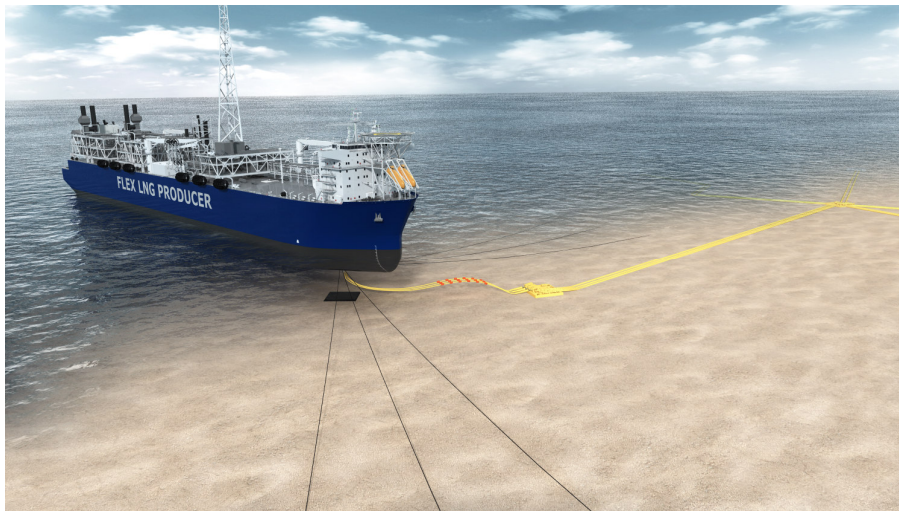


## FLEX LNG GROUP



## First Half 2010 & Q2 2010

## BOARD REPORT

### Financials, First Half and Second Quarter 2010

(Figures in brackets refer to the corresponding period of 2009)

During the second quarter and first half of 2010 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 \$2.1m (\$5.1m) were capitalised on the four units and over the half year \$8.8m (\$15.4m).

The cash balances at 30 June were \$16.9m (\$23.6m) with \$3.4m (\$10.8m) net outflow in the quarter and \$8.8m (\$25.9m) in the first half. In the six months in 2010 the operating cash outflow was \$3.1m (principally the operating loss and working capital movements); investing activities outflow \$9.0m (capitalised asset costs); and financing activities inflow \$3.3m (proceeds from deferred payments to Samsung).

The loss before tax was \$2.1m (\$3.6m) in the quarter and \$4.7m (\$5.2m) in the first half, with a year to date retained net loss of \$4.8m (\$5.3m). 2010 has benefited from lower operating costs and a FX revaluation gain on its non USD denominated 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 2010 the Group has announced that it is in advanced talks with an Asian National Oil Company (NOC) to join a floating liquefaction project that would monetise gas resources controlled by the NOC in Australia. The proposed project would be developed by a JV where FLEX LNG would join together with one or more technical and commercial partners. Subsequently the Group signed a Memorandum of Understanding (MoU) with SAIPEM for exclusive cooperation towards the development of this project.

In June 2009 FLEX Petroleum Limited, a wholly owned subsidiary of FLEX LNG, entered into an option agreement setting out the terms to acquire control of Jersey-based Minza Oil & Gas Limited ("Minza"), additional details in note 5. In Q2 2010 the seismic surveys and interpretation were completed for the "Anita" and "Wombat" structures. Preliminary results support a significant increase in the estimated gas resources of the main Chuditch structure and surrounding structures. Compared to the previous resource estimates the most recent analysis shows a potential increase in the Gas Initially In Place (GIIP) of up to 30-40%. This would bring the estimated GIIP figure for the Chuditch Main, Chuditch West and Wombat structures to a combined total of more than 3 tcf. In 2010 an option period extension was signed to the original option agreement allowing more time to agree terms with a development partner. The Company continues negotiations with potential partners and financing sources to fund and to allow the Minza option to be exercised, prior to its expiry.

## BOARD REPORT

### Financing and Risks

The Company acknowledges the current challenging fund raising environment it faces and the impact that this has on the ability of the Group to finance its funding requirement. Following the raising of \$10m of additional capital as part of the listing on Oslo Axess on 30 October 2009, the Company expects to have sufficient financial resources to enable it to continue trading and to meet its payment obligations until the next hull payments are due to be made to Samsung in November 2010. Under the Principle Agreement with Samsung the resumption notice had to be given by 31 May 2010, see note 9. Since the Company has currently not issued any resumption notice yet, Samsung has a contractual right to cancel all the four shipbuilding contracts as well as the EPCIC contract for M-FLEX 1, additional details in note 4. Samsung has informed FLEX LNG in writing that it will work with the Group with the aim of amending the Principle Agreement. In addition Samsung has informed FLEX LNG that presently and dependent on commercial progress and cost impact Samsung has no intention of exercising its right of termination under the Principle Agreement and acknowledges the need to defer the resumption date. The Group aims to (a) conclude a final investment decision (FID) for at least one of the LNG Producers (which the Company believes should enable it to raise additional finance), or (b) raise additional working capital and rearrange its obligations to allow the Company more time to achieve (a). These steps would allow the Group to finance its operations over the year.

The Board believes the going concern position and risks remains as described in the 2009 statutory accounts and in the quarterly accounts.

### Statement on Financial Compliance

We confirm, to the best of our knowledge that the condensed financial statements for the period 1 January to 30 June 2010 have been prepared in accordance with current applicable accounting standards and IAS 34 Interim Financial Reporting, and gives a true and fair view of the assets, liabilities, financial position and results of the group. We also confirm to the best of our knowledge that the condensed financial statements include a true and fair review of the development and performance of the business during the period, and together with the 2009 Annual Report a description of the principal risks and uncertainties facing the group.

Board of Directors of FLEX LNG Ltd  
25 August 2010

James MacHardy  
Chairman

Aoki Hiromichi  
Director

Scott Pearl  
Director

Ian Beveridge  
Director

Philip Fjeld  
Director

Anders Westin  
Director

James van Hoften  
Director

## Unaudited Interim Financial Report

### Condensed Consolidated Income Statement

(Unaudited figures in USD,000)

For the quarter ended 30 June 2010	Unaudited				
	Q2 10	Q2 09	H1 10	H1 09	2009
Operating revenues	0	0	0	0	0
<b>Total revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Operating expenses	2,056	3,641	4,776	5,276	10,414
<b>Operating loss before depreciation</b>	<b>(2,056)</b>	<b>(3,641)</b>	<b>(4,776)</b>	<b>(5,276)</b>	<b>(10,414)</b>
Depreciation	54	71	113	140	250
<b>Operating loss</b>	<b>(2,110)</b>	<b>(3,712)</b>	<b>(4,889)</b>	<b>(5,416)</b>	<b>(10,664)</b>
Finance income	53	92	150	174	393
<b>Loss before tax</b>	<b>(2,057)</b>	<b>(3,620)</b>	<b>(4,739)</b>	<b>(5,242)</b>	<b>(10,271)</b>
Income tax expense	19	13	72	40	186
<b>Net loss</b>	<b>(2,076)</b>	<b>(3,633)</b>	<b>(4,811)</b>	<b>(5,282)</b>	<b>(10,457)</b>
<b>Attributable to:</b>					
Equity holders of the parent	(2,006)	(3,633)	(4,616)	(5,282)	(10,165)
Non-controlling interests	(70)	0	(195)	0	(292)
<b>Earnings per share:</b>					
Basic	(0.02)	(0.03)	(0.04)	(0.05)	(0.10)
Diluted	(0.02)	(0.03)	(0.04)	(0.05)	(0.10)

### Condensed Consolidated Statement of Comprehensive Income

(Unaudited figures in USD,000)

For the quarter ended 30 June 2010	Unaudited				
	Q2 10	Q2 09	H1 10	H1 09	2009
<b>Loss for the period</b>	<b>(2,076)</b>	<b>(3,633)</b>	<b>(4,811)</b>	<b>(5,282)</b>	<b>(10,457)</b>
Exchange differences on translation	(30)	(53)	(44)	(64)	(291)
Other comprehensive (loss)	(30)	(53)	(44)	(64)	(291)
<b>Total comprehensive income for the period</b>	<b>(2,106)</b>	<b>(3,686)</b>	<b>(4,855)</b>	<b>(5,346)</b>	<b>(10,748)</b>
<b>Attributable to:</b>					
Equity holders of the parent	(2,036)	(3,686)	(4,660)	(5,346)	(10,456)
Non-controlling interests	(70)	0	(195)	0	(292)

## Condensed Consolidated Statement of Financial Position

(Unaudited figures in USD,000)

For the period ended 30 June 2010	Unaudited			
	Note	H1 10	H1 09	2009
New build contracts	4	525,216	509,377	516,391
Plant and equipment		350	485	385
Intangible assets	5	35,391	35,606	36,251
<b>Total non-current assets</b>		<b>560,957</b>	<b>545,468</b>	<b>553,027</b>
Other current assets		840	1,906	925
Cash and cash equivalents	6	16,881	23,592	25,679
<b>Total current assets</b>		<b>17,721</b>	<b>25,498</b>	<b>26,604</b>
<b>TOTAL ASSETS</b>		<b>578,678</b>	<b>570,966</b>	<b>579,631</b>
Share capital		1,129	1,024	1,127
Share premium		552,396	543,408	552,243
Other equity		(19,739)	(13,512)	(16,729)
Equity attributable to equity holders of the parent		533,786	530,920	536,641
Non-controlling interests		32,012	33,836	33,147
<b>Total equity</b>		<b>565,798</b>	<b>564,756</b>	<b>569,788</b>
Other financial liabilities	7	9,762	3,956	6,415
<b>Total non-current liabilities</b>		<b>9,762</b>	<b>3,956</b>	<b>6,415</b>
Current liabilities		3,118	2,254	3,428
<b>Total current liabilities</b>		<b>3,118</b>	<b>2,254</b>	<b>3,428</b>
<b>Total liabilities</b>		<b>12,880</b>	<b>6,210</b>	<b>9,843</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>578,678</b>	<b>570,966</b>	<b>579,631</b>



## Condensed Consolidated Statement of Changes in Equity

(Unaudited figures in USD,000)

For the period ended 30 June 2010	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders	Non controlling interests	Total equity
<b>At 01.01.10</b>	<b>1,127</b>	<b>552,243</b>	<b>(24,257)</b>	<b>(291)</b>	<b>7,819</b>	<b>536,641</b>	<b>33,147</b>	<b>569,788</b>
Loss for the period			(4,616)			(4,616)	(195)	(4,811)
Other comprehensive income				(44)		(44)		(44)
Total comprehensive income			(4,616)	(44)		(4,660)	(195)	(4,855)
Expenses related to share issue		(35)				(35)		(35)
Exchange adjustments						0	(940)	(940)
Cost of share-based payment (options / warrants)					1,745	1,745		1,745
Shares issued	2	188			(190)	0		0
Cost of share-based payment (shares)					95	95		95
<b>At 30.06.10</b>	<b>1,129</b>	<b>552,396</b>	<b>(28,873)</b>	<b>(335)</b>	<b>9,469</b>	<b>533,786</b>	<b>32,012</b>	<b>565,798</b>

For the period ended 30 June 2009	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	To equity holders	Non controlling interests	Total equity
<b>At 01.01.09</b>	<b>1,024</b>	<b>543,417</b>	<b>(14,092)</b>	<b>0</b>	<b>5,940</b>	<b>536,289</b>	<b>0</b>	<b>536,289</b>
Loss for the period			(5,282)			(5,282)		(5,282)
Other comprehensive income				(64)		(64)		(64)
Total comprehensive income			(5,282)	(64)		(5,346)	0	(5,346)
On acquisition						0	33,836	33,836
Expenses related to share issue		(9)				(9)		(9)
Cost of share-based payment (options / warrants)					(14)	(14)		(14)
<b>At 30.06.09</b>	<b>1,024</b>	<b>543,408</b>	<b>(19,374)</b>	<b>(64)</b>	<b>5,926</b>	<b>530,920</b>	<b>33,836</b>	<b>564,756</b>

## Condensed Consolidated Statement of Cash Flows

(Unaudited figures in USD,000)

For the period ended 30 June 2010	Unaudited		
	H1 10	H1 09	2009
Net cash flow from operating activities	(3,080)	(13,736)	(14,820)
Net cash flow used in investing activities	(8,989)	(15,707)	(23,906)
Net cash flow from financing activities	3,315	3,600	15,197
<b>Net cash flow</b>	<b>(8,754)</b>	<b>(25,843)</b>	<b>(23,529)</b>
Net translation effect	(44)	(64)	(291)
Cash balance at beginning of period	25,679	49,499	49,499
<b>Cash balance at end of period</b>	<b>16,881</b>	<b>23,592</b>	<b>25,679</b>

## 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 seven 100% owned active subsidiaries and the Company's interest in Minza Oil and Gas Limited. 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 six months and quarter ended 30 June 2010 were authorised for issue by the board of directors on 25 August 2010.

### Note 2: Accounting principles

#### Basis of preparation

The interim condensed consolidated financial statements for the six months and quarter ended 30 June 2010 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 2009.

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 are substantially the same as for the preparation of the 2009 accounts and now also include Samsung's cancellation rights.

The Group is operating 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 2009, except for the adoption of new Standards and Interpretation as of 1 January 2010, as noted below;

## Note 2: Accounting principles (continued)

### Significant accounting policies (continued)

*IFRS 3 (revised) Business Combinations* – The revised Standard is expected to impact the accounting for future acquisitions primarily regarding goodwill, contingent consideration and transaction costs.

*IFRS 9 Financial Instruments* – This will replace the recognition and measurement rules in the current IAS 39. Considering the current scope and use of financial instruments, the impact of the changes is not expected to have any material effect.

*IAS 24 (revised) Related Party Disclosures* – The changes in IAS 24 are not expected to be material.

*IAS 27 (revised) Consolidated and Separate Financial Statements* – The Standard could affect the consolidated accounts in cases of derecognition of subsidiaries and allocations between controlling and non-controlling parties.

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

### Note 3: Option, warrant and salary costs

In Q1 and Q2 2010 the Company issued 814,500 and 2,000 new options to staff with exercise prices of 6.5NOK and 27NOK. In addition a staff bonus scheme has been introduced, which is linked to key commercial goals for the Group. The P&L charge for all outstanding options and warrants for the quarter was \$0.8m (\$0.8m) and \$1.7m (\$0.0m) for the half year, Q1 2009 benefited from an extension of the expected vesting period. The charge for 2009 was \$1.7m.

### Note 4: New building contracts

In the six months ended 30 June 2010 the Group has capitalised costs of \$6.4m (\$12.7m) from Samsung, split \$5.3m and \$1.1m between Q1 and Q2. In addition \$2.4m (\$2.7m) of costs incurred directly by the Group have been capitalised in 2010, split \$1.4m and \$1.0m between Q1 and Q2. The carrying value of the contractual payments and the capitalised costs are dependent on the continued contract position with Samsung; the ability to secure a contract at economically viable terms; and securing financing. If these are not achievable, the carrying value would require material impairment. Capitalised interest of \$0.6m is included in H1 2010 capitalised costs (\$nil).

### Note 5: Investment in Minza Oil and Gas Limited

Exploration and acquisition costs in relation to Minza Oil & Gas Limited are \$35.4m (\$35.6m). The 12 month option period, which expired in H1 2010, was extended in 2010. The valuation of the old and new purchase options have been accounted for on a net basis and no valuation adjustment has been reflected in the period. The Company continues negotiations with potential partners and financing sources to fund and to allow the Minza option to be exercised, prior to its expiry.

### Note 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		
	H1 10	H1 09	2009
Cash at bank and in hand	16,881	23,592	25,679



## **Note 7: Other financial liabilities**

On 11 June 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 the period from 1 May 2009 to 31 August 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 30 June 2010 \$3.6m 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. At 30 June 2010 it is estimated that \$6.0m in obligations have been incurred by Samsung on behalf of the Group and a provision has been made for this cost. In addition a \$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 30 June 2010, the Group had capital payment commitments of \$2,501m (Hulls - \$1,776m vessels 1-4, Topside - \$725m vessel 1) with Samsung. The profile over the following years is: 2010 \$144m; 2011 \$411m; 2012 \$837m; 2013 \$404m; and 2014 \$705m. Included within accruals and other financial liabilities is respectively \$1.5m and \$9.6m in relation to these commitments, which have yet to be paid. These amounts would increase considerably with the conclusion of three additional EPCIC Topside contracts for vessels two to four. The Group has started discussions with Samsung to vary this payment profile.

## **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.

The Company acknowledges the current challenging fund raising environment it faces and the impact that this has on the ability of the Group to finance its funding requirement. Following the raising of \$10m of additional capital as part of the listing on Oslo Axess on 30 October 2009, the Company expects to have sufficient financial resources to enable it to continue trading and to meet its payment obligations until the next hull payments are due to be made to Samsung in November 2010. Under the Principle Agreement with Samsung the resumption notice had to be given by 31 May 2010. Since the Company has currently not issued any resumption notice yet, Samsung has a contractual right to cancel all the four shipbuilding contracts as well as the EPCIC contract for M-FLEX 1. Samsung has informed FLEX LNG in writing that it will work with the Group with the aim of amending the Principle Agreement. In addition Samsung has informed FLEX LNG that presently and dependent on commercial progress and cost impact Samsung has no intention of exercising its right of termination under the Principle Agreement and acknowledges the need to defer the resumption date. The Group aims to (a) conclude a final investment decision (FID) for at least one of the LNG Producers (which the Company believes should enable it to raise additional finance), or (b) raise additional working capital and rearrange its obligations to allow the Company more time to achieve (a). These steps would allow the Group to finance its operations over the year.

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: Financing

Instalments payable to Samsung would likely need to be financed by raising equity and project debt financing from the financial markets. Based on the four vessels currently contracted the Group, in aggregate, is currently obligated to pay Samsung a total of \$144m in 2010, additional details in note 8.

## Note 11: Events after the balance sheet date SAIPEM Memorandum of Understanding

In August the Group announced that it had signed a Memorandum of Understanding with SAIPEM for exclusive cooperation towards the development of a Floating Liquefaction (FLNG) project with an Asian National Oil Company for their offshore gas reserves in Australia.

## Note 12: Key Figures

	H1 10	H1 09	2009
No. of shares outstanding	112,910,912	102,364,371	112,746,190
No. of shares fully diluted	123,542,367	112,470,826	122,712,645
Average no. of outstanding shares	112,885,113	102,364,371	104,213,188
Share price (NOK)	4.50	13.00	6.10
Market capitalisation (NOK'm)	508	1,331	688

## Shareholders

The 10 main shareholders at 30.06.10 are:

Share holder:	Number of shares:	Ownership interest:
KAWASAKI KISEN KAISHA LTD	16,937,004	15.0%
JP MORGAN CLEARING CORP. <sup>1</sup>	13,260,110	11.7%
STATE STREET BANK AND TRUST CO. <sup>1</sup>	12,656,167	11.2%
J P MORGAN CHASE BANK <sup>1</sup>	6,168,638	5.5%
B SCHULTE INVESTMENT HOLDING	5,648,607	5.0%
J P MORGAN CLEARING CORP. <sup>1</sup>	4,224,233	3.7%
BANK OF NEW YORK MELLON SA/NV	4,152,683	3.7%
BNP PARIBAS SECS SERVICES PARIS <sup>1</sup>	3,892,711	3.4%
CAPITA TRUSTEE LIMITED RE 2302	3,028,200	2.7%
BANK OF NEW YORK MELLON SA/NV <sup>1</sup>	2,931,086	2.6%
OTHER	39,987,805	35.5%
Per VPS register <sup>2</sup>	112,887,244	100.0%

Note<sup>1</sup> - Nominee account.

Note<sup>2</sup> - The difference between the number of shares per VPS register and the number of outstanding shares is due to 23,668 shares issued to Directors not yet being registered in the VPS register.