

FLEX LNG GROUP



Q1 2012

BOARD REPORT

Financials, Quarter One 2012

(Figures in brackets refer to the corresponding period of 2011)

In the quarter the front-end engineering and design ("FEED"), work on a potential LNG Producer unit for the Gulf LNG project in Papua New Guinea ("PNG") was finalised. The Company has also been looking to progress the discussions with Samsung Heavy Industries ("Samsung") on the restructuring of existing contracts and negotiations for the Alternative Deployment, as detailed below, of paid-in instalments.

The cash balances at 31 March were \$11.6m (\$6.5m) with \$3.2m net outflow (\$3.4m) in the quarter. In the three months in 2012 the operating cash outflow was \$3.6m (principally the operating loss and working capital movements); and financing activities inflow \$0.4m (deferred payments to Samsung).

The loss before tax was \$1.7m (\$3.7m) in the quarter, with a year to date retained net loss of \$1.7m (\$3.8m). In the quarter there have been Gulf LNG Project related costs, which have been offset by a credit of \$1.4m on forfeited share options (\$0.8m share option charge).

Outlook

In April 2011 the Group announced that it had signed agreements with IOC, PACLNG and Samsung for a FLNG project in PNG with targeted start of operations in 2014. The Gulf LNG Project was expected to have liquefied and exported gas from the Elk and Antelope gas fields in the Gulf Province of PNG. Samsung undertook the FEED work for the hull portion of the FLNG unit; whilst a Worley Parsons led JV was responsible for the FEED work for the topside under contract with Samsung.

The objective had been for the Gulf LNG Project to have reached FID in December 2011. In December 2011 the multiparty agreements among IOC, PACLNG and Samsung and the framework agreement between FLEX and the sponsors of the Gulf LNG Project were permitted to lapse due to lack of progress by the Gulf LNG Project sponsors. FLEX LNG is currently unable to forecast the expected timing of a potential FID for the Gulf LNG Project.

With the FEED work that has been executed, the Company believes it has taken technical preparations necessary, to the extent possible at this stage, to support FID, if and when the project sponsors, the PNG Government and other stakeholders are able to finalise project terms. In the meantime the Company continues to provide ongoing assistance to IOC and PACLNG.

In light of the uncertainty surrounding the timing of FID for the Gulf LNG Project, the 2011 Preliminary Agreement between FLEX LNG and Samsung was allowed to lapse in early 2012 and the Company and Samsung have now expanded the scope of their discussions to include restructuring of existing contracts and negotiations for an alternative deployment, which would include the possibility of the construction of LNG carrier and/or regassification vessels (the "Alternative Deployment"). The Company continues to expect to conclude these negotiations over the coming months.

Outlook (continued)

In the 2011 statutory accounts, the Group recognised an impairment write-down on the new build assets. The Company currently expects to have greater clarity as to the carrying value at the completion of negotiations with Samsung. The amount of capital transferred for Alternative Deployment will depend on a number of factors that are not directly under the control of the Group (including the commercial terms for the restructuring and Alternative Deployment options).

Financing and Risks

In the event that Samsung and FLEX LNG agree to pursue an Alternative Deployment, the Company expects to consider a number of financing alternatives for raising working capital and instalment requirements; this will depend, among other things, on the number of vessels ordered, the debt equity ratio, level of instalments available for redeployment, economic terms of utilisation, final capital cost and market conditions. In the meantime, based upon current levels of cash utilisation, the Company believes that it will have sufficient working capital to last into 2013.

In relation to the current restructuring negotiations with Samsung there can be no assurance that agreement will be reached or that it will be reached in a manner that is favourable for the Company. In the event no agreement is reached with Samsung on restructuring of existing contracts and/or the Alternative Deployment of its invested capital, the Company will need to consider the alternative options available to the Company as well as the timing for raising additional working capital.

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.

The Board believes the going concern position and risks remain both as described in the 2011 statutory accounts and as summarised by this Q1 2012 financial report, including note 2.

Unaudited Interim Financial Report

Condensed Consolidated Income Statement

(Unaudited figures in USD,000)

For the quarter ended 31 March 2012	Unaudited			
	Note	Q1 12	Q1 11	2011
Operating revenues		0	0	0
Total revenue		0	0	0
Administrative expenses		1,516	3,702	13,287
Impairment write down		0	0	112,291
Operating loss before depreciation		(1,516)	(3,702)	(125,578)
Depreciation		32	37	146
Operating loss		(1,548)	(3,739)	(125,724)
Finance income		25	8	77
Finance cost		(127)	0	(10,224)
Loss before tax		(1,650)	(3,731)	(135,871)
Income tax expense		19	21	88
Net loss		(1,669)	(3,752)	(135,959)
Attributable to:				
Equity holders of the parent		(1,669)	(3,752)	(135,959)
Earnings per share:				
Basic	10	(0.01)	(0.03)	(1.13)
Diluted	10	(0.01)	(0.03)	(1.13)

Condensed Consolidated Statement of Comprehensive Income

(Unaudited figures in USD,000)

For the quarter ended 31 March 2012	Unaudited			
		Q1 12	Q1 11	2011
Loss for the period		(1,669)	(3,752)	(135,959)
Exchange differences on translation		29	31	(14)
Total other comprehensive (loss) / profit		29	31	(14)
Total comprehensive income for the period		(1,640)	(3,721)	(135,973)
Attributable to:				
Equity holders of the parent		(1,640)	(3,721)	(135,973)

Condensed Consolidated Statement of Financial Position

(Unaudited figures in USD,000)

For the period ended 31 March 2012	Unaudited			
	Note	Q1 2012	Q1 2011	2011
New building contracts	4	342,412	432,258	342,412
Plant and equipment		147	230	178
Investment – unquoted shares	5	0	875	0
Total non-current assets		342,559	433,363	342,590
Other current assets		956	962	1,049
Loan	5	0	1,532	0
Cash and cash equivalents	6	11,602	6,462	14,754
Total current assets		12,558	8,956	15,803
TOTAL ASSETS		355,117	442,319	358,393
Share capital		1,251	1,132	1,248
Share premium		562,087	552,584	561,946
Other equity		(249,870)	(126,138)	(246,788)
Equity attributable to equity holders of the parent		313,468	427,578	316,406
Total equity		313,468	427,578	316,406
Other financial liabilities	7	29,640	11,481	29,238
Total non-current liabilities		29,640	11,481	29,238
Current liabilities	7	12,009	3,260	12,749
Total current liabilities		12,009	3,260	12,749
Total liabilities		41,649	14,741	41,987
TOTAL EQUITY AND LIABILITIES		355,117	442,319	358,393



Condensed Consolidated Statement of Changes in Equity

(Unaudited figures in USD,000)

For the period ended 31 March 2012	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders
At 01.01.12	1,248	561,946	(268,875)	(314)	22,401	316,406
Loss for the period			(1,669)			(1,669)
Other comprehensive income				29		29
Total comprehensive income			(1,669)	29		(1,640)
Shares issued	3	141			(144)	0
Share-based payment (options / warrants)					(1,383)	(1,383)
Share-based payment (shares)					85	85
At 31.03.12	1,251	562,087	(270,544)	(285)	20,959	313,468

For the period ended 31 March 2011	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders
At 01.01.11	1,130	552,490	(132,916)	(300)	10,091	430,495
Loss for the period			(3,752)			(3,752)
Other comprehensive income				31		31
Total comprehensive income			(3,752)	31		(3,721)
Shares issued	2	94			(96)	0
Share-based payment (options / warrants)					756	756
Share-based payment (shares)					48	48
At 31.03.11	1,132	552,584	(136,668)	(269)	10,799	427,578

Condensed Consolidated Statement of Cash Flows

(Unaudited figures in USD,000)

For the period ended 31 March 2012	Unaudited		
	Q1 12	Q1 11	2011
Net cash flow from operating activities	(3,582)	(2,976)	531
Net cash flow used in investing activities	(1)	(1,026)	(23,527)
Net cash flow from financing activities	402	544	27,875
Net cash flow	(3,181)	(3,458)	4,879
Net exchange translation effect	29	31	(14)
Cash balance at beginning of period	14,754	9,889	9,889
Cash balance at end of period	11,602	6,462	14,754

Notes to the Interim Consolidated Accounts

Note 1: General information

FLEX LNG Ltd is a limited liability company, incorporated in the British Virgin Islands. The Group includes eight 100% owned and active subsidiaries. The Group's activities are focused on developing production, transportation and/or storage of liquefied natural gas and related activities.

The interim condensed consolidated financial statements of the Group for the quarter ended 31 March 2012 were authorised for issue by the board of directors on 24 May 2012.

Note 2: Accounting principles

Basis of preparation - The interim condensed consolidated financial statements for the quarter ended 31 March 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

The preparation of interim accounts involves the use of appraisals, estimates and assumptions influencing the application of accounting principles and recognised amounts for assets, obligations and costs. Actual results may differ from these estimates. The uncertainties and risks include both those noted in the 2011 accounts and as summarised below. These include the calculation of the recoverable amount for the contracts with Samsung; the settlement of the contract restructure with Samsung on reasonable terms; agreeing the level of paid-in instalments available for redeployment with Samsung on reasonable terms; achieving FID on the Gulf LNG Project, or agreement to the Alternative Deployment and the economics of such Alternative Deployment (including being able to secure employment contracts on reasonable terms for any alternative vessel constructed by Samsung); the contractual consequences if this does not occur; potential Samsung claims under its agreement with the Company; the political situation in PNG; any IOC/PACLNG contractual arrangements being on economically viable terms; obtaining finance and working capital at reasonable terms. The Group is operating in only one segment with respect to products and services. Segment reporting is thus not relevant.

Note 2: Accounting principles (continued)

Significant accounting policies - The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new Standards and Interpretation as of 1 January 2012, as noted below:

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

As of the end of Q1 2012, some new standards, changes in existing standards and interpretations have been issued, but not yet become effective:

IFRS 1 - Amendment: Severe hyperinflation and removal of fixed dates for first time adopters; IFRS 1 - Amendment: Government Loans; IFRS 7 - Amendment: New disclosure requirements - Offsetting of Financial Assets and Financial Liabilities; IFRS 1 - Amendment: Severe hyperinflation and removal of fixed dates for first time adopters; IFRS 10 - Consolidated Financial Statements; IFRS 11 - Joint Arrangements; IFRS 12 - Disclosure of Interests in Other Entities; IFRS 13 - Fair Value Measurement; IAS 1 - Amendment Presentation of Items of Other Comprehensive Income; IAS 12 - Amendment: Deferred tax- Recovery of underlying assets; IAS 19 - Amendment Employee Benefits; IAS 27 Revised Separate Financial Statements; IAS 28 Revised Investments in Associates and Joint Ventures; IAS 32 - Amendment: Offsetting Financial Assets and Financial Liabilities; and IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

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

Note 3: Option, warrant and salary costs

In Q1 2012 the Company issued no new options to staff. The staff bonus scheme introduced in 2010 continues, which is linked to key commercial goals for the Group. The P&L credit for all outstanding options and warrants for the quarter was \$1.4m (2011: \$0.8m - cost). The exercise rights as to certain options and warrants are based on vesting criteria linked to LNGP commercial targets, and the Q1 2012 costs are based on assumptions that these commercial targets are achievable. Were these targets not to be achievable, it would have an impact on the income statement in respect of the options and warrants. It is possible that the option and warrant schemes could undergo certain changes.

Note 4: New Building contracts

The carrying value of the capitalised costs for the four New Building contracts and related capitalised development costs are dependent on a number of interrelated matters, including, without limitation: (i) the conclusion of the negotiations with Samsung in relation to (a) restructuring of the LNG Producer contracts for the purpose of supporting FID for the Gulf LNG Project and deployment of the LNG Producer to that project, and/or (b) the amount of capital available for Alternative Redeployment, and the terms and conditions agreed with Samsung for development and, potentially, financing of vessels using such capital, and/or (c) the Company's best estimate of the recoverable amount for the other possible resolutions for the Samsung agreements; and (ii) the terms and conditions agreed with the sponsors of the Gulf LNG Project for deployment of the LNG Producer and/or the terms and conditions agreed for the utilisation of any vessels

Note 4: New Building contracts (continued)

delivered pursuant to an Alternative Deployment; (iii) the terms of finance for the above-mentioned projects and if such finance can be secured at reasonable terms; (iv) the estimated value of these potential future commercial development strategies for the Company; and (v) the ability to reuse and commercialise certain generic LNGP designs for future projects. Additional details on the calculation of the carrying value can be found in the 2011 statutory accounts.

The Company continues discussions with Samsung as noted above, including as to a number of aspects that are anticipated to have an impact on projected cash flows.

Note 5: Investment and loan

At 31 March 2012 the Group holds 5% of the share capital of Minza Limited ("Minza"), which has a carrying value of \$nil (2011: \$875k). The Group has also loaned Minza \$1,532k, carrying value of \$nil (2011: \$1,532k). The terms of the loan provided that if the loan was not repaid by Minza by 31 October 2011 the loan would convert into 13.75% of the shares in Minza. Currently Minza has not executed the conversion of the loan into additional share capital; the Company does not accept this position and is evaluating strategies to resolve the situation.

Note 6: Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise the following;

<i>(Unaudited figures in USD,000)</i>	Unaudited		
	Q1 12	Q1 11	2011
Cash at bank and in hand	11,602	6,462	14,754

Note 7: Other financial liabilities and current liabilities

On 11 June 2009 the Group entered into an agreement (the "Principle Agreement") with Samsung covering the revised payment profile during the slow down phase. Under the agreement, in addition to the agreed instalments, the Group had the opportunity to defer up to \$4m of EPCIC expenditure in the period from 1 May 2009 to 31 August 2009. Under the Principle Agreement the amount deferred would be repayable with the first milestone billing after the slow down phase and bear interest at 7% per annum. At 31 March 2012 \$4,269k (2011: \$4,114k) had been deferred, including interest. In addition certain vendor obligations on the EPCIC contract are covered by Samsung. These amounts become payable by the Group not earlier than seven months after the resumption date, under the Principle Agreement with Samsung. At 31 March 2012 it is estimated that \$7,755k (2011: \$7,246k) in vendor obligations have been incurred by Samsung on behalf of the Group and a provision has been made for this cost. Subsequently it was agreed in the 2011 Preliminary Agreement that upon FID for the Gulf LNG Project, these amounts and the timing of payments would be restructured. The 2011 Preliminary Agreement also covered FEED related costs for the Gulf LNG Project and costs of \$17,564k have been incurred by Samsung for the Group and funded per the Preliminary Agreement by applying funds previously received as instalments from the Group. While the Preliminary Agreement has lapsed, in the case of agreement for Alternative Deployment, the Company expects certain amounts paid by Samsung on behalf of the Group would be offset against paid in instalments. As no agreement has been reached at this time, however the amounts remain accounted for as liabilities, additional details in note 2 of the 2011 statutory accounts. In addition a \$52k (2011: \$121k) provision for the property lease liabilities is included, based on a fair value allocation on the lease acquired by FLEX LNG Management Limited. It is believed that the carrying values and fair values for the other financial liabilities are the same.

Note 7: Other financial liabilities and current liabilities (continued)

Current liabilities include a \$10.0m short term loan repayable in Q1 2012. In April 2012 the Company notified Samsung to set off the amount against the shipbuilding instalments paid in by the Company.

Note 8: Capital commitments

At 31 March 2012, the Group had capital payment commitments of \$2,290m on the Hull and Topside contracts with Samsung.

Under the 2011 Preliminary Agreement with Samsung, the parties had agreed that no payments, including those payable in 2010 and 2011 were due in the FEED phase and that the intent was to restructure the contracts once FID is taken in relation to the Gulf LNG Project, whereupon the 2009 Principle Agreement would then become null and void. At 15 December 2011 a positive FID was not achieved and the waiver was extended to 31 January 2012, at which point the 2011 Preliminary Agreement lapsed and terms of the 2009 Principle Agreement were reinstated (additional details as to which are set forth in the 2009 statutory accounts).

Note 9: Going concern

The interim 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.

In the event of FID on the Gulf LNG Project, given the lapse of the 2011 Preliminary Agreement, the Company would need to agree a revised instalment profile with Samsung for the FLNG unit. The Company would then need to raise financing for both working capital, as necessary, and instalment payments to meet the agreed profile, including the final instalment.

In the event that Samsung and FLEX LNG agree to pursue an Alternative Deployment the Company expects to consider a number of financing alternatives for raising working capital and instalment requirements; this will depend, among other things, on the number of vessels ordered, the debt equity ratio, level of instalments available for redeployment, economic terms of utilisation, final capital cost, and market conditions. In the meantime, based upon current levels of cash utilisation, the Company believes it will have sufficient working capital to last into 2013.

In relation to the current restructuring negotiations with Samsung there can be no assurance that agreement will be reached or that it will be reached in a manner that is favourable for the Company. In the event no agreement is reached with Samsung on restructuring of the LNG Producer contracts and/or the Alternative Deployment, the Company will need to consider alternative options available to the Company as well as the timing for raising additional working capital.

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

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

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

Note 10: Key Figures

	Q1 12	Q1 11	2011
No. of shares outstanding	125,059,074	113,162,122	124,778,313
No. of shares fully diluted	134,910,429	123,626,077	135,359,268
Average no. of outstanding shares	124,926,407	113,125,137	120,240,027
Share price (NOK - 31.03.12)	4.65	6.20	2.45
Market capitalisation (NOK'm - 31.03.12)	582	702	306

Shareholders

The 10 main shareholders at 31.03.12 are:

Share holder:	Number of shares:	Ownership interest:
KAWASAKI KISEN KAISHA LTD	17,037,861	13.6%
JP MORGAN CLEARING CORP. ¹	16,226,543	13.0%
STATE STREET BANK AND TRUST CO. ¹	13,486,167	10.8%
INTEROIL FINANCE INC.	8,938,913	7.2%
SIX SIS AG ¹	6,647,484	5.3%
B SCHULTE INVESTMENT HOLDING	6,046,595	4.8%
JP MORGAN CHASE BANK ¹	5,617,732	4.5%
JP MORGAN SECURITIES LIMITED	4,989,500	4.0%
INVESCO PERP EUR SMALL COMP FD	4,516,727	3.6%
GOLDMAN SACHS & CO - EQUITY ¹	4,079,407	3.3%
OTHER	37,345,900	29.9%
Per VPS register ²	124,932,829	100.0%

Note ¹ - Nominee account.

Note ² - 126,245 issued shares have yet to be registered in the VPS.