



FLEX LNG Group

Consolidated and Company Annual Report and Financial Statement 2013

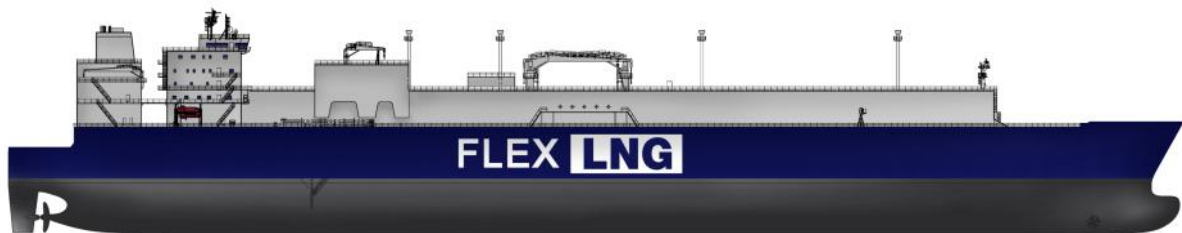


Illustration courtesy of Samsung Heavy Industries



General Information, FLEX LNG Ltd

Directors

David McManus (Chairman)
Christopher Pittinger
Ian Beveridge

Company Secretary

Manx Secretarial Services Limited
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Isle of Man

Registered Office

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PO Box 328, Victory House
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165 Fleet Street
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Chairman's Statement

In early 2013 the Company initiated arbitration proceedings to secure the repayment of the paid-in funds with Samsung Heavy Industries ("Samsung"). At the end of August 2013 the Company was pleased to announce that it had executed a binding and final settlement agreement with Samsung. As part of this the Group entered into two ship building contracts for two new 174,000 m³ TFDE LNG Carriers at prices reflecting current market conditions. Subsequent to the settlement the Board announced that it had initiated a strategic review of the alternatives available to the Company. This review has confirmed that there is interest in the assets under construction. However at present there is an element of uncertainty in the market due to the timing of a number of key LNG export projects. The Company believes that interest in the assets will continue to increase as the timeline of these projects become clearer and the supply and demand balance is improved. The Company will continue to monitor the strategic alternatives and to assess if any of these can add to shareholder value.

The Group is progressing well on the arrangement of a working capital facility that will allow the Group to finance the construction phase for the two new LNGC vessels. The expectation is that Group will enter into an agreement for the provision of finance in Q2 2014. Additionally the Group has solicited quotations, from a number of leading providers, to supply supervision services for the construction phase for the two LNG carriers. The plan is to enter into a contract for the provision of supervision services in Q2 2014. This will allow the vessel construction to be managed on a professional and flexible basis and will enable the Group to focus on obtaining charter parties for the two vessels prior to their delivery, or to facilitate other strategic alternatives referred to above.

David McManus

Chairman

BOARD OF DIRECTOR'S REPORT 2013

Business update

At the end of August 2013 the Company and Samsung Heavy Industries (Samsung) executed a binding and final settlement agreement. As a result, arbitration proceedings have been discontinued and all actual and potential claims and counterclaims arising out of past relationships and contracts between the parties have been settled. As part and parcel of the settlement agreement, two ship building contracts have been entered into between Samsung and the FLEX LNG group for two new 174,000 m³ TFDE LNG Carriers at prices reflecting current market conditions. As a result of the settlement agreement the parties agreed to redeploy \$210.0m from payments already made to Samsung by the FLEX LNG group, and apply this as payment of the first instalment for the two vessels. The remaining instalments will be due on delivery of the vessels. Deliveries are scheduled for Q1 2017. The parties are in addition investigating the use of 2-stroke propulsion engines for the LNG Carriers and expect to reach a conclusion by the end of Q2 2014. The parties also agreed to market for sale 6 complete offshore LNG loading arms, owned by the Company. In April 2014 Samsung notified the Company that it had agreed a sale for the loading arms. The Company estimates, on preliminary figures, that after the deduction of Samsung storage and marketing costs that the net proceeds will be approximately \$0.5m. The net proceeds are expected to be received in Q3 2014.

In October 2013 the Board announced that it had commenced a process to explore the strategic alternatives that are available to the Company. The outcome of such a process may be, inter alia, FLEX LNG being part of a business combination; a full or partial sale of the Company or its assets; or FLEX LNG entering into a strategic partnership with a third party. The Company has reviewed a number of possible alternatives and ascertained that there is interest in the assets under construction, however at present there is an element of uncertainty in the market due to the timing of a number of key LNG export projects causing deferrals in the ordering and/or chartering of new vessels. The Company believes that interest in the assets will continue to increase as the timeline of these projects become clearer and the supply and demand balance is improved. In the short term the Company is focused on the construction of the new builds and seeking charter parties for the vessels. The Company will continue to monitor the strategic alternatives to assess if any of these alternatives can add to shareholder value.

In the 2012 statutory accounts, the Group recognised an impairment write-down on the new build assets, under IAS 37 and IAS 36, of \$301.4m. IAS 37 covers the recognition criteria and measurement applied to contingent assets. Following the completion of the settlement agreement the Group has recognised an impairment write back of \$210.0m, as the proceeds that Samsung transferred from the historical payments into the two new LNG Carriers contacts to cover the initial instalments, refer to note 8 for more details.

Funding and Going Concern

The Group is in detailed discussions to secure debt finance to cover all costs during the construction phase, until the delivery of the vessels. The expectation is that the Group will enter into an agreement for the provision of finance in Q2 2014. Given the expected costs the Company believes that, based upon the forecast fund raising, it will have sufficient working capital to operate until delivery of the vessels. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all. Considering the above and the risks noted below, the Board believes that the going concern assumption currently remains appropriate for the Company and Group.

BOARD OF DIRECTOR'S REPORT 2013 (continued)

Risks

The Company was founded in 2006 and was initially focused on the engineering and construction of LNG Producer units. The Company subsequently reached agreement with Samsung for the Alternative Deployment of the invested capital into two LNG carriers. The Group is exposed to a variety of commercial, operational and financial risks, including market risks, credit risks and liquidity risks.

The uncertainties and risks include those detailed in the 2013 accounts and as summarised below. These include: the ability to secure employment contracts on reasonable terms for the two vessels being constructed by Samsung; managing the design and construction period; obtaining finance and working capital on reasonable terms; and the commencement of the strategic review of the alternatives available to the Company.

The Company has historically funded its operation from equity. Obtaining such financing may be subject to market risks and other risks that may influence the availability, structure and terms of such financing. In 2014 the Group intends to raise debt finance to cover the construction phase, until delivery of the vessels. The intention is to enter into an agreement in Q2 2014.

There can be no assurance that construction supervision costs will be as forecast. In all cases where the Company may require additional funding, there can be no assurance that such funds may be raised on terms that are reasonable, if at all. Additional detail on working capital requirements and analysis of risks to the Company are provided in accounts notes 1.4, 8, 17, 18, and 19 and Corporate Governance section 10.

Income Statement and Balance Sheet

The Group cash balances at 31 December were \$1.5m (2012: \$6.2m). In the twelve months in 2013 the operating cash outflow was \$4.2m (principally the operating profit less the non cash income statement entries), in addition \$0.5m of costs have been capitalised on the two LNG carriers. The retained profit for the year was \$205.5m (2012: \$298.8m - loss), which has been transferred to reserves. The profit for the year included an impairment write back of \$210.0m (2012: \$301.4m - loss), following the completion of the settlement agreement with Samsung, additional details note 8.

During the year the Company has continued to hold the investments in its subsidiaries and managed the strategic direction of the Group. The cash balances at 31 December were \$1.3m (2012: \$6.1m). In the twelve months in 2013 the operating cash outflow was \$1.8m (principally the operating profit less the non cash income statement entries) and investing activities outflow \$3.0m (loans to subsidiaries). The retained profit for the year was \$205.8m (2012: \$329.3m - loss), which has been transferred to reserves. The profit for the year includes an impairment write back of \$208.1m (2012: \$328.3m - loss) on the inter group loans and investments following the review of the impairment values of the subsidiary assets values, additional details note 2. The Directors do not recommend the payment of a dividend.



BOARD OF DIRECTOR'S REPORT 2013 (continued)

The Board

There have been changes in the composition of the Board during the financial year. At the 2013 AGM Eiji Wakiwaka and Aoki Hiromichi did not stand for re-election and we thank them for their significant contribution to Board discussions.

Environmental Reporting

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

Working Environment and Personnel

At the end of 2013, FLEX LNG and its subsidiaries had in total 6 employees and consultants, 5 men and 1 woman. All personnel, from 2014, 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. 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.

Corporate Governance

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

Board of Directors of FLEX LNG Ltd
24 April 2014

David McManus (Chairman)

Christopher Pittinger

Ian Beveridge



Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2013 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the entity and the Group.

Board of Directors of FLEX LNG Ltd
24 April 2014

David McManus (Chairman)

Christopher Pittinger

Ian Beveridge

Corporate Governance Report

1) Implementation and reporting on corporate governance

As a company incorporated in the British Virgin Island ("BVI"), the Company is subject to BVI laws and regulations. Additionally, as a consequence of being listed on Oslo Axess, the Company must comply with section 3-3b) of the Norwegian Accounting Act and certain aspects of Norwegian securities law and is also obligated to adhere to the Norwegian Code of Practice for Corporate Governance (the "Code of Practice") on a "comply or explain" basis. Further, the Company has in place a Memorandum and Articles of Association, which set forth certain governance provisions. The Norwegian Accounting Act is found on www.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 pre commercial nature of the Group's activities, certain practices are applied which deviate from some of the recommendations of the Code of Practice.

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

2) Business

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

The Group operates principally through its subsidiaries. The Company is currently focused on the construction of the two LNG carrier vessels on order from Samsung, including obtaining commercial charter parties and the opportunities that might arise following the commencement of the strategic review of the business. 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 2013 was USD 1,263,656.41, divided into 126,365,641 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.

Debt

The Group intends to raise debt finance to cover the construction phase for the two LNG carriers. Once on charter the debt-to-equity leverage of the LNG carriers will be dependent upon contract structure and the debt market at that point in time.

Corporate Governance Report (continued)

3) Equity and dividends (continued)

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

In connection with 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.

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 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.

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

The founders of FLEX LNG have personally and through their wholly owned company Hansa LNG Ltd. entered into a lock-up agreement with the Company in respect of shares in the Company or financial interest therein (shares, warrants and option issued between 2006-2008, excluding the 2012 option issue), and have agreed not to directly or indirectly pledge, sell, or otherwise dispose of shares (or financial interest therein) held directly or indirectly by the founders personally or through Hansa LNG Ltd. until the later of (i) the delivery of the second vessel from Samsung and (ii) 30 June 2011 (the "Lock-up Period"). To amend the lock-up requires the written consent of the shareholders representing two-thirds of the total number of issued shares of FLEX LNG.

Furthermore, the shareholders of the Company have on the Annual General Meeting in 2013 and 2012 resolved that at least half of all of the remuneration for the directors for the two years shall be paid by the issue of new shares in the Company, that are to be subject to a lock-up. The two share issuances covering the board remuneration for the 2013 year shall become unlocked either on the first or second anniversary after their grant.

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 Extraordinary General Meetings, rather than 21 days. Currently, given that the Company is pre-commercial, this shorter period is considered to be sufficient for shareholders to consider the matters being voted on. The notice for Annual and Extraordinary General Meetings shall include relevant material to enable the shareholders to make an informed decision, including the recommendation of the nomination committee and to vote 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, telefax 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 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 full 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 and CFO will participate in the meeting at a minimum and additionally the auditor.

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. Currently George Linardarkis, David McManus and Marcus Hansson comprise the members of the Nomination Committee, and all members are independent of the Board and the executive management, apart from David McManus. In making recommendations Mr. McManus is excused from the final recommendation of the committee, and he ensures an open dialogue between the committee and the Board. All members are elected by the shareholders for a period until the 2014 AGM and their remuneration was approved at the 2013 AGM.

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

As a BVI registered company with 6 employees and contractors at 31 December 2013, 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 contain 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%. 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 2014. They may be removed by a majority vote at any time. Currently the Board has elected the Chairman, rather than the shareholders, given the Company's current development status the Company believe that this is satisfactory and that the Chairman can ensure that the board is effective in its tasks of setting and implementing the Company's direction and strategy.

The Directors are encouraged to hold shares in the Company, which the Board believes promotes a common financial interest between the members of the Board and the shareholders of the Company. In accordance with the General Meeting's resolution, the Directors received between 50% and 100% of their remuneration in shares for 2013.

All Directors participated in the physical Board meetings in 2013, while on the Board calls two Directors were unable to join one meeting each.

The current Board members are listed below:

Mr. David McManus, Chairman (60) - 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 currently serving as Executive Vice President and Head of International Operations for Pioneer Natural Resources, with offices in London, Tunis and Cape Town, focusing on exploration and commercialisation of reserves. Concurrently serving as Non-Executive Director for two UK listed companies; Cape plc an energy service company, which has been involved as a contractor in more than 50% of the world's LNG facilities, including Sakhalin, RasGas, Qatargas, Damietta, Idku, North West Shelf, Pluto, Arzew and floating regasification in Italy; and Rockhopper Exploration plc an exploration company with assets in the Falkland Islands. In 2013 he was additionally appointed as a Non-Executive Director to Hess Corporation; an integrated energy company with operations in 23 countries. 36 years of experience in Technical, Commercial, Business Development, General management and Executive roles across all aspects of the oil and gas business, spanning the world, including; BG Group, ARCO, Ultramar, Shell and Fluor corporation. Mr. McManus is a graduate of Heriott Watt University, Edinburgh.

Mr. Ian Beveridge, Board member (50)

Mr. Beveridge has served on the Board since October 2007. Mr. Beveridge is the CEO of the Schulte Group and has been associated with the Schulte group for 23 years, until 2006 as Managing Director. Before that Mr. Beveridge worked 3.5 years with Coopers & Lybrand in Johannesburg, leaving as Senior Supervisor. Mr. Beveridge obtained a Bachelor of Commerce (Honours) in 1987 and qualified as a chartered accountant in South Africa. Mr. Beveridge is also member of the Gard Board of Directors and the German Committee of Det Norske Veritas.

Mr. Christopher Pittinger, Board member (54) - Independent

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

The Executive Management are listed below:

Jostein Ueland, Chief Financial Officer (34)

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

Corporate Governance Report (continued)

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

Mr. Trym Tveitnes, PhD, Chief Technical Officer (41)

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

9) The work of the Board of Directors

The Board approves an annual budget plan for the business. In addition, policies have been approved that cover the responsibilities of the Board and those of the Management of FLEX LNG Management Limited. Through the establishment of the Compensation and Audit Committees, the Board has delegated some of its work to these committees, yet it has retained the responsibility for overall decision making. The composition of the committees is as follows; Compensation – David McManus and Chris Pittinger; and Audit – Ian Beveridge and David McManus. Mr. Beveridge represents a shareholder with a 5% holding in the Company and related party transactions are detailed in note 14. 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 Board is scheduled to meet in person between one and two times a year, and additionally approximately six 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 2013 the Board has convened more often, and has met on two occasions.

The main responsibilities of the Board cover the following main areas; strategic planning and decision making for the executive management to implement; ensure Board instructions are complied with; remain well informed on the Company's and Group financial position; production of an annual work plan; ensure the adequacy of executive management and their roles are clearly defined; annually to review the most important areas of risk exposure, including risks and controls related to financial reporting; ensuring an appropriate system of direction, risk management and internal control is established and maintained; adopt guidelines for the frequency and policy for external financial reporting; and to agree on the dividend policy. The Board is regularly 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 CFO, Mr. J. Ueland, who is appointed by and serves at the discretion of the Board, and also reports to the Board. Further, the CFO of the management company is responsible for ensuring that the Company's accounts are in accordance with all applicable legislation, and that the assets of the Company are properly managed. His powers and responsibilities are defined in more detail by the Board of Directors.

The CFO is supported by the other member of the executive management team, Mr. T. Tveitnes (Chief Technical Officer). The executive management team has the collective duty to implement the Company's strategic, technical, financial and other objectives, as well as to protect and secure the Group's organisation and reputation.

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

10) Risk management and internal control

The Board, in conjunction with the executive management, evaluates the risks inherent in the operations of FLEX LNG. Principal among these risks currently are; the ability to secure employment contracts on reasonable terms for the two vessels being constructed by Samsung; managing the design and construction period; obtaining finance and working capital on reasonable terms; the commencement of the strategic review of the alternatives available to the Company; retaining key staff, general LNG and LNG shipping market conditions and trends, and financial risk. In addition, the following risks inherent in the business plan are monitored: commodity prices, changes in the charter market; exchange rates, competition, the political and regulatory environment, counterparty performance, potential growth of the business and the proposed application of new technology. The Board, working with the Audit Committee and through the annual audit process, ensures that FLEX LNG has reliable internal controls and systems for risk management.

Corporate Governance Report (continued)

10) Risk management and internal control (continued)

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

11) Remuneration of the Board of Directors

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

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

12) Remuneration of the executive personnel

The executive management's remuneration shall be determined by a convened meeting of the Board of Directors. The Board is advised by the Remuneration Committee as to the appropriate level of salary and benefits to pay. The committee shall when preparing the guidelines take into account the location of the management, the level of remuneration normal within the business of the Group, the phase of the Group's business and 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, warrants and bonus) to value creation for shareholders. The current option program has been approved by shareholders with the allocation to staff determined by the Remuneration Committee prior to approval by the Board. The scheme was designed to align employees with shareholder value creation and to retain persons within the Group. The guidelines for the remuneration of the executive management were communicated at the 2011 AGM.

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

13) Information and communications

FLEX LNG will ensure that the shareholders receive accurate, clear, relevant and timely information in accordance with legal requirements. Publication methods will be selected to ensure simultaneous and equal access for all equity shareholders; the information is provided in English. The Company also provides information to the market through quarterly and annual 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. 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 pre-commercial nature of the Group. Annually the auditor presents to the Audit Committee a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement. The Audit Committee, rather than the full Board, holds a meeting with the auditor at least once a year at which no member of the executive management is present. At present, the Company believes this is sufficient given its size and enables the auditor to communicate with members of the Board. The Company's Management regularly holds meetings with the auditor, in which accounting principles and internal control routines are reviewed and discussed.

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 2013	Group 2012	Company 2013	Company 2012
Operating revenues		0	0	0	0
Other income		0	0	0	0
Gross revenues		0	0	0	0
Administrative expenses	3	4,528	(3,053)	2,269	1,099
Other operating costs	2/8	(210,000)	301,372	(208,097)	328,264
Operating profit / (loss)		205,472	(298,319)	205,828	(329,363)
Finance income	4	21	88	21	77
Finance cost	4	18	510	18	0
Profit / (loss) before tax		205,475	(298,741)	205,831	(329,286)
Income tax expense	7	15	57	0	0
Profit / (loss) after tax		205,460	(298,798)	205,831	(329,286)
Profit / (loss) for the year		205,460	(298,798)	205,831	(329,286)
Attributable to:					
Equity holders of the parent		205,460	(298,798)	205,831	(329,286)
Earnings per share (USD):		Group 2013	Group 2012	Company 2013	Company 2012
- Basic	5	1.63	(2.39)	1.63	(2.63)
- Diluted	5	1.63	(2.39)	1.63	(2.63)

Statement of Comprehensive Income - FLEX LNG Group & Company

Year ended 31 December
(USD, 000)

	Note	Group 2013	Group 2012	Company 2013	Company 2012
Profit / (loss) for the year		205,460	(298,798)	205,831	(329,286)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation		(51)	43	0	0
Total other comprehensive (loss) / profit		(51)	43	0	0
Total comprehensive profit / (loss) for the period		205,409	(298,755)	205,831	(329,286)
Attributable to:					
Equity holders of the parent		205,409	(298,755)	205,831	(329,286)

Statement of Financial Position – FLEX LNG Group & Company

As at 31 December (USD, 000)	Note	Group 2013	Group 2012	Company 2013	Company 2012
ASSETS					
Non-current assets					
New building assets	8	210,525	0	0	0
Plant and equipment	9	0	77	0	0
Loans and investments	2	0	0	211,052	0
Total non-current assets		210,525	77	211,052	0
Current assets					
Other current assets	10	149	483	23	32
Cash and cash equivalents	11	1,524	6,246	1,312	6,115
Total current assets		1,673	6,729	1,335	6,147
TOTAL ASSETS		212,198	6,806	212,387	6,147
EQUITY AND LIABILITIES					
Equity					
Issued capital	12	1,264	1,254	1,264	1,254
Share premium	12	562,659	562,288	562,659	562,288
Other equity		(352,142)	(557,857)	(353,157)	(559,294)
Equity attributable to equity holders of the parent		211,781	5,685	210,766	4,248
Total equity		211,781	5,685	210,766	4,248
Current liabilities					
Accounts payable		47	86	9	0
Accruals and other payables		370	1,035	1,612	1,899
Total current liabilities		417	1,121	1,621	1,899
TOTAL EQUITY AND LIABILITIES		212,198	6,806	212,387	6,147

Board of Directors of FLEX LNG Ltd 24 April 2014

David McManus (Chairman)

Christopher Pittinger

Ian Beveridge



Consolidated Statement of Changes in Equity – FLEX LNG Group

(figures in USD,000)

For the year ended 31 December 2013	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent
At 01.01.13	1,254	562,288	(567,673)	(271)	10,087	5,685
Profit for the period			205,460			205,460
Other comprehensive income				(51)		(51)
Total comprehensive income			205,460	(51)		205,409
Shares issued	10	371			(381)	0
Share-based payment (options)					352	352
Share-based payment (shares)					335	335
At 31.12.13	1,264	562,659	(362,213)	(322)	10,393	211,781

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



Statement of Changes in Equity – FLEX LNG Ltd

(figures in USD,000)

For the year ended 31 December 2013	Share capital	Share premium reserve	P&L reserve	Exchange translation reserve	Option, warrant and shares	Total to owners of the parent
At 01.01.13	1,254	562,288	(569,381)	0	10,087	4,248
Profit for the period			205,831			205,831
Total comprehensive income			205,831			205,831
Shares issued	10	371			(381)	0
Share-based payment (options)					352	352
Share-based payment (shares)					335	335
At 31.12.13	1,264	562,659	(363,550)	0	10,393	210,766

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

Consolidated Statement of Cash Flows - FLEX LNG Group

Year ended 31 December
(USD, 000)

Group	Note	2013	2012
Cash flow from operating activities			
Profit / (loss) before tax		205,475	(298,741)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	4	(21)	(88)
Finance expense	4	18	510
Option and warrant costs		352	(12,381)
Share based payment expense		335	415
Depreciation	9	32	116
Impairment (credit) / charge	8	(210,000)	301,372
FX revaluation		0	450
Lease provision		(69)	(69)
Loss on asset disposal	3	38	8
Working capital adjustments:			
Decrease in prepayments		157	49
Decrease in trade and other receivables		166	513
(Decrease) in trade and other payables		(594)	(689)
		(4,111)	(8,535)
Income taxes paid		(56)	(85)
Interest received		32	92
Interest paid		(18)	0
Net cash flow from operating activities		(4,153)	(8,528)
Cash flows from investing activities			
Purchase of plant and equipment	9	0	(23)
Proceeds from sale of plant and equipment		7	0
Payment on new building assets & capitalised expenditure	8	(525)	0
Net cash flow used in investing activities		(518)	(23)
Net currency translation effect		(51)	43
Net (decrease) in cash and cash equivalents		(4,671)	(8,551)
Cash and cash equivalents at beginning of period		6,246	14,754
Cash and cash equivalents at end of period	<i>11</i>	1,524	6,246



Statement of Cash Flows - FLEX LNG Ltd

Year ended 31 December
(USD, 000)

Company	Note	2013	2012
Cash flow from operating activities			
Profit / (loss) before tax		205,831	(329,286)
Adjustment to reconcile loss before tax to net cash flow			
Non Cash:			
Finance income	4	(21)	(77)
Finance expense	4	18	0
Impairment (credit) / charge	2	(208,097)	328,264
Option and warrant costs		352	(12,381)
Share based payment expense		335	415
Working capital adjustments:			
Decrease in prepayments		9	14
Decrease in trade and other receivables		0	270
(Decrease) / increase in trade and other payables		(289)	186
		(1,862)	(12,595)
Interest received		32	81
Interest paid		(18)	0
Net cash flow from operating activities		(1,848)	(12,514)
Cash flows from investing activities			
Loans and investments in subsidiaries	2	(2,955)	4,198
Net cash flow used in investing activities		(2,955)	4,198
Net (decrease) in cash and cash equivalents		(4,803)	(8,316)
Cash and cash equivalents at beginning of period		6,115	14,431
Cash and cash equivalents at end of period	<i>11</i>	1,312	6,115

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 ten 100% owned subsidiaries, as at 31/12/13 six of these companies had ceased to trade. The Group produces consolidated accounts incorporating these companies and its activities, which are focused on developing production, transportation and/or storage of liquefied natural gas and related activities. The Company is currently constructing two LNG carries with a capacity of 174,000m³ with Samsung, for delivery in Q1 2017. 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 2013 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 24.04.14 for issue on 25.04.14. The financial statements have been prepared on an historical cost basis, except for the valuation of warrants and options, which are accounted for at fair value and historically contingent assets which have been valued on the basis of recoverable amount. The financial statements have also been prepared on a going concern basis, additional information is included in notes 17 and 18, and comparative information in respect of the previous period.

The following standards were implemented in 2013;

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 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; IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine; and Improvements to IFRSs (2009-2011) - Amendment to IFRS 1 - Repeated application and Borrowing costs, IAS 1 - Clarification of the requirements for comparative information, IAS 16 - Classification of servicing equipment, IAS 32 - Tax effect of distributions to holders of equity instruments, and IAS 34 - Interim financial reporting and segment information for total assets and liabilities.

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

At the end of 2013, some new standards, changes in existing standards and interpretations have been issued, but have not yet become effective:

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

1.1 Basis for preparation (continued)

IFRS 10 – Consolidated Financial Statements; IFRS 11 – Joint Arrangements; IFRS 12 – Disclosure of Interests in Other Entities; IAS 27 Revised Separate Financial Statements; IAS 28 Revised Investments in Associates and Joint Ventures; IAS 32 – Amendment: Offsetting Financial Assets and Financial Liabilities; IFRS 9 – Financial Instruments; IFRS 10, IFRS 11, IFRS 12 – Amendments – Transition Guidance; IFRS 10, IFRS 12, IAS 27 – Amendments: Investment Entities; IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets; IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting; IFRIC 21 – Levies and IAS 19 – Defined Benefit Plans, Employee Contributions.

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

1.2 Functional currency and Presentation currency

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

1.3 Basis of consolidation

The Group's consolidated financial statements comprise FLEX LNG and companies in which it has a controlling interest. 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.

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 International Financial Reporting Standards (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 judgements affect the carrying amounts of assets and liabilities when no other sources have been applied in the valuation.

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

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

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

Significant accounting judgements – new build assets

Costs are capitalised as per note 1.8 and 1.11. In determining amounts that are capitalised, including the carrying amounts for historically capitalised amounts, management makes assumptions regarding future cash generation from these assets. Costs are split between the different vessels based on management's view on benefits derived from the expenses incurred. An impairment exists when the carrying value of the asset exceeds its recoverable amount (the higher of fair value less cost to sell and value in use).

1.5 Currency transactions

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

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

1.6 Segments

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

1.7 Income tax

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

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

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.

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

1.8 Non-current assets (continued)

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

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

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

On delivery the total expenditure of the vessel 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.

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

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

IT Equipment: 2 years

Furniture and Fittings: 5 years

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

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

1.9 Impairment of assets

Other and non-current assets

At each reporting date the Group completes an assessment of whether there is an indication that an asset may be impaired. If an asset's carrying amount is higher than the asset's recoverable amount, an impairment loss will be recognised in the income statement. The recoverable amount is determined separately for all assets but, if this is impossible, it is determined together with the entity to which the assets belong. An impairment loss occurs when the carrying amount exceeds the recoverable amount, which is the higher of value in use or the net sales price. The value in use is calculated using the present value of estimated future cash flows. The calculation is performed at the individual vessel level.

1.10 Cash and cash equivalents

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

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

1.11 Provisions, contingent liabilities and assets

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

Contingent liabilities are defined as;

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

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

Contingent asset are defined as;

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

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

1.11 Provisions, contingent liabilities and assets (continued)

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

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

1.12 Warrants and share based payments – equity settled transactions

The fair value of the warrants is estimated at the grant date and recognised as an expense over the vesting period. The Quanto-Barrier Option pricing model has been used to calculate the fair value of the warrants. The fair value of the share options has been calculated using the Black-Scholes-Merton option pricing model and a Monte Carlo simulation model for the 2012 and 2013 awards.

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

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

1.13 Borrowing costs

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

Note 2: Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

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

The four M-FLEX, the Singaporean and Norwegian entities have ceased to trade at 31/12/13.

FLEX LNG Ltd – Loans and investments in subsidiaries

Company (USD 000)	2013	2012
M-FLEX 1 Limited	166,143	249,518
M-FLEX 2 Limited	58,456	99,991
M-FLEX 3 Limited	57,692	99,227
M-FLEX 4 Limited	57,760	99,421
FLEX LNGC 1 Limited	105,526	0
FLEX LNGC 2 Limited	105,526	0
FLEX Petroleum Limited	3,783	3,774
Impairment provision	(343,834)	(551,931)
	211,052	0

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

Given the intention to liquidate the four M-FLEX entities, and the non-trading status of FLEX Petroleum, the carrying value of the FLEX LNG loans has been further reviewed. The valuation has been based on the reported recoverable amount for the four M-FLEX entities and FLEX Petroleum \$nil (2012: \$nil) and that of the two LNGC entities. The loan amounts in excess of this have been recognised as an impairment write back in the Company income statement \$208.1m (2012: \$328.3m loss). This adjustment has no impact at a consolidated level.

Note 3: Administrative expenses

As detailed in note 1.8 capitalised costs, in 2013, include expenses covering compensation for employees, travel costs, consultant fees, legal costs, engineering and design costs, plus other costs that are directly attributable to the assets. The amounts in tables 3.1 to 3.3 are prior to this capitalisation, however, no costs were capitalised in 2012.

3.1 Included in administration expenses USD,000	Group 2013	Group 2012	Company 2013	Company 2012
Depreciation	32	116	0	0
P&L on disposal of assets	38	8	0	0
Net foreign exchange differences	(97)	504	(53)	5
Calculated fair value of warrants	0	(8,546)	0	(8,546)
Calculated fair value of options	352	(3,835)	352	(3,835)

3.2 Auditors

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

USD,000	Group 2013	Group 2012	Company 2013	Company 2012
Audit	61	105	43	70
Tax and other assistance	13	58	1	22
Total Auditor's fees	74	163	44	92

3.3 Remuneration

During 2013 FLEX LNG had between three and five Directors, but no employees. All employees are engaged by the three management companies.

Staff costs USD,000	Group 2013	Group 2012	Company 2013	Company 2012
Wages and salaries	1,155	2,248	0	0
Social security costs	196	213	55	25
Pension costs	53	92	0	0
Termination costs	371	14	0	0
Total employee benefit expenses	1,775	2,567	55	25

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 2013 was 8 (2012 - 24). The Company has incurred social security costs in relation to the payment of Directors fees in the Isle of Man and on the option scheme.

Note 3: Administrative expenses (continued)

3.3 Remuneration (continued)

Directors fees FLEX LNG Ltd, USD,000	Company 2013	Company 2012
<u>Current Directors</u>		
David McManus	200	200
Ian Beveridge	70	70
Christopher Pittinger	70	70
<u>Ex. Directors</u>		
Aoki Hiromichi	66	70
Eiji Wakiwaka	66	70
Philip E. Fjeld	0	63
Scott Pearl	0	63
Total Directors' fees	472	606

Between 50% and 100% of the remuneration listed above is paid via the issue of shares by the Company. Mr. McManus in addition earned a fee of \$2,500 (2012: \$516) for being a member of the nomination committee.

All earnings and shares for Mr. Beveridge are assigned to Bernhard Schulte Investment Holding, Mr. Wakiwaka to Masters K.K, and for Mr. Hiromichi to Kawasaki Kisen Kaisha Ltd.

Executive Management USD,000	Salary and redundancy	Sundry benefits	Pension	Option costs	Group Total
Philip Fjeld ¹	475	13	12	147	647
Jostein Ueland	275	25	14	67	381
Trym Tveitnes	275	4	14	67	360
Gary Baron ²	145	3	0	2	150
2013	1,170	45	40	283	1,538
2012 (four staff)	1,066	86	39	(128)	1,063

Note ¹: Left the Group on 30/11/13, redundancy and notice payment \$223k.

Note ²: Left the Group on 28/02/13, redundancy payment \$96k.

The Executive Management receive remuneration via the management companies FLEX LNG Management Limited, FLEX LNG Management Norway AS and FLEX LNG Management (Singapore) Pte Ltd. The amounts disclosed are the amounts recognised as an expense during the reporting period. Pension provision is provided under defined contribution schemes at rates between 0-5%. Mr. Ueland and Tveitnes have contracts of employment that give a three month notice period and with additional amounts in the event of redundancy. Options and warrants have been granted as follows Mr. Ueland and Tveitnes 46,800 options (issued 22/07/08) and 400,000 options (issued 07/11/12) each held personally, and warrant and options via Hansa LNG Limited as detailed in note 13 and 14. The 400,000 options held by Mr. Fjeld can be exercised in the period to 1 December 2014, subject to the hurdle criteria being met and in the event of a change in control. These options no longer contain a service condition leading to an accelerated expense in 2013.

Note 4: Finance costs and revenue

Finance cost	Group 2013	Group 2012	Company 2013	Company 2012
New building assets	0	510	0	0
Arbitration funding cost	18	0	18	0
Total financial cost	18	510	18	0

Finance revenue	Group 2013	Group 2012	Company 2013	Company 2012
Interest income	21	88	21	77
Total financial revenue	21	88	21	77

Note 5: Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit / (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 profit / (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 profit / (loss) and share data used in the earnings per share calculation.

Earnings per share:	2013	2012
Profit / (loss) attributable to shareholders – Group \$'000	205,460	(298,798)
Profit / (loss) attributable to shareholders – Company \$'000	205,831	(329,286)
Weighted average number of ordinary shares	126,040,816	125,173,030
Effect of dilution:		
Share options ¹	0	0
Warrants ²	0	0
Weighted average number of shares, adjusted for dilution	126,040,816	125,173,030

¹ the options are out of the money, against the average share price for the period
² the warrants are out of the money, against the average share price for the period

Note 6: Management fees

There are no employees in FLEX LNG Ltd. A contract for management services has been entered into with FLEX LNG Management Limited ("FLML") and its subsidiaries. According to this agreement, FLML will render services to the Group relating to general administration and contract management. FLML is entitled to compensation covering all its expenses plus a mark-up. The total compensation for 2013 was \$2,948k (2012: \$6,646k). At the period end the Company owed FLML \$1,406k (2012: \$1,282k).

Note 7: Income tax

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

(USD,000)	Group 2013	Group 2012
Current income tax charge	18	56
Adjustments in respect of current income tax of previous years	(3)	1
Income tax expense reported in the income statement	15	57

(USD,000)	Company 2013	Company 2012
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 2013 and 2012 is as follows:

(USD,000)	Group 2013	Group 2012
Accounting profit / (loss) before income tax	205,475	(298,741)
Income tax at 0% (2012:0%) - BVI	0	0
Effect of higher UK, Singapore and Norway tax rates	15	57
Effective income tax rate of 0.0% (2012: 0.0%)	15	57

(USD,000)	Company 2013	Company 2012
Accounting profit / (loss) before income tax	205,831	(329,286)
Income tax at 0% (2012:0%)	0	0
Effective income tax rate of 0% (2012: 0%)	0	0

Note 8: New Building Assets and Capitalised Costs

(USD,000) – Group	2013	2012
At 1 January – payments on account	0	326,000
Offset - Samsung	0	(41,040)
Impairment write back / (down) (IAS 37)	210,000	(284,960)
At 31 December	210,000	0
At 1 January – topside design	0	11,715
Impairment write down (IAS 36)	0	(11,715)
At 31 December	0	0
At 1 January – capitalised internal cost	0	4,697
Additions	525	0
Impairment write down (IAS 36)	0	(4,697)
At 31 December	525	0
At 1 January – Total	0	342,412
Offset - Samsung	0	(41,040)
Additions	525	0
Impairment write back / (down)	210,000	(301,372)
At 31 December	210,525	0

No finance costs were capitalised in the current year (2012: \$nil).

Historically the carrying values for the capitalised development costs and instalment payments have been valued under IAS 36 - impairment of assets and IAS 37 - contingent liabilities and contingent assets. Additional information is given in the 2012 statutory accounts. In 2013, following the execution of a settlement agreement, the Group entered into two new ship building contracts with Samsung for 174,000 m³ TFDE LNG Carriers. As a result of the settlement agreement the parties have agreed to redeploy \$210m from payments already made to Samsung by the FLEX LNG group, which will be used as the first instalment for the two LNG Carrier vessels. In the 2012 statutory accounts, under IAS 37, the advance payments to Samsung were derecognised as a contingent asset. Given the settlement with Samsung the resultant asset value has been reinstated to the statement of financial position and an impairment write-back of \$210m has been recognised in the income statement.

In 2013 the Group has also capitalised \$525k (2012: \$nil) of technical staff, travel, legal and technical consultancy costs.

Note 9: Plant and Equipment

(USD,000) - Group

Cost	2013	2012
1 January	797	801
Additions	0	23
Disposals	(677)	(27)
31 December	120	797

(USD,000) - Group

Depreciation	2013	2012
1 January	720	623
Depreciation charge for the year	32	116
Disposals	(632)	(19)
31 December	120	720
Net book value	2013	2012
At 31 December	0	77

Note 10: Other current assets

	Group	Group	Company	Company
(USD 000)	2013	2012	2013	2012
Debtors	49	89	8	8
Prepayments	51	208	15	24
Other receivables	49	186	0	0
Total other current assets	149	483	23	32

Note 11: Cash and cash equivalents

	Group	Group	Company	Company
(USD 000)	2013	2012	2013	2012
Cash at the bank and in hand	1,524	6,246	1,312	6,115
Cash and cash equivalents in the balance sheet and cash flow statement	1,524	6,246	1,312	6,115
Overdraft facility	0	0	0	0

Note 12: Share capital, shareholder information and dividend

Group & Company	2013	2012
Ordinary shares, nominal amount USD 0.01	126,365,641	125,412,622
Total number of shares	126,365,641	125,412,622

Group & Company	Shares (‘000)	Share Capital (USD‘000)	Share Premium (USD‘000)
Ordinary shares - Issued and fully paid:			
At 1 January 2013	125,412	1,254	562,288
Issued in lieu of remuneration	954	10	371
31 December 2013	126,366	1,264	562,659

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

Nominal value per share is USD 0.01. All issued shares have equal voting rights and are equally entitled to dividends. During the year shares were allotted to directors of FLEX LNG to cover between 50% and 100% of their remuneration for the year. The Directors' shares for the remuneration, covering the period 01/07/2013 to 31/12/13, had not been issued at 31/12/13 and are recorded in the option, warrant and share reserves, \$164k (2012: \$210k). Computation of earnings per share and diluted earnings per share is shown in note 5.

Other reserves: FLEX LNG has in the year recognised under other equity a credit of \$306k (2012: \$12,314k - debit) in relation to the options and shares issued by the Company.

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

Main Group shareholders at 31.12.13 are:	Number of	Ownership
Shareholder:	shares:	interest:
KAWASAKI KISEN KAISHA LTD	17,263,623	13.7%
DEUTSCHE BANK AG LONDON ¹	14,305,244	11.3%
STATE STREET BANK AND TRUST CO. ¹	13,486,167	10.7%
JP MORGAN CLEARING CORP. ¹	12,930,280	10.2%
GEVERAN TRADING CO	7,622,105	6.0%
B SCHULTE INVESTMENT HOLDING	6,272,543	5.0%
JP MORGAN SECURITIES LIMITED	4,423,376	3.5%
EUROCLEAR BANK S.A. ¹	4,345,496	3.4%
INVESCO PERP EUR MELLON SA/NV	4,332,016	3.4%
SIX SIS AG ¹	3,321,434	2.6%
SKINDINAVISKA ENSKIL	3,321,230	2.6%
SEB PRIVATE BANK ¹	2,523,785	2.0%
GOLDMAN SACHS & CO ¹	2,483,782	2.0%
THE BANK OF NEW YORK MELLON ¹	2,377,937	1.9%
JP MORGAN CLEARING CO ¹	1,965,555	1.6%
JP MORGAN SECURITIES ¹	1,693,937	1.3%
UBS AG	1,640,658	1.3%
DEUTSCHE BANK AG ¹	1,250,000	1.0%
VENTOR AS	1,200,000	1.0%
JP MORGAN BANK LUXEMBOURG ¹	1,138,000	0.9%
OTHER	18,468,473	14.6%
Total	126,365,641	100.0%

Note¹ - Nominee account.

Note 13: Share based payments

Share-Based Payment - Group & Company

Since 2007 the Company has entered into a number of option and warrant scheme allocations. A summary of the scheme arrangements are described below.

Plan	Vesting Criteria	Expiry
Hansa Warrants – 2007	25% vest on at shore completion of the first vessel from Samsung, 25% vest on at shore completion of the second vessel from Samsung and 50% vest 31.12.2014, subject to the first two criteria being met.	31.12.16.
Hansa Options – 2008	50% vest at the first LNG vessel's first commercial cargo of LNG, and 50% vest at the second LNG vessel's first commercial cargo of LNG.	31.12.16
Staff Options – 2008	25% vested on 15/03/2012, 25% vested on 15/03/2013, 25% vest on at shore completion of the first vessel from Samsung, and 25% vest on at shore completion of the second vessel from Samsung.	31.12.16.
Staff Options – 2010	One third vest on the FID for the first vessel, one third vested at 30/06/2012, and one third vest at the first LNG vessel's first commercial cargo of LNG.	31.12.16.
Founders Options – 2012	Criteria linked to the Company share price exceeding a set price for 30 consecutive days. 25% 8 NOK, 25% 10 NOK, 25% 12 NOK and 25% 14 NOK.	30.07.17
Staff Options – 2013	Criteria linked to the Company share price exceeding a set price for 30 consecutive days. 50% 6 NOK and 50% 8 NOK.	06.06.17.

A summary of the vesting expectations are provided below;

Scheme	Number	Exercise Price / Hurdle
Not expected to meet vesting criteria		
Hansa 2007 warrants	6,631,455	\$2.50 / \$3.43-\$4.03
Hansa 2008 options	2,000,000	NOK 37 / no hurdle
Staff 2008 options	69,300	NOK 20 / no hurdle
Staff 2010 options	26,167	NOK 6.5 / no hurdle
Staff 2010 options	26,167	NOK 27 / no hurdle
	8,753,089	
Vested (none exercised)		
Staff 2008 options	69,300	NOK 20 / no hurdle
Staff 2010 options	13,083	NOK 6.5 / no hurdle
Staff 2010 options	13,083	NOK 27 / no hurdle
	95,466	
Potential to meet vesting criteria		
Founders 2012 options	1,200,000	\$0.01 / 8-14 NOK
Staff 2013 options	225,000	\$0.01 / 6-8 NOK
	1,425,000	
Total	10,273,555	

The following analysis only applies to those options that have the potential to meet their vesting criteria - 1,425,000 options and the vested options – 95,466.

Note 13: Share based payments (continued)

The fair values of the options are calculated using the Black-Scholes-Merton option pricing model and a Monte Carlo simulation model. The Board of Directors approved the issuance of 225,000 additional options to the staff of the Company. The issuance has performance criteria linked to the share price of the Company with the share price needing to exceed set criteria for 30 consecutive days prior to the expiry date. The share prices criteria are, 50% of the options at 6 NOK, and 50% at 8 NOK.

The total expensed amount in 2013 relating from the share-based payment plan was a cost of \$352k (2012: \$12,381k - credit). The split of the 2013 cost between the options and warrants was \$352k and \$nil. The total expensed amount relating to the historical options schemes at 31/12/2013 was \$1,626k (2012: \$1,274k).

Further details of the outstanding option plans are as follows:

	01.01.13 - 31.12.13	
	Options	Weighted Average Exercise Price
Options outstanding at the beginning of year	1,200,000	USD 0.01
Options granted	225,000	USD 0.01
Vested	0	0
Terminated	0	0
Forfeited	0	0
Expired	0	0
Options outstanding at the end of year	1,425,000	USD 0.01

Outstanding and vested options as of 31 December 2013 are given in the table below.

	Outstanding			Vested	
	Outstanding Options per 31.12.2013	Weighted average remaining contractual Life	Weighted Average Exercise Price	Vested Options 31.12.2013	Weighted Average Exercise Price
Exercise price					
USD, 0.01	1,425,000	3.5	0.01	0	n/a
NOK, 0.00 - 14.99	13,083	3.0	6.50	13,083	6.50
NOK, 15.00 - 30.00	82,383	3.0	21.11	82,383	21.11
Total USD options	1,425,000	3.5	0.01	0	n/a
Total NOK options	95,466	3.0	19.11	95,466	19.11

None of the vested options have been exercised at the yearend.

Note 13: Share based payments (continued)

At the 2011 AGM meeting the shareholders approved the issuance of up to 2,500,000 options in the Company with the terms to be determined by the Compensation Committee. The Board of directors approved the issuance of 225,000 options to the staff of the Company during the year. After this grant 925,000 (2012: 1,150,000) remained to be issued.

The inputs to the model for options granted to employees in 2013, from the 2011 approval, are listed below:

225,000: 2013 allocation	Option
No. of options	225,000
Simulated expected life, minimum and maximum	0.7 to 3.7 years
Share price, spot (NOK)	6.70
Weighted average exercise price (NOK/USD)	0.06/0.01
Volatility of underlying share	80%
Expected dividends	-
Asset drift (risk free interest rate)	2.17%
Fair Value of options	NOK 6.31

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

The employee options, subject to certain customary exceptions, require staff to be employed by the company from the date of grant to the time of vesting. The objective of the options is to align the effort of employees with the future success of the Group. The 400,000 options allocated in 2012 to Mr. P. Fjeld can be exercised prior to 01.12.14, if there is a change of control and the vesting criteria has been met, after this date they lapse.

During the period ended 31 December 2013 FLEX LNG agreed to issue the directors with shares covering between 50% and 100% of their remuneration. The value of the shares is based on the fair value of the services received of \$334k (2012 - \$415k). At 31 December 2013 149,761 shares (2012: 468,810 shares) with a value of \$164k had not yet been issued to the directors.

The split of shares by director was as follows;

Director	2013	2012
<u>Current directors</u>		
D McManus	244,348	268,976
I Beveridge ¹	131,572	126,258
C Pittinger	66,150	72,416
<u>Ex directors</u>		
A Hiromichi ¹	127,933	126,072
E Wakiwaka ¹	63,967	72,416
P Fjeld	0	91,868
S Pearl	0	64,352
Total	633,970	822,358

Note¹: These shares are issued to the company they employed by rather than to the individual.

Note 14: Related parties

14.1 Options and warrants

Hansa LNG Limited, a company controlled by the founders, has been issued with options and warrants as detailed in note 13. The 2012 P&L credit was: warrants \$8,546k and options \$857k, there was no charge in 2013.

14.2 Shares held by current members of the Board, as at 31/12/2013

Board Member	2013	2012
David McManus	553,581	223,406
Ian Beveridge	250,000	250,000
Christopher Pittinger	149,040	60,147
Total	952,621	533,553

These amounts exclude the shares that had not been issued as at 31/12/2012, per note 16.

14.3 LNGC technical specifications and construction agreement

In October 2013 the Group entered into a technical services agreement with Schulte Marine Concept (Hong Kong) Limited, for the provision of assistance covering the plan approval phase of the construction process. In the year costs of \$58k were incurred (2012: \$8k), on an arm's length basis. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

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 \$210m was redeployed to be used as the first instalment for the two vessels. The remaining instalment will be due on the delivery of the vessels, \$192m, prior to any amounts for design change requests and sundry buyers supplies.

15.2 Operating lease commitments, lessee

The UK based subsidiary has entered into a lease on commercial property. The lease has an average remaining life of 1.35 years and is denominated in GBP. The lease has a break clause after 0.35 year. The previous long term lease for property in London was terminated in 2013. The future rental payable under the leases as at 31 December 2013 is as follows;

(USD 000)	Group 2013	Group 2012
Within one year	146	250
After one year but not more than five years	51	999
More than five years	0	151
Total	197	1,400

Lease payments made during the year were \$172k (2012: \$476k).

Note 16: Subsequent events / after balance sheet date

16.1 Shares

On 10 February 2014 the Company issued 149,761 additional shares to cover between 50% and 100% of the Director's remuneration from 1 July 2013 to the 2013 year end.

16.2 Loading Arms

Samsung and the Group have agreed to market for sale 6 complete offshore LNG loading arms, owned by the Company. In April 2014 Samsung notified the Company that it had agreed a sale for the loading arms. The Company estimates, on preliminary figures, that after the deduction of Samsung storage and marketing costs that the net proceeds will be approximately \$0.5m. The net proceeds are expected to be received in Q3 2014.

Note 17: Financing

The Group is in detailed discussions to secure debt finance to cover all costs during the construction phase, until the delivery of the vessels. The expectation is that the Group will enter into an agreement for the provision of finance in Q2 2014.

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

Note 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 course of business. Given the current capital raising plans the Group expects to have sufficient working capital to operate until delivery of the vessels.

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

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 funding in USD, with the share price denominated in NOK, but with the proceeds being fixed into USD.

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

Currency risk (continued)

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

Interest rate risk

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

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the raising of finance from investors. The Group, as at the yearend, does not currently have any bank overdrafts or loans. The Group will need to raise additional funds in 2014 to finance the costs up to delivery for the two LNG carrier vessels, under construction.

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, via Hana Bank, for the \$210m instalment payment. The bank providing the refund guarantee must hold at least a credit rating of A-. Cash funds are currently placed with HSBC, Lloyds TSB 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 it has not yet concluded a contract for the use of the vessels under construction. Charter rates may be uncertain and volatile and depend upon, among other things, the natural gas prices, the supply and demand for vessels, vessel obsolescence and the energy market, which the Group cannot predict. 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 two vessels under construction; obtaining finance and working capital on reasonable terms; and the strategic review of the alternatives available to the Company.

To the Annual Shareholders' Meeting in FLEX LNG Ltd

INDEPENDENT AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of FLEX LNG Ltd, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and the Group comprise the statement of financial position as at 31 December 2013, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information

Board of directors and management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of FLEX LNG Ltd have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 17 and 18 to the financial statements which states that the Company is dependent on certain conditions to be fulfilled to continue as a going concern. The financial statements do not reflect impairment charges that might be required if the Company was liquidated or the assets sold in a distressed situation.

Bergen 24.april 2014
ERNST & YOUNG AS



Jørgund Haga Indrehus
State Authorized Public Accountant (Norway)