has previously served as Executive Vice President and Head of International Operations for Pioneer Natural Resources. He is currently serving as non-executive director for a number of listed companies, namely; Hess Corporation, a large NYSE listed oil and gas company with upstream operations in North America, Europe, Africa and Asia; Rockhopper Exploration plc, a UK AIM listed exploration company with assets in the Falkland Islands; Costain plc, one of the UK's leading engineering solutions providers; and Caza Oil and Gas, a dual listed exploration and production company with assets onshore USA. Mr. McManus was previously Chairman of 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 and Arzew. He has 39 years of experience in Technical, Commercial, Business Development, General Management and Executive roles across all aspects of the international oil and gas business, including; BG Group, ARCO, Ultramar, Shell and Fluor Corporation. Mr. McManus is a graduate of Heriott Watt University, Edinburgh.

Mr. Robin Bakken, Board member (42) - Independent

Mr. Bakken joined the Board in October 2014, he is a partner with the law firm BA-HR in Oslo, Norway. He has extensive experience in corporate transactions (equity capital markets and M&A), and is currently heading BAHR's corporate practise group. He specializes in securities law, company law and corporate governance, and regularly acts for issuers, investment banks and sponsors in public and private transactions. Mr. Bakken joined BA-HR in 2000, being a partner from 2007. He graduated at the University of Oslo with a law degree in 2000.

Mr. Marius Hermansen, Board member (38)

Mr. Hermansen joined the Board in December 2015, he works for Frontline Management and is involved in S&P activities for Frontline and all related companies. Previously he worked for over 10 years at Fearnleys. He was educated at the Norwegian School of Economics (NHH) in Bergen and started as a trainee with AP Moller-Maersk.

The Executive Management are listed below:

Jonathan Cook, Chief Executive Officer (54), from 01/03/17

Mr. Cook's career spans more than 30 years in the maritime and energy sectors with the last 16 years in the LNG sector. After graduating from Texas A&M University at Galveston, where he later served on the Board of Visitors, he held key positions with Coastal, El Paso, and Excelerate Energy, in addition to his 11-years career at sea as a licensed deck officer where he achieved the rank of Master Mariner. As a founding partner at Excelerate Energy in 2003, Mr. Cook was part of the leadership team that pioneered new frontiers in LNG shipping and transportation, by developing and marketing floating storage and regasification technologies to address the logistical challenges of importing and exporting LNG worldwide. During his time at Cardiff LNG, Mr. Cook managed the commercial activities including spot trading and business development and played an instrumental role in bringing Cardiff LNG to the forefront of the LNG shipping sector.

Corporate Governance Report (continued)

9) The work of the Board of Directors

The Board is ultimately responsible for the management of the Company and for supervising its day to day management. 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 Management of FLEX LNG Management Limited. The Company has established a Compensation and Audit Committee. Each committee contains the full Board and is chaired as follows; Compensation – Robin Bakken; and Audit – Marius Hermansen. The committees perform the following roles: Compensation – to review and recommend remuneration for senior management; and Audit – to review the financial reporting and controls for the Group. The audit committee will hold separate meetings with the auditor at least once a year, with the auditor inputting on the agenda items. The composition of the audit committee represents a deviation from the Code of Practice. It is however the view of the Board that the current size of the Board does not necessitate the establishment of a separate a sub-committee consisting of only a portion of the directors. The Board will however continue to monitor the development and will consider to establish a separate sub-committee in the event this is deemed to be in the interest of the shareholders.

The Board is scheduled to meet in person between one and two times a year, and additionally approximately two 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 2016 the Board has convened two times, and has 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; to adopt guidelines for the frequency and policy for external financial reporting; and to agree on the dividend policy. The Board are briefed on the Company's financial situation, the vessel construction and charter position, market conditions, the liquidity situation and cash flow forecast.

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 executive management, who are appointed by and serves at the discretion of the Board, and also reports to the Board. Further, the executive management, of the management company, are 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. The powers and responsibilities are defined in more detail by the Board of Directors.

The executive management have 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 ability to secure employment contracts on reasonable terms for the vessels under construction and for the vessels chartered in by the Group; risks associated with construction projects in general (including risks associated with the design of the vessels, counterparty risks and the financial strengths of the yards), risks associated with the capacity of the Group to obtain future finance on reasonable terms; risks associated with the ability of the Company to retain key staff, the general LNG and LNG shipping market conditions and trends, the charter market conditions for the LNGC vessels, and financial risks. In addition, the following risks inherent in the business of the Group are monitored: Risk associated with fluctuations in commodity prices, changes in the charter market, exchange rates, increased competition, the political, regulatory and tax environment of the Group, counterparty performance, risks associated with potential growth of the business and the proposed application of new technology including the potential for vessel obsolesce. The Board, working with the Audit Committee and through the annual audit process, ensures that FLEX LNG has reliable internal controls 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 quarterly reporting. 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.

Corporate Governance Report (continued)

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, details per note 3. 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 the characteristics of the different positions within the executive management. The guidelines shall include a summary of the characteristics of the employee option schemes and bonus schemes applicable to the Group. The process aims to link the performance related element of the remuneration, (options 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. In 2015 staff exercised the remaining issued share options and at the end of 2016 no share options remain outstanding. The guidelines for the remuneration of the executive management were communicated at the 2016 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.

13) Information and communications

FLEX LNG will ensure that the shareholders receive accurate, clear, relevant and timely information in accordance with legal requirements and good corporate governance practices. Publication methods will be selected to ensure simultaneous and equal access for all equity shareholders; the information is provided in English. The Company also provides information to the market through financial reports. Events of importance are made available to the stock market through notification to the Oslo Stock Exchange in accordance with the Stock Exchange regulations. 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. Stock Exchange announcements and press releases, including the financial calendar, are also made available on the Company's website.

Corporate Governance Report (continued)

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 is appointed by the General Meeting, which also determines the auditor's fee. The auditor submits the main features of the plan for the audit of the Company to the Audit Committee on an annual basis and is responsible for the audit of the consolidated financial statements. The auditor does not participate in meetings of the Board of Directors that deals 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 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 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 Company's Management regularly holds discussions with the auditor, in which accounting principles and internal control routines are reviewed and discussed, including the presentation of interim reports.

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 2016	Group 2015	Company 2016	Company 2015
Operating revenues		0	0	0	0
Administrative expenses	3	1,485	2,231	1,269	1,572
Operating (loss)		(1,485)	(2,231)	(1,269)	(1,572)
Finance income	4	9	20	9	20
Finance cost	4	314	267	314	189
(Loss) before tax		(1,790)	(2,478)	(1,574)	(1,741)
Income tax expense	7	(1)	7	0	0
(Loss) after tax		(1,789)	(2,485)	(1,574)	(1,741)
(Loss) for the year		(1,789)	(2,485)	(1,574)	(1,741)
Attributable to:					
Equity holders of the parent		(1,789)	(2,485)	(1,574)	(1,741)
Earnings per share (USD):					
		Group 2016	Group 2015	Company 2016	Company 2015
- Basic	5	(0.01)	(0.02)	(0.01)	(0.01)
- Diluted	5	(0.01)	(0.02)	(0.01)	(0.01)



Statement of Comprehensive Income - FLEX LNG Group & Company

Year ended 31 December

(USD, 000)

	Group 2016	Group 2015	Company 2016	Company 2015
(Loss) for the year	(1,789)	(2,485)	(1,574)	(1,741)
Total other comprehensive profit	0	0	0	0
Total comprehensive (loss) for the period	(1,789)	(2,485)	(1,574)	(1,741)
Attributable to: Equity holders of the parent	(1,789)	(2,485)	(1,574)	(1,741)

Statement of Financial Position – FLEX LNG Group & Company

As at 31 December (USD, 000)	Note	Group 2016	Group 2015	Company 2016	Company 2015
ASSETS					
Non-current assets					
New building assets	8	212,472	211,270	0	0
Plant and equipment	9	2	3	0	0
Loans and investments	2	0	0	214,037	213,233
Total non-current assets		212,474	211,273	214,037	213,233
Current assets					
Other current assets	10	220	252	176	244
Cash and cash equivalents	11	1,439	3,722	1,283	3,646
Total current assets		1,659	3,974	1,459	3,890
TOTAL ASSETS		214,133	215,247	215,496	217,123
EQUITY AND LIABILITIES					
Equity					
Share capital	12	1,279	1,279	1,279	1,279
Share premium	12	563,174	563,080	563,174	563,080
Other equity		(358,511)	(356,725)	(357,745)	(356,174)
Total equity		205,942	207,634	206,708	208,185
Non-current liabilities					
Other financial liabilities	14.3	7,000	7,000	7,000	7,000
Total non-current liabilities		7,000	7,000	7,000	7,000
Current liabilities					
Accounts payable		46	15	0	9
Accruals and other payables		1,145	598	1,788	1,929
Total current liabilities		1,191	613	1,788	1,938
Total liabilities		8,191	7,613	8,788	8,938
TOTAL EQUITY AND LIABILITIES		214,133	215,247	215,496	217,123

Board of Directors of FLEX LNG Ltd 29 March 2017

David McManus (Chairman)

Robin Bakken

Marius Hermansen



Consolidated Statement of Changes in Equity – FLEX LNG Group

(figures in USD,000)

For the year ended 31 December 2016	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.16	1,279	563,080	(367,333)	10,608	207,634
Loss for the period			(1,789)		(1,789)
Other comprehensive income			0		0
Total comprehensive income			(1,789)		(1,789)
Shares issued	0	94		(94)	0
Share-based payment (shares)				97	97
At 31.12.16	1,279	563,174	(369,122)	10,611	205,942

For the year ended 31 December 2015	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.15	1,269	562,942	(364,848)	10,657	210,020
Loss for the period			(2,485)		(2,485)
Other comprehensive income					0
Total comprehensive income			(2,485)		(2,485)
Shares issued	10	138		(140)	8
Share-based payment (shares)				91	91
At 31.12.15	1,279	563,080	(367,333)	10,608	207,634



Statement of Changes in Equity – FLEX LNG Ltd.

(figures in USD,000)

For the year ended 31 December 2016	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.16	1,279	563,080	(366,782)	10,608	208,185
Loss for the period			(1,574)		(1,574)
Total comprehensive income			(1,574)		(1,574)
Shares issued	0	94		(94)	0
Share-based payment (shares)				97	97
At 31.12.16	1,279	563,174	(368,356)	10,611	206,708

For the year ended 31 December 2015	Share capital	Share premium reserve	Retained earnings	Option, warrant and shares	Total to the equity owners of the parent
At 01.01.15	1,269	562,942	(365,041)	10,657	209,827
Loss for the period			(1,741)		(1,741)
Total comprehensive income			(1,741)		(1,741)
Shares issued	10	138		(140)	8
Share-based payment (shares)				91	91
At 31.12.15	1,279	563,080	(366,782)	10,608	208,185

Consolidated Statement of Cash Flows - FLEX LNG Group

Year ended 31 December

(USD, 000)

Group	Note	2016	2015
Cash flow from operating activities			
(Loss) before tax		(1,790)	(2,478)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	4	(9)	(20)
Finance expense	4	314	267
Share based payment expense		97	91
Depreciation	9	2	3
(Loss) / profit on asset disposal	3	1	(1)
Working capital adjustments:			
Decrease in prepayments		1	15
Decrease / (increase) in trade and other receivables		204	(205)
Increase / (decrease) in trade and other payables		579	(228)
		(601)	(2,556)
Income taxes paid		(1)	(7)
Interest received		9	21
Interest paid		(486)	(267)
Net cash flow from operating activities		(1,079)	(2,809)
Cash flows from investing activities			
Purchase of plant and equipment	9	(2)	(3)
Proceeds from sale of plant and equipment		0	1
Payment on new building assets & capitalised expenditure	8	(1,202)	(206)
Net cash flow used in investing activities		(1,204)	(208)
Cash flows from financing activities			
Proceeds from issue of share capital	12	0	8
Net cash flow from financing activities		0	8
Net (decrease) in cash and cash equivalents		(2,283)	(3,009)
Cash and cash equivalents at beginning of period		3,722	6,731
Cash and cash equivalents at end of period	11	1,439	3,722

Statement of Cash Flows - FLEX LNG Ltd.

Year ended 31 December

(USD, 000)

Company	Note	2016	2015
Cash flow from operating activities			
(Loss) before tax		(1,574)	(1,741)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	4	(9)	(20)
Finance expense	4	314	189
Impairment loss	2	1	1
Share based payment expense		97	91
Working capital adjustments:			
Decrease in prepayments		0	7
Decrease / (increase) in trade and other receivables		241	(243)
(Decrease) in trade and other payables		(151)	(207)
		(1,081)	(1,923)
Interest received		9	21
Interest paid		(486)	(189)
Net cash flow from operating activities		(1,558)	(2,091)
Cash flows from investing activities			
Loans and investments in subsidiaries	2	(805)	(760)
Net cash flow used in investing activities		(805)	(760)
Cash flows from financing activities			
Proceeds from issue of share capital	12	0	8
Net cash flow from financing activities		0	8
Net (decrease) in cash and cash equivalents		(2,363)	(2,843)
Cash and cash equivalents at beginning of period		3,646	6,489
Cash and cash equivalents at end of period	11	1,283	3,646

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 five 100% owned subsidiaries, as at 31/12/16. The Group produces consolidated accounts incorporating these companies and its activities, which are focused on transportation of liquefied natural gas, FSRU's and related activities. The Company is currently (as at 31 December 2016) constructing two LNG carries with a capacity of 174,000m³ with Samsung, for delivery in H1 2018. 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 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements were approved by the Board of Directors on 29.03.17 for issue on 29.03.17. The financial statements have been prepared on an historical cost basis, except for the valuation of options, which are accounted for at fair value. The financial statements have also been prepared on a going concern basis, additional information is included in notes 17 and 18, and includes comparative information in respect of the previous period.

The Group has implemented new and amended standards with effective date January 1, 2016. The adoption of the new standards/amendments has had no impact on the financial position or performance of the Group or Company.

At the end of 2016, some new standards, changes in existing standards and interpretations have been issued, but have not yet become effective. The Group and Company intends to adopt those standards when they become effective. The standards most likely to have an impact are IFRS 15 – Revenue and IFRS 16 – Leasing. At present the Group and Company estimate that the implementation will have no impact on the Group.

1.2 Functional currency and presentation currency

The Group's presentation currency is USD. This is also the functional currency of all the companies in the Group. 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. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

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

1.3 Basis of consolidation (continued)

Intragroup transactions and balances, including internal profits and unrealised gains and losses, have been eliminated in full. 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 IFRS. This means that management has used estimates and assumptions that have affected the reported values for assets, liabilities, revenues, expenses, the accompanying disclosures and information on contingent liabilities. Future events and revisions to accounting estimates 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 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. Changes in these assumptions could impact the reported fair value, as detailed below.

New build assets

Costs are capitalised as per note 1.8, as detailed in note 8. In determining the amounts that are capitalised, including the carrying amounts for historically capitalised amounts, management will make assumptions regarding future cash generation from these assets. This includes a review of broker vessel valuations, evaluations of future vessel charter rates and new build prices. The broker valuations have been reviewed and the value in use calculation has been based on market based assumptions. Given the uncertainty surrounding the future values for these amounts, any subsequent changes in these evaluations could impact the future carrying amounts for these capitalised costs. Costs are split between the different vessels based on management's view on benefits derived from the expenses incurred. An impairment loss exists when the carrying value of the asset exceeds its recoverable amount.

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.

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

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 charter, all non-current assets are located in the country of domicile. The FLEX LNGC entities are incorporated in the Isle of Man and the assets acquired in 2017 are incorporated in the Marshall Islands.

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 and four entities in the Isle of Man.

1.8 Non-current assets

Non-current assets are carried at cost less accumulated depreciation and impairment adjustments, if any. 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 reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The gross carrying amount of non-current assets is the purchase price, including duties/taxes, borrowing costs and any costs directly attributable to the location and condition necessary for use in the intended manner. Such expenses include instalment payments, compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, borrowing costs incurred to finance construction, plus other costs that are directly attributable to the assets. Capitalisation will 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 acquisition costs of the vessel will 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. Subsequent costs, such as repair and maintenance costs, are normally recognised in the income statement as incurred. Where increased economic benefits as a result of repair / maintenance work can be proven, such costs will be recognised in the balance sheet as an addition to non-current assets.

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

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

1.9 Impairment of assets

Non-current assets

At each reporting date the Group completes an assessment of whether there is an indication that an asset may be impaired. An impairment loss occurs when the carrying amount exceeds the recoverable amount, which is the higher of value in use or fair value less cost of disposal. The value in use is calculated using the present value of estimated future cash flows. The calculation is performed at the individual vessel level.

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.

1.11 Provisions, contingent liabilities and assets

A provision is a liability of uncertain timing and amount. Provisions are recognised when, and only when, the Company has an existing liability (legal or assumed) as a result of past events, it is probable (more likely than not) that an outflow of resources is required to settle the liability and the obligation can be measured reliably. Provisions are reviewed at each balance sheet date. The amount recognised is the best estimate of the expenditure required to settle the obligation. When the time factor is insignificant, the provisions will be equal to the cost required to settle 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:

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

Contingent liabilities not recognised, but are disclosed, with the exception of contingent liabilities where the possibility of any outflow in settlement 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 an inflow of economic benefit is probable.

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

1.11 Provisions, contingent liabilities and assets (continued)

New information that provides evidence of conditions that existed at the balance sheet date are taken into account in the amounts recognised in the annual financial statements. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date, but which will affect the Group's position in the future are disclosed, if material.

1.12 Options and share based payments – equity settled transactions

At award the fair value of share options is calculated using an appropriate option pricing model.

The option cost is recognised over the period in which the performance is expected to be 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, where new shares are issued instead of cash remuneration being paid. The value of the services is recognised at the fair value of the shares issued.

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.

1.14 Investment in subsidiaries

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 2: Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

Company	Country of registration	Main operations	Ownership share	Voting share
FLEX LNGC 1 Limited	Isle of Man	Shipping	100%	100%
FLEX LNGC 2 Limited	Isle of Man	Shipping	100%	100%
FLEX LNG Shipping Limited	Isle of Man	Shipping	100%	100%
FLEX LNG Management Limited	Isle of Man	Management services	100%	100%
FLEX Petroleum Limited	British Virgin Islands	Holding company	100%	100%

FLEX LNG Ltd – Loans and investments in subsidiaries

Company (USD 000)	2016	2015
FLEX LNGC 1 Limited	107,134	106,617
FLEX LNGC 2 Limited	106,903	106,616
FLEX Petroleum Limited	3,809	3,808
Impairment provision	(3,809)	(3,808)
	214,037	213,233

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 payments to Samsung, capitalised costs, running costs and an allocated share of the management recharge.

Given the non trading nature of FLEX Petroleum the Company continues to hold a provision against this loan balance, with an additional \$1k being provided in the year (2015: \$1k). This adjustment has no impact at a consolidated level.

Note 3: Administrative expenses

As detailed in note 1.8 capitalised costs 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.

3.1 Included in administration expenses USD,000	Group 2016	Group 2015	Company 2016	Company 2015
Depreciation	2	3	0	0
P&L on disposal of assets	1	(1)	0	0
Net foreign exchange differences	14	4	11	(10)

3.2 Auditors

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

USD,000	Group 2016	Group 2015	Company 2016	Company 2015
Audit	35	34	30	29
Tax and other assistance	10	29	0	16
Total Auditor's fees	45	63	30	45

Note 3: Administrative expenses (continued)

3.3 Remuneration

During 2016 FLEX LNG had three Directors, but no employees. All employees are engaged by the management company.

Staff costs USD,000	Group 2016	Group 2015	Company 2016	Company 2015
Wages and salaries	743	815	0	0
Social security costs	105	100	12	(44)
Pension costs	24	36	0	0
Termination costs	0	126	0	0
Total employee benefit expenses	872	1,077	12	(44)

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 members of staff, who are also offered additional health insurance. The number of man-labour years in 2016 was 3 (2015 – 5). The Company has incurred social security costs (\$12k) in relation to the payment of Directors fees in the Isle of Man.

Directors fees FLEX LNG Ltd, USD,000	Company 2016	Company 2015
<u>Current Directors</u>		
David McManus	100	100
Robin Bakken	40	40
Marius Hermansen	40	3
<u>Ex. Directors</u>		
Jens Martin Jensen	0	37
Total Directors' fees	180	180

Mr. McManus received 65% of his remuneration as shares, Mr. Hermansen 80% and Mr. Bakken nil.

Executive Management USD,000	Salary	Sundry benefits	Pension	Option costs	Group Total
Jostein Ueland	221	3	10	0	234
Trym Tveitnes	184	2	6	0	192
2016	405	5	16	0	426
2015	561	7	28	0	596

Mr. Ueland and Tveitnes left the Group on 30 September 2016. In the period from 01/09/16 to 28/02/17 Mr. Cook was employed by an affiliated company, in the period to 31 December 2016 the FLEX LNG Group was recharged USD 139k in relation to Mr. Cook. On 01/03/17 Mr. Cook became the CEO for the FLEX LNG Management company.

The Executive Management receive remuneration via the management company FLEX LNG Management Limited. The amounts disclosed are the amounts recognised as an expense during the reporting period. Pension provision is provided under defined contribution schemes.

Note 4: Finance costs and revenue

	Group 2016	Group 2015	Company 2016	Company 2015
Finance cost				
Loan interest	314	267	314	189
Total financial cost	314	267	314	189
	Group 2016	Group 2015	Company 2016	Company 2015
Finance revenue				
Interest income	9	20	9	20
Total financial revenue	9	20	9	20

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 the dilutive potential ordinary shares into ordinary shares.

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

Earnings per share:	2016	2015
(Loss) attributable to shareholders – Group \$'000	(1,789)	(2,485)
(Loss) attributable to shareholders – Company \$'000	(1,574)	(1,741)
Weighted average number of ordinary shares	127,922,003	127,817,061
Effect of dilution:		
Share options	0	0
Weighted average number of shares, adjusted for dilution	127,922,003	126,817,061

Note 6: Management fees, Company

There are no employees in FLEX LNG Ltd. A contract for management services has been entered into with FLEX LNG Management Limited. According to this agreement, FLEX LNG Management Limited will render services to the Group relating to general administration and contract management. FLEX LNG Management Limited is entitled to compensation covering all its expenses plus a mark-up. The total compensation for 2016 was \$1,095k (2015: \$1,545k). At the period end the Company owed FLEX LNG Management Limited \$1,608k (2015: \$1,761k).

Note 7: Income tax

The Group consists of two legal entities incorporated in the BVI and four entities in the Isle of Man. Income or capital gains are not subject to taxation in the BVI, or the Isle of Man. The profits attributable to the Management Company are taxable in the United Kingdom (UK).

(USD,000)	Group 2016	Group 2015
Current income tax charge	8	10
Adjustments in respect of current income tax of previous years	(9)	(3)
Income tax expense reported in the income statement	(1)	7

(USD,000)	Company 2016	Company 2015
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

A reconciliation between the tax expense and the product of the accounting profit multiplied by the BVI domestic tax rate for the year ended 31 December 2016 and 2015 is as follows:

(USD,000)	Group 2016	Group 2015
Accounting (loss) before income tax	(1,790)	(2,478)
Income tax at 0% (2015:0%) – BVI	0	0
Effect of higher overseas tax rates	(1)	7
Effective income tax rate of (0.0)% (2015: 0.3%)	(1)	7

(USD,000)	Company 2016	Company 2015
Accounting (loss) before income tax	(1,574)	(1,741)
Income tax at 0% (2015:0%) – BVI	0	0
Effective income tax rate of 0% (2015: 0%)	0	0

Note 8: New Building Assets and Capitalised Costs

(USD,000) – Group	2016	2015
At 1 January – instalment payments	210,000	210,000
At 31 December	210,000	210,000
At 1 January – capitalised costs	1,270	1,064
Additions	1,202	206
At 31 December	2,472	1,270
At 1 January – Total	211,270	211,064
Additions	1,202	206
At 31 December	212,472	211,270

In 2016 the Group has capitalised \$1,144k (2015:\$190k) of technical staff (\$21k) and travel (\$3k), and technical consultancy costs (\$1,120k). In addition \$58k of finance costs was also capitalised in the year (2015: \$16k). Capitalised interest is calculated as a percentage of the capitalised cost against the total costs funded by the working capital loan in the period. The remaining instalments due are detailed in note 15.1.

In determining the carrying amounts for historically capitalised costs, management has made assumptions regarding future cash generation from these assets. This includes a review of broker vessel valuations, evaluations of future vessel charter rates and new build prices. Given the uncertainty surrounding the future values for these amounts, any subsequent changes in these evaluations could impact the future carrying amounts for these capitalised costs. The most significant impact on the estimations are related to expected future rates. Material decreases in future rates will impact the valuation and lead to impairment. Hence the carrying amounts are highly dependent on expected future rates.

The group has in 2017 reviewed the market prices for new build LNGC vessels, obtained a broker valuation for the vessels under construction, performed a value in use calculation, based on market based assumptions, and believes that the recoverable amount is such that no impairment provision is required on the vessels under construction.

In addition, as covered in note 16.1, the Company in 2017 acquired two additional newbuild LNGC vessels. The transaction was on market terms and the vessel valuations further supported the carrying values for the existing two newbuilds. The valuation was also supported via a fairness opinion, that was obtained on the two LNGCs being acquired.

Note 9: Plant and Equipment

(USD,000) - Group

Cost	2016	2015
1 January	7	112
Additions	2	3
Disposals	(4)	(108)
31 December	5	7

(USD,000) - Group

Depreciation	2016	2015
1 January	4	109
Depreciation charge for the year	2	3
Disposals	(3)	(108)
31 December	3	4
Net book value	2016	2015
At 31 December	2	3

Note 10: Other current assets

(USD 000)	Group 2016	Group 2015	Company 2016	Company 2015
Debtors	46	250	3	244
Prepayments	174	2	173	0
Total other current assets	220	252	176	244

Note 11: Cash and cash equivalents

(USD 000)	Group 2016	Group 2015	Company 2016	Company 2015
Cash at the bank and in hand	1,439	3,722	1,283	3,646
Cash and cash equivalents in the balance sheet and cash flow statement	1,439	3,722	1,283	3,646

Note 12: Share capital, shareholder information and dividend

Group & Company		2016	2015
Ordinary shares, nominal amount USD 0.01		127,945,657	127,869,673
Total number of shares		127,945,657	127,869,673

Group & Company	Shares (‘000)	Share Capital (USD‘000)	Share Premium (USD‘000)
Ordinary shares - Issued and fully paid:			
At 1 January 2016	127,870	1,279	563,080
Issued in lieu of remuneration	76	0	94
31 December 2016	127,946	1,279	563,174

Group & Company	Shares (‘000)	Share Capital (USD‘000)	Share Premium (USD‘000)
Ordinary shares - Issued and fully paid:			
At 1 January 2015	126,921	1,269	562,942
Options exercised	830	8	0
Issued in lieu of remuneration	119	2	138
31 December 2015	127,870	1,279	563,080

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 0% and 80% of their remuneration for the year. The Directors' shares for the remuneration, covering the period 01/07/16 to 31/12/16, had not been issued at 31/12/16 and are recorded in the option, warrant and share reserves, \$49k (2015: \$46k). During the year no staff options have been exercised (2015: 830,000 options). The computation of earnings per share and diluted earnings per share is shown in note 5.

Option, warrant and share reserves: FLEX LNG has in the year recognised under other equity a credit of \$3k (2015: \$49k - debit) in relation to the options costs and shares issued by the Company.

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

Main Group shareholders at 31.12.16 are: Shareholder:	Number of shares:	Ownership interest:
GEVERAN TRADING CO	104,181,837	81.4%
POLYGON (PE) HOLDING	13,526,588	10.6%
STATE STREET BANK ¹	2,824,550	2.2%
GOLDMAN SACHS ¹	1,291,771	1.0%
SKANDINAVISKA ENSKIL	1,015,573	0.8%
ABN AMRO BANK ¹	823,234	0.6%
D MCMANUS	796,116	0.6%
TOLUMA INVEST AS	486,358	0.4%
C PITTINGER	197,654	0.2%
EUROCLEAR BANK N.V. ¹	191,572	0.1%
T TVEITNES	185,300	0.1%
S PEARL	160,746	0.1%
B FJELD	155,739	0.1%
MATHIAS HOLDING	154,572	0.1%
S MALM	154,297	0.1%
S BIRKELAND	105,000	0.1%
S TROMSØ	90,000	0.1%
AVANZA BANK AB ¹	78,164	0.1%
J CLARKE	72,500	0.1%
K GUTTORMSEN	70,455	0.1%
OTHER	1,383,631	1.1%
Total	127,945,657	100.0%

Note¹ - Nominee account.

Note 13: Share based payments

Share-Based Payment - Group & Company

The Company has historically entered into a number of option scheme allocations. At 31 December 2016 no options remained outstanding.

During the period ended 31 December 2016 FLEX LNG agreed to issue the directors with shares covering between 0% and 80% of their remuneration. The value of the shares are based on the fair value of the services received of \$97k (2015 - \$91k). At 31 December 2016 37,599 shares (2015: 37,209 shares) with a value of \$49k had not yet been issued to the directors.

The split of shares, covering the 2016 remuneration, by director was as follows;

Director	2016	2015
<u>Current directors</u>		
David McManus	51,178	46,289
Robin Bakken	0	0
Marius Hermansen	25,196	16,784
<u>Ex. directors</u>		
Jens Martin Jensen	0	1,776
Total	76,374	64,849

Note 14: Related parties

14.1 Shares held by current members of the Board, as at 31/12/16

Board Member	2016	2015
David McManus	796,116	743,587
Robin Bakken	0	0
Marius Hermansen	14,568	0
Total	810,684	743,587

These amounts exclude the shares that had not been issued as at 31/12/16, per note 16.2.

14.2 LNGC technical specifications and construction agreement

In June 2015 the Group entered into a building supervision agreement with Frontline Management (Bermuda) Ltd (a subsidiary of Frontline Ltd., a listed entity whose majority shareholder is Hemen Holding Limited, a company affiliated to Geveran) to cover the two vessels on order from Samsung. At 31 December \$463k had been paid under these contracts, with \$694k of cost accrued at the period end. The agreement is within the normal activities of the company and on market terms, and was negotiated on an arm's length basis.

Note 14: Related parties (continued)

14.3 Working capital loan

On 27 October 2014 the Group entered into a loan agreement with Metrogas for the provision of \$7.0m of working capital and the loan was drawn in November 2014. The loan bears a fixed rate of interest and is secured against the shares in the two ship owning companies. Metrogas is a company affiliated to Geveran. The interest cost, prior to capitalisation, was \$285k (2015: \$283k). The loan agreement is within the normal activities of the company and on market terms, and was negotiated on an arm's length basis. The loan is being used to cover working capital costs. In addition in 2016 a fee of \$260k was paid to Metrogas as a commitment and amendment fee for the changes in 2016 to the 2014 loan agreement. The Metrogas loan was repaid in full upon receipt of the proceeds from the Private Placement.

14.4 Overhead costs

The FLEX Management company uses office space, and receives commercial and accounting support from companies affiliated to Geveran, at the year end costs of \$261k (2015: \$79k) had been incurred in the year. In addition the legal firm BHR provided legal advice in 2016 totalling \$3k, Mr. Bakken is partner of this firm.

At the period end costs totalling \$755k were outstanding to related parties.

Note 15: Commitments and contingencies

15.1 Guarantees / commitments

The Company has provided guarantees in relation to the payments still due under the two shipbuilding contracts with Samsung. Under the settlement agreement \$210.0m was redeployed to be used as the first instalment for the two vessels. The remaining instalments will be due on delivery of the vessels (\$213.8m), prior to any amounts for any further design change requests, buyer's spares and fit out. Delivery is scheduled for January and April 2018.

15.2 LNGC Time Charters

In 2016 the Group entered into two separate LNGC time charters for 180 days with the option to extend for a further 180 days. The vessels will be delivered in 2017 and the charter commitments for the first 180 days total \$11.1m.

Note 16: Subsequent events / after balance sheet date

16.1 Private Placement and Transaction

On 16 February 2017 the Company announced that it was contemplating entering into a transaction for the acquisition of shipbuilding contracts for two high-end MEGI LNGC newbuilds at DSME with scheduled delivery in Q1 2018, currently held by affiliates of Geveran, the Company's largest shareholder (the "Transaction"). The Transaction was completed 9 March 2017. Parts of the consideration payable for the newbuilds were settled by the Company through the issuance of 78 million new shares in the Company to Geveran. The remaining part of the consideration was settled by a \$270m credit structured as a revolving credit facility (RCF). The RCF has a fixed interest rate of 1.00% until delivery and LIBOR + 300 bps with tenor of 3 years from delivery, additional details in note 16.3. In addition, the Company completed a contemplated \$100m offering of new shares against cash payment (the "Private Placement") The Private Placement raised gross proceeds of NOK 833m (approximately \$100m) at a subscription price of NOK 11.50 per share. In addition, a subsequent offering of up to 7.2 million new shares in the Company for gross proceeds of up to NOK 83 million (approximately \$10m) will be made to shareholders that were not allocated shares in the Private Placement, or were residents in a jurisdiction not able to participate in the Private Placement.

16.2 Shares

In January 2017 the Company issued 37,599 additional shares to cover between zero and eighty percent of the Director's remuneration from 1 July 2016 to the 2016 year end.

16.3 Working Capital

Following the receipt of the proceeds in the Private Placements proceeds, in March 2017, the Metrogas loan was repaid and in addition \$70m under the \$270m Facility was repaid, the \$70m can be drawn if required.

Note 17: Financing

On the present overhead structure and budgeted costs, the Company believes that the new \$270m Facility will provide sufficient working capital to operate until the delivery of the vessels. At delivery the Company will need to raise additional funds, to cover the final delivery instalments, and believes the flexibility provided by the \$270m Facility will allow this to occur.

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.

Note 18: 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 business course.

The Board believes that the going concern assumption currently remains appropriate for the Group. Given the remaining \$70m of the \$270m Facility, the current high level of paid in equity, the support of its main shareholder and the bank debt finance that needs to be raised when the vessels are delivered from the yards, the Company is expected to have working capital for the next twelve months. The Company requires additional funding and there can be no assurance that such funds may be raised on terms that are reasonable, if at all. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties detailed in the report.

Note 19: 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, in a cost effective manner.

Currency risk

The risk that 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 equity funding in USD, with the share price denominated in NOK, but with the funding proceeds being fixed into USD. The 2014 loan finance was additionally raised in USD.

Additionally, the Group incurs some overhead costs in GBP 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.

Interest rate risk

The Group currently has interest bearing assets and liabilities. Amounts are placed on deposit for periods to secure higher returns, while balancing the need to access funds as required. The cost on the interest bearing liabilities has been raised at a fixed rate of interest.

Note 19: Financial risk management objectives and policies (continued)

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 and loan finance. Market conditions can have a significant impact on the ability to raise equity and loan finance, while new equity financing may be dilutive to existing shareholders and loan finance which will contain covenant and other restrictions.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the raising of finance from investors.

Upon delivery of the respective vessels from the yards, the Company will look to have raised loan finance to cover the remaining delivery payments that are due.

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. Samsung has provided refund guarantees for the \$210m instalment payment. The bank providing the refund guarantee must hold at least a credit rating of A-. Cash funds are currently held with HSBC, Lloyds, RBS and Barclays.

Price risk

The Group is also subject, indirectly, to price risk related to the spot/short term charter market for chartering LNG carriers, but currently has not yet concluded a contract for the use of the vessels under construction. There will be an impact on the four LNGC vessels that have been chartered in for delivery in 2017. Charter rates may be uncertain and volatile and depend upon, among other things, the natural gas prices, the supply and demand for vessels, arbitrage opportunities, vessel obsolescence and the energy market, which the Group cannot predict with certainty. Currently, no financial instruments have been entered into to reduce this risk.

Operational risk

Currently the Group is managing the construction phase for the vessels and has yet to secure charters for the vessels. Operational risks therefore mainly relate to expenditure being higher than forecast, decisions on the design specifications, risks to the environment and risks to the safety of staff. At a commercial level it also includes the ability to secure employment contracts on reasonable terms for the vessels under construction; and obtaining finance and working capital on reasonable terms. In 2017 it will include the four LNGC vessels that have been chartered in.

Regulatory and compliance risk

These are risks associated with ethical behaviour covering the handling of sensitive information and compliance with laws and regulations. These risks are managed via Group policies and guidance.

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Flex LNG Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Flex LNG Ltd., which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the statement of financial position as at 31 December 2016, income statement, statement of comprehensive income, the statement of cash flows and statement changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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 Company and the Group as at 31 December 2016 and their financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

The book value of vessels under construction is 212.5 million USD and consists of the first installments for purchases of the two vessels and capitalized cost related to construction of the two vessels. The impairment evaluation of the two LNG-vessels under construction is dependent on a range of assumptions such as expected utilization and day rates, which in turn are dependent on future market development and economic conditions. Vessels under construction is 99 % of total assets and is considered a key audit matter due to the relative size and the involvement of management's judgment in establishing the estimates and assumptions.

Our audit procedures included an evaluation of the cash flows projected by management through comparing the assumptions to external data such as data from comparative companies, observable

market rates, available contract information and external macroeconomic analysis. We evaluated reasonableness in expected useful life, expected operating expenditures and dry dock cost to the market expectation within the sector. Furthermore, we evaluated the discount rate used in the value in use model comparing the different elements with external data such as risk free interest on government bonds, beta and market risk premium for comparable companies, and by evaluating that Flex LNG had applied adjustments for company specific factors. We also evaluated the level of consistency of the assumptions used in the valuation methodology from previous years and tested the mathematical accuracy of the valuation model.

Refer to note 8 regarding new building assets and capitalized costs.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Director's (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit 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 Company's internal control;

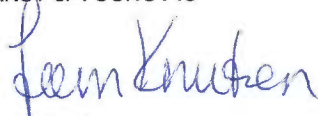
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Bergen, 29 March 2017
ERNST & YOUNG AS



Jørn Knutsen
State Authorised Public Accountant (Norway)