

FLEX LNG GROUP

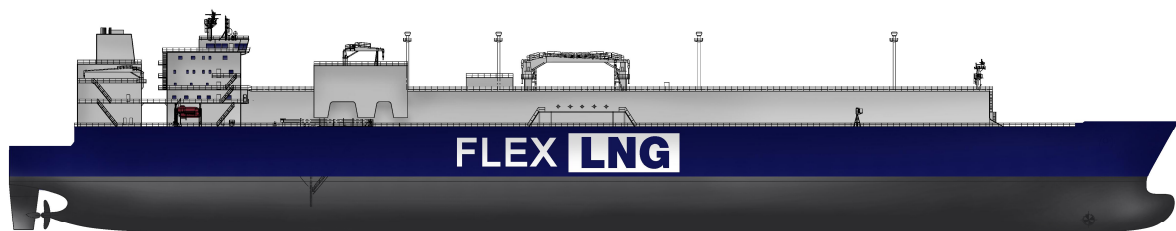


Illustration courtesy of Samsung Heavy Industries

Q4 2016 & Year 2016

BOARD REPORT

Highlights

- Reporting loss before tax for the fourth quarter of \$0.2m and \$1.8m for 2016
- Entered into two LNGC time charters for 180 days with option to extend for further 180 days. Two further contracts at similar terms entered into in 2017
- Signs heads of agreement with NextDecade Global Solutions for FSRU solutions
- In 2017 the company entered into an agreement to acquire two LNGC MEGI carriers and raised US\$ 100 million in new equity

Jonathan Cook, CEO comments:

"We are pleased to have acquired the two new LNGC newbuilds. This is an important first step into building FLEX into a leading player in the LNG market. We are working on several attractive growth opportunities both within LNGC and FSRU segments".

Financials, Fourth Quarter and Year 2016

(Figures in brackets refer to the corresponding period of 2015)

The cash balances at 31 December were \$1.4m (2015: \$3.7m) with a quarterly \$1.0m net outflow (2015: \$0.7m net outflow) and \$2.3m year to date (2015: \$3.0m). In the twelve months in 2016 the operating cash outflow was \$1.1m (principally the operating loss after adjusting for the non cash, working capital changes and finance costs paid) and \$1.2m of cost capitalisation.

The loss before tax was \$0.2m (2015: \$0.7m) in the quarter and \$1.8m year to date (2015: \$2.5m). In addition costs of \$1.2m have been capitalised (2015: \$0.2m) onto the two new building assets. In the quarter \$260k of administrative expense has been reclassified to interest expense and prepayments.

Outlook, Financing and Risks

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

In February 2017 the Company entered into a transaction for the acquisition of two high-end MEGI LNGC newbuilds at Daewoo Shipbuilding with scheduled delivery in Q1 2018. The two newbuilds were bought from affiliates of Geveran Trading Co. Ltd., the Company's largest shareholder. The transaction will give the Company a uniform fleet of



four LNG MEGI carriers with expected delivery in early 2018 with the most advanced propulsion and fuel efficiency technology compared to the existing LNG fleet.

Parts of the consideration payable for the newbuilds will be settled by the Company through the issuance of 78 million new shares in the Company to Geveran. The remaining part of the consideration will be settled by a seller's credit structured as a revolving credit facility ("RCF"). The Company will also assume responsibility for the remaining newbuilding instalments payable to DSME amounting to approximately USD 20.4 million. The RCF has an attractive fixed interest rate of 1.00% until delivery and is an indication of the strong support the Company is enjoying from its largest shareholder.

In connection with the acquisition, the Company raised the equivalent of approximately USD 100 million through the issuance of 72 million shares. The Private Placement received strong interest from large institutional investors and was significantly over-subscribed.

The Transaction will consolidate all of Geveran's LNG assets and activities in FLEX, which is well positioned to capitalize on the expected growth in demand for LNG shipping. The growth in shipping demand will be driven by the substantial increase in global LNG production together with the future growth of global energy demand. The year 2016 saw a net increase of LNG imports compared to 2015 of 17 million tonnes. The growth in imports included 4 new LNG importing countries. Out of these four new importing countries, three chose their import terminal solution in the form of a floating storage and regasification unit (FSRU)s (Jordan, Pakistan and Egypt). FLEX LNG expects the coming growth of LNG production and the expected growth in demand for natural gas in combination with the lack of ordering activity for LNG Carriers to gradually tighten the shipping market in the near term. The timing of FLEX LNG's delivery position in 2018 should provide the company with attractive alternatives for employment of the four vessels.

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

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

In December 2016 FLEX LNG Shipping Limited a subsidiary of the Company entered into two separate LNGC time charters for 180 days with an option to extend for a further 180

days. The vessels are modern TFDE +170,000m³ and will be delivered in late Q1 2017. In addition, in 2017, FLEX LNG Shipping Limited entered into two further charters on similar terms. FLEX LNG Shipping Limited is actively marketing these LNGCs in the spot and short term charter market and has already chartered out one vessel for twelve months at an approximate 10% gross profit margin. In addition the chartering will allow the Group to establish a presence in the market and build an operational track record and chartering relationships.

In December 2016 the Company and NextDecade Global Solutions signed a Heads of Agreement to create a full value chain solution for customers looking to purchase LNG from NextDecade Rio Grande LNG export project in Brownsville, TX. Initially, NextDecade and FLEX LNG will develop Floating Storage and Regasification Unit (FSRU) and dockside solutions for international customers of NextDecade's, with the LNG supply also provided by NextDecade. The Company has significant FSRU competence internally, and through its sponsor organisation and is actively pursuing opportunities to leverage its experience towards the implementation of FSRU projects. The CEO Jonathan Cook was co-founder of Excelerate and Senior VP Thomas Thorkildsen was former head of business development in Höegh LNG.

In 2016 the Company agreed amended terms with Metrogas Holdings Inc. (an affiliate of Geveran Trading Co. Ltd) to extend the working capital loan entered into in 2014. The facility has been increased from \$7.0m to \$14.5m, funds can be drawn half yearly as needed, the repayment date has been moved to April 2018, and the rate of interest remains unchanged. The intention in 2017 is to repay this loan from the new Geveran RCF. As part of the 2017 acquisition of the two LNG vessels, Geveran will provide a \$270m RCF. The credit will be structured to allow draw and repay at Company's discretion, which will give the Company growth capital while minimising interest cost during construction. The interest will be fixed until delivery and LIBOR + 300 bps with tenor of 3 years from delivery. The intention is to repay the facility with bank debt when the vessels are delivered, but it will still be available after delivery of the newbuilds at the Company's discretion to pursue growth opportunities and to manage the cash position. The Company currently expects that these facilities and anticipated bank debt will cover the Group's working capital needs for the following twelve months.

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

The Board believes that the going concern position and risks remain both as described in the 2015 statutory accounts and as summarised by this Q4 2016 financial report, including note 2, and that the going concern assumption remains appropriate for the Group.

Unaudited Interim Financial Report Condensed Consolidated Income Statement

(Unaudited figures in USD,000)

31 December 2016	Unaudited			
	Q4 16	Q4 15	2016	2015
Operating revenues	0	0	0	0
Administrative expenses	52	616	1,483	2,228
Operating loss before depreciation	(52)	(616)	(1,483)	(2,228)
Depreciation	0	1	2	3
Operating loss	(52)	(617)	(1,485)	(2,231)
Finance income	1	4	9	20
Finance cost	(114)	(69)	(314)	(267)
Loss before tax	(165)	(682)	(1,790)	(2,478)
Income tax expense	(3)	(1)	(1)	7
Net loss	(162)	(681)	(1,789)	(2,485)
Attributable to:				
Equity holders of the parent	(162)	(681)	(1,789)	(2,485)
Earnings per share:				
Basic and diluted	(0.00)	(0.01)	(0.01)	(0.02)

Condensed Consolidated Statement of Comprehensive Income

(Unaudited figures in USD,000)

31 December 2016	Unaudited			
	Q4 16	Q4 15	2016	2015
Loss for the period	(162)	(681)	(1,789)	(2,485)
Total other comprehensive profit	0	0	0	0
Total comprehensive income for the period	(162)	(681)	(1,789)	(2,485)
Attributable to:				
Equity holders of the parent	(162)	(681)	(1,789)	(2,485)

Condensed Consolidated Statement of Financial Position

(Unaudited figures in USD,000)

31 December 2016		Unaudited	
	Note	2016	2015
New building assets and capitalised costs	3	212,472	211,270
Plant and equipment		2	3
Total non-current assets		212,474	211,273
Other current assets		220	252
Cash and cash equivalents	4	1,439	3,722
Total current assets		1,659	3,974
TOTAL ASSETS		214,133	215,247
Share capital		1,279	1,279
Share premium		563,174	563,080
Other equity		(358,511)	(356,725)
Equity attributable to equity holders of the parent		205,942	207,634
Total equity		205,942	207,634
Other financial liabilities	6	7,000	7,000
Total non-current liabilities		7,000	7,000
Current liabilities		1,191	613
Total current liabilities		1,191	613
Total liabilities		8,191	7,613
TOTAL EQUITY AND LIABILITIES		214,133	215,247



Condensed Consolidated Statement of Changes in Equity

(Unaudited figures in USD,000)

31 December 2016	Share capital	Share premium reserve	P&L reserve	Option, warrant and shares	To equity holders
At 01.01.16	1,279	563,080	(367,333)	10,608	207,634
Loss for the period			(1,789)		(1,789)
Other comprehensive income			0		0
Total comprehensive income			(1,789)		(1,789)
Shares issued	0	94		(94)	0
Share-based payment (shares)				97	97
At 31.12.16	1,279	563,174	(369,122)	10,611	205,942

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

Condensed Consolidated Statement of Cash Flows

(Unaudited figures in USD,000)

	Unaudited	
31 December 2016	2016	2015
(Loss) before tax	(1,790)	(2,478)
Non cash items	405	340
Working capital adjustments	784	(418)
Income tax paid	(1)	(7)
Interest received	9	21
Finance costs paid	(486)	(267)
Net cash flow from operating activities	(1,079)	(2,809)
Capitalised expenditure	(1,202)	(206)
Purchase of plant and equipment	(2)	(3)
Proceeds from the sale of fixed assets	0	1
Net cash flow used in investing activities	(1,204)	(208)
Proceeds from issue of share capital	0	8
Net cash flow from financing activities	0	8
Net cash flow	(2,283)	(3,009)
Cash balance at beginning of period	3,722	6,731
Cash balance at end of period	1,439	3,722

Notes to the Interim Consolidated Accounts

Note 1: General information

FLEX LNG Ltd is a limited liability company, incorporated in the British Virgin Islands. The Group's activities are focused on LNG transportation. The interim condensed consolidated financial statements of the Group for the quarter and period ended 31 December 2016 were authorised by the board of Directors for release on 28 February 2017.

Note 2: Accounting principles

Basis of preparation - The interim condensed consolidated financial statements for the quarter and period ended 31 December 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting and have not been audited. The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The preparation of interim accounts involves the use of appraisals, estimates and assumptions influencing the application of accounting principles and recognised amounts for assets, obligations and costs. Actual results may differ from these estimates. The uncertainties and risks include both those noted in the 2015 accounts, as updated by the Q4 report, and principally include: the ability to secure employment contracts on reasonable terms for the vessels under construction; managing the design and construction period; obtaining delivery and working capital finance on reasonable terms; the completion of the 2017 transaction to acquire the two further LNGC vessels from Geveran: the time charter rates that will be obtained in 2017 for the vessels chartered in, and the general LNG and LNG shipping market conditions and trends. The Group is operating in only one segment with respect to products and services. Segment reporting is thus not currently relevant.

Note 2: Accounting principles (continued)

Accounting policies - The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, the new IFRS Standards and Interpretation introduced in 2016 are currently believed to have no impact on the Group.

At the end of Q4 2016, some new standards, changes in existing standards and interpretations have been issued, but have not yet become effective. The Group intends to adopt those standards when they become effective. The standards most likely to have an impact are IFRS 15 – Revenue and IFRS 16 – Leasing. Currently the Group estimates that the implementation will have no impact, or are currently unable to fully determine the impact.

Note 3: New building assets and capitalised costs

In the current quarter the Group has capitalised costs of \$0.7m (2015: \$0.1m) and \$1.2m year to date (2015: \$0.2m), incurred directly by the Group in relation to the two LNG Carrier vessels.

As part of the 2016 accounts completion the Company has reviewed the market prices for new builds, obtained a broker valuation for the vessels, performed a value in use calculation, based on market based assumptions, and concluded that the recoverable amounts was such that no impairment provision was required on the vessels under construction.

Note 4: Cash and cash equivalents

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

<i>(Unaudited figures in USD,000)</i>	Unaudited	
	2016	2015
Cash at bank and in hand	1,439	3,722

Note 5: Capital & other commitments

Samsung - \$210m has been paid to cover the first instalments for the two vessels. The remaining instalments will be due on delivery of the vessels (\$213.8m), prior to any amounts for any further design change requests, buyer's spares and fit out. Delivery is currently scheduled for January and April 2018.

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

Note 6: Other financial liabilities

In 2014 a loan agreement was entered into with Metrogas (an affiliate of Gevevan) for the provision of a \$7.0m loan to the Group. In April 2016 the Group agreed amended terms with Metrogas to extend the working capital loan. The facility has been increased from \$7.0m to \$14.5m, funds can be drawn half yearly as needed, the repayment date has been moved to April 2018, and the rate of interest remains unchanged.

Note 7: Going concern

The interim financial statements have been prepared based on the going concern assumption, which contemplates the realisation of assets and liabilities as part of the normal business course.

The Board believes that the going concern assumption currently remains appropriate for the Group. Given the amended loan agreement with Metrogas, the anticipated 2017 \$270m revolving credit facility with Gevevan, the bank debt expected to be raised when the vessels are delivered, the Company is expected to have working capital for the next twelve months. 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.

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

Note 8: Related party transactions

In 2014 the Group entered into a loan agreement with Metrogas for the provision of \$7.0m of working capital. The loan bears a fixed rate of interest and is secured against the shares in the two ship owning companies. The loan agreement is within the normal activities of the company and market terms, and was negotiated on an arm's length basis. The interest cost in the period was \$285k, of which \$58k was capitalised. In addition in 2016 a fee of \$260k (\$173k prepaid and \$87k included as part of interest expense) was paid to Metrogas as a commitment and amendment fee for the changes in 2016 to the 2014 loan agreement.

On 18 June 2015 the Group entered into a building supervision agreement with Frontline Management (Bermuda) Ltd to cover the two vessels on order from Samsung. At 31 December 2016 \$463k had been paid under these contracts, with \$694k of cost accrued at the period end.

The FLEX LNG Management Limited receives office, commercial and accounting support from companies affiliated to Gevevan, at the period end costs of \$261k had been incurred.

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

Note 9: Subsequent events

On 16 February the Company announced that it was contemplating entering into a transaction for the acquisition of shipbuilding contracts for two high-end MEGI LNGC newbuilds at Daewoo Shipbuilding and Marine Engineering Co. Ltd. with scheduled delivery in Q1 2018, currently held by affiliates of Gevevan, the Company's largest shareholder. Parts of the consideration payable for the newbuilds will be settled by the Company through the issuance of 78 million new shares in the Company to Gevevan. The remaining part of the consideration will be settled by a seller's credit structured as a revolving credit facility. In addition, the Company announced a contemplated USD 100 million offering of new shares against cash payment. On 17 February the Company announced it had completed the application period for the private placement, raising gross proceeds of NOK 833 million (approximately USD 100 million) at a subscription price of NOK 11.50 per share. In addition a subsequent offering of up to 7.2 million new shares in the Company for gross proceeds of up to NOK 83 million (approximately USD 10 million) will be made to shareholders that were not allocated shares in the private placement, or were to residents in a jurisdiction not able to participate in the offering. The subscription price in the subsequent offering is NOK 11.50 per Offer Share. The share issuance is subject to shareholder approval on 7 March 2017.

Note 10: Key figures

	2016	2015
No. of shares outstanding	127,945,657	127,869,673
No. of shares fully diluted	127,945,657	127,869,673
Average no. of outstanding shares	127,922,003	127,817,061
Share price (NOK)	11.00	11.00
Market capitalisation (NOK'm)	1,407	1,407

Shareholders

	Number of shares:	Ownership interest:
10 main shareholder at 31.12.16:		
GEVERAN TRADING CO	104,181,837	81.4%
POLYGON (PE) HOLDING	13,526,588	10.6%
STATE STREET BANK ¹	2,824,550	2.2%
GOLDMAN SACHS ¹	1,291,771	1.0%
SKANDINAVISKA ENSKIL	1,015,573	0.8%
ABN AMRO BANK ¹	823,234	0.6%
D MCMANUS	796,116	0.6%
TOLUMA INVEST AS	486,358	0.4%
C PITTINGER	197,654	0.2%
EUROCLEAR BANK N.V. ¹	191,572	0.1%
OTHER	2,610,404	2.1%
Total	127,945,657	100.0%

Note¹ - Nominee account.