FLEX LNG GROUP

Q1 2011

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

BOARD REPORT

Financials, Quarter One 2011

(Figures in brackets refer to the corresponding period of 2010)

During the first quarter the FLEX LNG group of companies ("the Group") has continued to develop what it expects could be amongst the world's first LNG Producers. In the quarter costs of $1.0m ($6.7m) were capitalised on the four units.

The cash balances at 31 March were $6.5m ($20.3m) with $3.4m net outflow ($5.4m) in the quarter. In the three months in 2011 the operating cash outflow was $3.0m (principally the operating loss and working capital movements); investing activities outflow $1.0m (capitalised asset costs); and financing activities inflow $0.6m (proceeds from deferred payments to Samsung).

The loss before tax was $3.7m ($2.7m) in the quarter, with a year to date retained net loss of $3.8m ($2.7m). Q1 2011 has been impacted by the weakening USD and the resultant FX loss on the NOK liabilities.

Outlook

The Group continues to focus on securing employment for the LNG Producers and is discussing alternative commercial arrangements for the employment, such as integrated projects consisting of gas supply contracts with oil and gas companies, product handling agreements for the services of the LNG Producers, and LNG sales and purchase contracts with LNG off-takers as well as more traditional charter arrangements. The Group is currently pursuing a number of opportunities.

In April 2011 the Group was pleased to announce that it had signed preliminary agreements with InterOil Corporation (IOC), Pacific LNG Operations (PACLNG) and Samsung for a floating liquefaction (FLNG) Project in PNG with targeted start of operations in 2014. The FLNG project will liquefy gas from the Elk and Antelope gas fields in the Gulf Province in PNG. Project specific Front-End Engineering and Design (FEED) started in May 2011 and the parties will work towards reaching a FID before the end of 2011.

In April 2011 Samsung agreed to restructure the commercial relationship between the two parties whereby, upon achieving FID, the intention is to transfer a substantial share of all previous instalments paid to Samsung under the existing four shipbuilding contracts to the single FLNG unit that is destined for the PNG project. FLEX LNG would remain able to order additional FLNG units at Samsung.

BOARD REPORT

Financing and Risks

In April 2011 the Group signed agreements with Samsung, which has agreed to restructure the commercial relationship between the two parties whereby, upon achieving FID, the intention is for a substantial share of all previous instalments paid to Samsung under the existing four shipbuilding contracts to be transferred to the single FLNG unit that is destined for the PNG project. Accordingly under this agreement the equity already paid in by FLEX LNG to Samsung would cover all instalment payments to Samsung until delivery of the FLNG unit, when one final instalment would be due. The Company does not anticipate requiring any additional working capital from its shareholders in 2011 and no further payments will be due to Samsung in 2011 prior to reaching FID as to the PNG project. Upon a positive FID it will be necessary to raise additional funds to cover general working capital and project management costs up until delivery of the first FLNG unit.

In case the currently envisaged FID for the first unit is negative, the Company will need to agree an alternative arrangement with Samsung and raise additional working capital. Considering the above the Board believes that the going concern assumption remains appropriate for the Group.

In the IOC/PACLNG agreements there are a number of commercial terms that will need to be agreed over the FEED period to allow a positive FID to be taken and there can be no assurance that these agreements will be reached or that they will be reached in a manner that is favourable for the Company. In relation to the Preliminary Agreement with Samsung the Company has yet to fix the level of instalments that will be available for transfer to the unit assigned to the IOC/PACLNG contract; this is to be agreed prior to FID. The agreement on the level of equity to transfer will depend on a number of factors that are not directly under the control of the Group. The replacement of the 2009 principle agreement with Samsung is dependent on achieving FID by 15 December 2011. Following FID there will be additional operational risks associated with the IOC/PACLNG project in PNG. On IOC/PACLNG electing to exercise their share option and being issued with shares the Company will have a shareholder who is also a commercial counterparty. The Company will look to introduce new procedures to manage this, should the need arise.

The Board believes the going concern position and risks remain as described in the 2010 statutory accounts and as updated by the Q1 2011 financial report, note 2.

Unaudited Interim Financial Report

Condensed Consolidated Income Statement

(Unaudited figures in USD,000)

For the quarter ended 31 March 2011	Unaudited		
	Q1 11	**Q1 10**	**2010**
Operating revenues	0	0	0
Total revenue	**0**	**0**	**0**
Administrative expenses	3,702	2,720	10,003
Impairment write down	0	0	98,689
Operating loss before depreciation	**(3,702)**	**(2,720)**	**(108,692)**
Depreciation	37	59	211
Operating loss	**(3,739)**	**(2,779)**	**(108,903)**
Finance income	8	97	222
Loss before tax	**(3,731)**	**(2,682)**	**(108,681)**
Income tax expense	21	53	173
Net loss	**(3,752)**	**(2,735)**	**(108,854)**
Attributable to:			
Equity holders of the parent	(3,752)	(2,610)	(108,659)
Non-controlling interests	0	(125)	(195)
Earnings per share:			
Basic	(0.03)	(0.02)	(0.96)
Diluted	(0.03)	(0.02)	(0.96)

Condensed Consolidated Statement of Comprehensive Income

(Unaudited figures in USD,000)

For the quarter ended 31 March 2011	Unaudited		
	Q1 11	**Q1 10**	**2010**
Loss for the period	**(3,752)**	**(2,735)**	**(108,854)**
Exchange differences on translation	31	(14)	(9)
Other comprehensive (loss)	31	(14)	(9)
Total comprehensive income for the period	**(3,721)**	**(2,749)**	**(108,863)**
Attributable to:			
Equity holders of the parent	(3,721)	(2,624)	(108,668)
Non-controlling interests	0	(125)	(195)

FLEX LNG

Condensed Consolidated Statement of Financial Position

(Unaudited figures in USD,000)

For the period ended 31 March 2011		Unaudited		
	Note	**Q1 2011**	**Q1 2010**	**2010**
New building contracts	4	432,258	523,125	431,232
Plant and equipment		230	367	267
Investment – unquoted shares	5	875	0	875
Intangible assets		0	35,561	0
Total non-current assets		**433,363**	**559,053**	**432,374**
Other current assets		962	1,041	836
Loan	5	1,532	0	1,532
Cash and cash equivalents	6	6,462	20,269	9,889
Total current assets		**8,956**	**21,310**	**12,257**
TOTAL ASSETS		**442,319**	**580,363**	**444,631**
Share capital		1,132	1,129	1,130
Share premium		552,584	552,396	552,490
Other equity		(126,138)	(18,559)	(123,125)
Equity attributable to equity holders of the parent		427,578	534,966	430,495
Non-controlling interests		0	32,235	0
Total equity		**427,578**	**567,201**	**430,495**
Other financial liabilities	7	11,481	10,052	10,937
Total non-current liabilities		**11,481**	**10,052**	**10,937**
Current liabilities		3,260	3,110	3,199
Total current liabilities		**3,260**	**3,110**	**3,199**
Total liabilities		**14,741**	**13,162**	**14,136**
TOTAL EQUITY AND LIABILITIES		**442,319**	**580,363**	**444,631**

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Condensed Consolidated Statement of Changes in Equity

(Unaudited figures in USD,000)

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	Non controlling interests	Total equity
At 01.01.11	**1,130**	**552,490**	**(132,916)**	**(300)**	**10,091**	**430,495**	**0**	**430,495**
Loss for the period			(3,752)			**(3,752)**		**(3,752)**
Other comprehensive income				31		**31**		**31**
Total comprehensive income			(3,752)	31		**(3,721)**		**(3,721)**
Expenses related to share issue						**0**		**0**
Cost of share-based payment (options / warrants)					756	**756**		**756**
Shares issued	2	94			(96)	**0**		**0**
Cost of share-based payment (shares)					48	**48**		**48**
At 31.03.11	**1,132**	**552,584**	**(136,668)**	**(269)**	**10,799**	**427,578**	**0**	**427,578**

For the period ended 31 March 2010	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders	Non controlling interests	Total equity
At 01.01.10	1,127	552,243	(24,257)	(291)	7,819	536,641	33,147	569,788
Loss for the period			(2,610)			(2,610)	(125)	(2,735)
Other comprehensive income				(14)		(14)		(14)
Total comprehensive income			(2,610)	(14)		(2,624)	(125)	(2,749)
Issue of new shares	2	188			(190)	0		0
Expenses related to share issue		(35)				(35)		(35)
Exchange adjustments						0	(787)	(787)
Cost of share-based payment (options / warrants)					936	936		936
Cost of share-based payment (shares)					48	48		48
At 31.03.10	1,129	552,396	(26,867)	(305)	8,613	534,966	32,235	567,201

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Condensed Consolidated Statement of Cash Flows

(Unaudited figures in USD,000)

For the period ended 31 March 2011	Unaudited Q1 11	Q1 10	2010
Net cash flow from operating activities	(2,976)	(2,123)	(7,556)
Net cash flow used in investing activities	(1,026)	(6,875)	(12,714)
Net cash flow from financing activities	544	3,602	4,489
Net cash flow	**(3,458)**	**(5,396)**	**(15,781)**
Net translation effect	31	(14)	(9)
Cash balance at beginning of period	9,889	25,679	25,679
Cash balance at end of period	**6,462**	**20,269**	**9,889**

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 active subsidiaries. The Group's activities are focused on developing production and storage of liquefied natural gas.

The interim condensed consolidated financial statements of the Group for the quarter ended 31 March 2011 were authorised for issue by the board of directors on 26 May 2011.

Note 2: Accounting principles

Basis of preparation

The interim condensed consolidated financial statements for the quarter ended 31 March 2011 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 2010.

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 those noted in the 2010 accounts.

The Group is operating in only one segment with respect to products and services. Segment reporting is thus not relevant.

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 2010, except for the adoption of new Standards and Interpretation as of 1 January 2011, as noted below;

Note 2: Accounting principles (continued)

Significant accounting policies (continued)

IAS 24 Related Party Disclosures (Amendment); IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment); IFRIC 14 Prepayments of a minimum funding requirement (Amendment); IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments; IFRS 3 Business Combinations; IFRS 7 Financial Instruments – Disclosures; IAS 1 Presentation of Financial Statements; IAS 27 Consolidated and Separate Financial Statements; IAS 34 Interim Financial Reporting; and IFRIC 13 Customer Loyalty Programmes.

The adoption of these amendments has had no material impact on the financial position or performance of the Group.

At the end of Q1 2011, some new standards, changes in existing standards and interpretations have been issued, but not yet become effective:

IFRS 9 Financial Instruments: Classification and Measurement; Amendments to IFRS 7 Financial Instruments – Disclosures; Amendments to IAS 12 Income Taxes; and Annual improvements project 2010.

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

Note 3: Option, warrant and salary costs

In Q1 2011 the Company issued no new options to staff. In addition the staff bonus scheme introduced in 2010 continues, which is linked to key commercial goals for the Group. The P&L cost for all outstanding options and warrants for the quarter was $0.8m ($0.9m).

Note 4: New building contracts

In the three months ended 31 March 2011 the Group has capitalised costs of $0.4m ($5.3m) from Samsung. In addition $0.6m ($1.4m) of costs incurred directly by the Group have been capitalised in 2011. The carrying value of the contractual payments and the capitalised costs are dependent on the IOC/PACLNG contractual arrangements remaining at economically viable terms, finance being secured at reasonable terms, and the restructuring of the contracts with Samsung at the IOC/PACLNG project final investment decision (FID). Capitalised finance costs of $0.3m ($0.3m) are included in the three months within capitalised costs.

Note 5: Investment and loan

At 31 March the Group remains with a holding of 5% in the share capital of Minza Limited (Minza), which has a carrying value of $875k. The Group has also loaned Minza $1,532k. In the twelve months from option expiry, the loan can be converted by the Group into 8.75% of the shares in Minza, or if not repaid by Minza converted into 13.75% of the shares in Minza. The loan bears interest at LIBOR plus 1%.

6: Cash and cash equivalents

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

(Unaudited figures in USD,000)	**Unaudited**		
	Q1 11	**Q1 10**	**2010**
Cash at bank and in hand	6,462	20,269	9,889

Note 7: Other financial liabilities
In 2009 the Group entered into an agreement (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 expenditure in 2009. The amount deferred will be repayable with the first milestone billing after the slow down phase and bears interest at 7% per annum. At 31 March 2011 $4.1m ($3.7m) had been deferred, including interest. In addition certain vendor costs and obligations to Samsung under 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. At 31 March 2011 it is estimated that $7.3m ($6.2m) in obligations have been incurred by Samsung on behalf of the Group and a provision has been made for this cost. Per the preliminary agreement with SHI, the intent is that on FID these amounts and the timing of payment would be restructured. In addition a $0.1m ($0.2m) provision for the property lease liabilities is included, based on a fair value allocation on the FLEX LNG Management Limited acquisition.

Note 8: Capital commitments
At 31 March 2011, the Group had capital payment commitments of $2,500m (Hulls - $1,776m vessels 1-4, Topside - $724m vessel 1) with Samsung. The payment profile, based on a 30 June 2010 resumption date, the Samsung 2009 principle agreement and expected design and commissioning would have been: 2010 $143m; 2011 $411m; 2012 $837m; 2013 $404m; and 2014 $705m. Under the 2011 Preliminary Agreement with Samsung, the parties have agreed that no payments, including those payable in 2010 and 2011 are due in the FEED phase and that the intent is to restructure the contracts once FID is taken in relation to the IOC/PACLNG project and the principle agreement will then become null and void. At 15 December 2011, if FID has not occurred, the terms of the principle agreement will be reinstated (additional details in the 2009 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 April 2011 the Group signed agreements with Samsung, which has agreed to restructure the commercial relationship between the two parties whereby, upon achieving FID, the intention is for a substantial share of all previous instalments paid to Samsung under the existing four shipbuilding contracts to be transferred to the single FLNG unit that is destined for the PNG project. Accordingly under this agreement the equity already paid in by FLEX LNG to Samsung would cover all instalment payments to Samsung until delivery of the FLNG unit, when one final instalment would be due. The Company does not anticipate requiring any additional working capital from its shareholders in 2011 and no further payments will be due to Samsung in 2011 prior to reaching FID as to the PNG project. Upon a positive FID it will be necessary to raise additional funds to cover general working capital and project management costs up until delivery of the first FLNG unit.

In case the currently envisaged FID for the first unit is negative, the Company will need to agree an alternative arrangement with Samsung and raise additional working capital.

Considering the above the Board believes that the going concern assumption remains appropriate for the Group.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties linked to future funding requirements.

Note 10: Events after the balance sheet date

10.1 Floating Liquefaction Project

On 11 April the Group signed preliminary agreements with IOC, PACLNG and Samsung for an FLNG project that would liquefy gas from the Elk and Antelope gas fields in the Gulf Province in PNG. Project specific Front-End Engineering and Design (FEED) started in May 2011. The FLNG vessel is expected to have a production capacity of close to 2 million tons of LNG per annum and to process an estimated 2.25 trillion cubic feet of gas over a firm 25-year period. Per the preliminary agreements, FLEX LNG would receive, less agreed deductions, 14.5% of the revenue from the sale of LNG for the initial 15-year period. For the next 5 years FLEX LNG will receive 12.5% of the revenue and 10% of the revenue for the last 5-year period.

10.2 Discussions with Samsung Heavy Industries

On 11 April the Group signed a Preliminary Agreement and FEED with Samsung. In order to support the FLNG project with IOC and PACLNG, FLEX LNG and Samsung have agreed to restructure the commercial relationship between the two parties; this was subject to FLEX LNG shareholder approval of the proposed deal which has been provided. Upon reaching a positive FID the intention is to transfer substantially all instalments paid (less deductions to be agreed) to Samsung under the existing four shipbuilding contracts to the FLNG unit that is destined for the PNG project. FLEX LNG would remain able to order additional FLNG units at Samsung.

In relation to the project FLEX LNG and Samsung would be responsible for the design, engineering, construction and commissioning of the FLNG vessel. FLEX LNG would also be joint operator of the FLNG unit together with IOC and PACLNG. Construction of the FLNG unit would be fully financed until delivery. The equity already paid in by FLEX LNG to Samsung would cover all payments to Samsung until delivery of the FLNG unit, when one final instalment would be due. In addition the agreements sanction the continued postponement of the instalments previously due under the original ship building contracts.

10.3 Additional Option and Share Issuance

In relation to the IOC and PACLNG agreements the Company issued options to acquire 11,315,080 common shares in FLEX LNG at an average strike price of 4.5909 NOK. The options could be exercised no later than 15 days after approval has been received from FLEX LNG's shareholders, which was provided on 28 April 2011. IOC and PACLNG exercised the option on 16 May 2011 and the Company issued the 11,315,080 shares on 20 May 2011.

In case of a positive FID, IOC and PACLNG have agreed to a) provide a conditional financing package to ensure payment of the final Samsung instalment once construction of the FLNG unit has been completed ("the back stop financing") and (b) certain additional credit enhancement facilities to facilitate obtaining project finance. As compensation FLEX LNG has agreed to grant further equity to IOC and PACLNG. Upon the project achieving a positive FID, IOC and PACLNG would receive shares at par value equivalent to 5% of FLEX LNG. An additional amount of shares equalling up to 15% ownership in FLEX LNG may be issued to IOC and PACLNG at par value in three 5% tranches during the period from FID until 9 months after FID. The additional share compensation is dependent on FLEX LNG utilising the IOC/PACLNG financial support and reduces as provided in the agreements, if alternatives are obtained.

FLEX LNG

Note 11: Key Figures

	Q1 11	Q1 10	2010
No. of shares outstanding	113,162,122	112,920,912	113,043,243
No. of shares fully diluted	123,626,077	123,649,367	123,759,698
Average no. of outstanding shares	113,125,137	112,859,027	112,947,425
Share price (NOK)	6.20	5.98	4.25
Market capitalisation (NOK'm)	702	675	480

Shareholders

The 10 main shareholders at 31.03.11 are:

Share holder:	Number of shares:	Ownership interest:
KAWASAKI KISEN KAISHA LTD	16,973,058	15.0%
JP MORGAN CLEARING CORP.[1]	16,235,543	14.3%
STATE STREET BANK AND TRUST CO. [1]	13,486,167	11.9%
B SCHULTE INVESTMENT HOLDING	5,681,661	5.0%
JP MORGAN CHASE BANK[1]	5,617,732	5.0%
GOLDMAN SACHS & CO - EQUITY[1]	4,592,537	4.1%
SIX SIS AG 25PCT[1]	4,391,707	3.9%
BANK OF NEW YORK MELLON SA/NV	4,309,507	3.8%
BROWN BROTHERS HARRIMAN & CO	2,953,205	2.6%
BANK OF NEW YORK MELLON SA/NV[1]	2,931,086	2.6%
OTHER	35,989,919	31.8%
Per VPS register	113,162,122	100.0%

Note[1] - Nominee account.

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