**FIRST SHIP LEASE TRUST**
**UNAUDITED FINANCIAL STATEMENTS AND DISTRIBUTION ANNOUNCEMENT**
**FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2013**

First Ship Lease Trust ("FSL Trust") is a provider of leasing services on a bareboat charter basis to the international shipping industry and is listed on the Singapore Exchange Securities Trading Limited ("SGX").

As at 30 September 2013, FSL Trust has a modern, high quality and diverse portfolio of 25 vessels consisting of seven containerships, 11 product tankers, three chemical tankers, two crude oil tankers and two dry bulk carriers. Sixteen vessels are employed on long-term bareboat charters and have a dollar-weighted average remaining lease period of approximately four and a half years (excluding extension periods and early buy-out options). The remaining nine vessels are employed on time charter arrangements, in pool and in spot market. The combined portfolio of 25 vessels has a dollar-weighted average age of approximately eight years.

**Summary of FSL Trust Consolidated Results**

| | 3Q 2013 | 3Q 2012 | Decrease | YTD Sep 2013 |
|---|---|---|---|---|
| | US$'000 | US$'000 | % | US$'000 |
| Revenue | 22,458 | 26,720 | (16.0) | 66,799 |
| Loss for the quarter/period | (8,930) | (186) | N.M. | (23,229) |
| Net cash generated from operations | 7,629 | 13,890 | (45.1) | 28,413 |

## 1(a)(i) Consolidated Income Statements

| | Note | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | | 3Q 2013 | 3Q 2012 | Inc/ (Dec) | YTD Sep 2013 | YTD Sep 2012 | Inc/ (Dec) |
| | | US$'000 | US$'000 | % | US$'000 | US$'000 | % |
| **Revenue** | | 22,458 | 26,720 | (16.0) | 66,799 | 82,048 | (18.6) |
| Depreciation expense on vessels | | (13,307) | (14,232) | (6.5) | (41,139) | (42,963) | (4.2) |
| Impairment loss on vessels | (a) | (3,639) | - | 100.0 | (6,773) | - | 100.0 |
| Voyage expenses | | (1,731) | (1,410) | 22.8 | (1,731) | (10,692) | (83.8) |
| Vessel operating expenses | | (3,999) | (2,802) | 42.7 | (10,622) | (7,136) | 48.9 |
| Management fees | | (693) | (905) | (23.4) | (2,177) | (2,567) | (15.2) |
| Trustee fees | | (36) | (40) | (10.0) | (113) | (121) | (6.6) |
| Other trust expenses | | (2,013) | (862) | N.M. | (3,496) | (4,244) | (17.6) |
| **Results from operating activities** | | (2,960) | 6,469 | N.M. | 748 | 14,325 | (94.8) |
| Finance income | | 13 | 33 | (60.6) | 56 | 94 | (40.4) |
| Finance expenses | | (5,982) | (6,685) | (10.5) | (18,711) | (21,253) | (12.0) |
| Impairment loss on available-for-sale financial assets | | - | - | - | (5,298) | - | 100.0 |
| **Loss before tax** | | (8,929) | (183) | N.M. | (23,205) | (6,834) | N.M. |
| Income tax (expense)/write-back | | (1) | (3) | (66.7) | (24) | 1 | N.M. |
| **Loss for the quarter/period** | | (8,930) | (186) | N.M. | (23,229) | (6,833) | N.M. |

Note:
(a) This relates to an impairment loss recognised on two dry bulk carriers of US$3.6 million in 3Q 2013 (see paragraph 8).

## 1(a)(ii) Statements of Comprehensive Income

| | Group | | | |
|---|---|---|---|---|
| | 3Q 2013 | 3Q 2012 | YTD Sep 2013 | YTD Sep 2012 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Loss for the quarter/period** | (8,930) | (186) | (23,229) | (6,833) |
| **Other comprehensive income:** | | | | |
| Translation differences relating to financial statements of foreign subsidiaries | 1,036 | 344 | 658 | (249) |
| Exchange differences on monetary items forming part of net investment in foreign subsidiaries | 111 | 187 | (105) | (157) |
| Effective portion of changes in fair value of cash flow hedges | (1,091) | (2,487) | 584 | (4,326) |
| Net change in fair value of cash flow hedges transferred to income statement | 2,060 | 1,852 | 6,124 | 6,622 |
| Net change in fair value of available-for-sale financial assets | 579 | - | (660) | - |
| Net change in fair value of available-for-sale financial assets reclassified to income statement | - | - | 5,298 | - |
| **Other comprehensive income, net of tax** | 2,695 | (104) | 11,899 | 1,890 |
| **Total comprehensive income** | (6,235) | (290) | (11,330) | (4,943) |

## 1(a)(iii) Distribution Statements

| | Note | Group | | | |
|---|---|---|---|---|---|
| | | **3Q 2013** | **3Q 2012** | **YTD Sep 2013** | **YTD Sep 2012** |
| | | **US$'000** | **US$'000** | **US$'000** | **US$'000** |
| **Loss for the quarter/period** | | (8,930) | (186) | (23,229) | (6,833) |
| Add: Non-cash adjustments | (a) | 16,559 | 14,076 | 51,642 | 42,147 |
| **Net cash generated from operations** | | 7,629 | 13,890 | 28,413 | 35,314 |
| Less: Repayment of secured bank loans | | (11,000) | (11,000) | (33,000) | (33,000) |
| Prepayment of secured bank loans | | - | - | (10,000) | - |
| **Income available for distribution** | | (3,371) | 2,890 | (14,587) | 2,314 |
| Add: Utilisation of cash retained from previous periods | | 3,371 | - | 14,587 | 1,810 |
| Less: Cash retained in the current period | | - | (2,890) | - | (3,470) |
| **Net distributable amount** | | - | - | - | 654 |
| Amount available for distribution | | - | - | - | 654 |
| Comprising: (i) Tax-exempt distribution | | - | - | - | 617 |
| (ii) Tax-exempt (one-tier) distribution | | - | - | - | 37 |
| **Amount to be distributed** | | - | - | - | 654 |
| Units at the end of the quarter ('000) | | 654,665 | 654,665 | 654,665 | 654,665 |
| **Distribution per unit (US Cents)** | | - | - | - | 0.10 |

Note:

(a) Non-cash adjustments include depreciation expenses, impairment losses, translation exchange differences and amortisation of deferred income and initial direct costs. Initial direct costs are transaction expenses incurred in the origination of new leases. These costs are capitalised and amortised into earnings in proportion to the recognition of lease income.

## 1(b)(i) Statements of Financial Position

| | | 30 Sep 2013 | | 31 Dec 2012 | |
|---|---|---|---|---|---|
| | | Group | Trust | Group | Trust |
| | Note | US$'000 | US$'000 | US$'000 | US$'000 |
| **Non-current assets** | | | | | |
| Vessels | | 680,026 | - | 727,517 | - |
| Subsidiaries | | - | 523,253 | - | 523,253 |
| Available-for-sale financial assets | | 4,977 | - | 5,637 | - |
| Derivative assets | | - | - | 47 | 47 |
| | | 685,003 | 523,253 | 733,201 | 523,300 |
| **Current assets** | | | | | |
| Inventories | | 2,509 | - | 519 | - |
| Derivative assets | | 59 | 59 | 185 | 185 |
| Trade and other receivables | | 5,556 | 41,335 | 3,542 | 85,838 |
| Cash and cash equivalents | (a) | 18,084 | 12,434 | 37,488 | 29,604 |
| | | 26,208 | 53,828 | 41,734 | 115,627 |
| **Total assets** | | 711,211 | 577,081 | 774,935 | 638,927 |
| **Equity attributable to unitholders of FSL Trust** | | | | | |
| Units in issue | | 525,412 | 525,412 | 525,412 | 525,412 |
| Reserves | | (219,510) | (342,956) | (208,180) | (329,918) |
| **Total equity** | | 305,902 | 182,456 | 317,232 | 195,494 |
| **Non-current liabilities** | | | | | |
| Secured bank loans | (b) | - | - | 386,218 | 386,218 |
| Derivative liabilities | | 682 | 682 | 4,492 | 4,492 |
| Deferred income | | 5,372 | - | 6,455 | - |
| | | 6,054 | 682 | 397,165 | 390,710 |
| **Current liabilities** | | | | | |
| Trade and other payables | | 4,128 | 788 | 4,134 | 684 |
| Lease income received in advance | | 528 | - | 2,903 | - |
| Derivative liabilities | | 4,968 | 4,968 | 8,039 | 8,039 |
| Secured bank loans | (b) | 388,183 | 388,183 | 44,000 | 44,000 |
| Deferred income | | 1,444 | - | 1,444 | - |
| Current tax payable | | 4 | 4 | 18 | - |
| | | 399,255 | 393,943 | 60,538 | 52,723 |
| **Total liabilities** | | 405,309 | 394,625 | 457,703 | 443,433 |
| **Total equity and liabilities** | | 711,211 | 577,081 | 774,935 | 638,927 |

## 1(b)(i) Statements of Financial Position (cont'd)

Notes:

(a) Cash and cash equivalents comprise:

| | 30 Sep 2013 | | 31 Dec 2012 | |
|---|---|---|---|---|
| | Group | Trust | Group | Trust |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Restricted cash^ | 10,000 | 10,000 | 10,000 | 10,000 |
| Cash at Bank | 3,566 | 690 | 5,723 | 608 |
| Short-term deposits | 4,518 | 1,744 | 21,765 | 18,996 |
| Cash and cash equivalents# | 18,084 | 12,434 | 37,488 | 29,604 |
| Less: Restricted cash | (10,000) | (10,000) | (10,000) | (10,000) |
| Cash and cash equivalents in the statement of cash flows | 8,084 | 2,434 | 27,488 | 19,604 |

^This relates to a deposit placed with the security agent of the amortising term loan facility (see paragraph 1(b)(ii)).

#The September 2013 distribution of US$1.2 million earned from trading in the chemical tanker pool was received on 1 October 2013 instead of 30 September 2013. If the distribution was received on time on 30 September 2013, the cash and cash equivalents as at 30 September 2013 would have been US$19.3 million.

(b) Secured bank loans

The non-current portion of the secured bank loans has been classified within current liabilities. Please see page 6 for further details.

## 1(b)(ii) Aggregate Amount of Group's Borrowings and Debt Securities

| | 30 Sep 2013 | 31 Dec 2012 |
|---|---|---|
| | US$'000 | US$'000 |
| **Secured bank loans** | | |
| Amount repayable within one year | 392,558 | 44,000 |
| Amount repayable after one year | - | 391,558 |
| Less: Unamortised debt upfront fees | (4,375) | (5,340) |
| | 388,183 | 430,218 |

The Trustee-Manager, on behalf of FSL Trust, had secured a 6-year amortising term loan facility in December 2011 and the outstanding loan balance was US$392.6 million as at 30 September 2013.

The lenders of the term loan had previously granted FSL Trust temporary relaxation of two loan covenants relating to Security Value-to-Loan ("VTL") ratio and Debt Service Coverage ratio ('the Covenants') which expired on 30 June 2013. The affected Covenants were as follow:

| Covenants | Prior to relaxation | After relaxation |
|---|---|---|
| VTL ratio | 125% | 100% |
| Debt Service Coverage ratio | at least 1.1:1 | at least 1:1 |

FSL Trust has obtained the lenders' agreement to grant the extension of the relaxation period as of 1 July 2013 until 31 December 2013 ('Relaxation extension') subject to compliance with certain conditions ('Conditions') by stipulated deadlines.

FSL Trust may not have fully complied with the Conditions and management is still in discussion with the lenders regarding the Relaxation extension. As a result, the entire bank loan may be called for repayment at any time upon notification by the lenders. Accordingly, this loan balance has been classified within current liabilities giving rise to the deficiency in net current assets, amounting to US$373,047,000 as at 30 September 2013.

Other terms imposed during the period of Relaxation extension include restriction to pay any distributions to unitholders, placement of a US$10 million security deposit with the security agent, and a levy of 2% per annum imposed on the shortfall amount. The shortfall amount is the difference between the outstanding loan balance and the theoretical loan balance assuming VTL ratio is 125%.

The interest margin of the term loan:

| VTL ratio | Margin over US$ 3-month LIBOR |
|---|---|
| >100% to 140% | 3.0% |
| >140% to 180% | 2.8% |
| >180% | 2.6% |

For 3Q 2013, the applicable margin over US$ 3-month LIBOR was 3.0%. The VTL ratio will be assessed semi-annually.

**1(b)(ii) Aggregate Amount of Group's Borrowings and Debt Securities (cont'd)**

The term loan is secured on the following:

(i) a first priority mortgage over the Group's vessels in the portfolio;
(ii) a first priority assignment of the Group's rights, title, interest in the insurances to and for each vessel, including insurance for hull and machinery, protection and indemnity and war risks;
(iii) a first priority assignment of the Group's rights, title and interest in and to the charter agreements and the charter income of each vessel; and
(iv) a pledge over the Group's shares in TORM.

FSL Trust has hedged part of its interest rate risk through a combination of interest rate swaps and/or natural hedges to fix the interest rates. The fixed interest rates range from 1.06% per annum to 5.24% per annum.

## 1(c) Consolidated Cash Flow Statements

| | Group | | | |
|---|---|---|---|---|
| | 3Q 2013 | 3Q 2012 | YTD Sep 2013 | YTD Sep 2012 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Operating activities:** | | | | |
| Loss before tax | (8,929) | (183) | (23,205) | (6,834) |
| Adjustments for: | | | | |
| Depreciation expense on vessels | 13,307 | 14,232 | 41,139 | 42,963 |
| Impairment loss on vessels | 3,639 | - | 6,773 | - |
| Impairment loss on available-for-sale financial assets | - | - | 5,298 | - |
| Amortisation of debt upfront fees and initial direct costs | 442 | 498 | 1,408 | 1,510 |
| Amortisation of deferred income | (361) | - | (1,083) | - |
| Interest income | (13) | (33) | (56) | (94) |
| Interest expense | 5,855 | 6,392 | 17,793 | 19,985 |
| Unrealised exchange differences | (237) | (64) | (312) | (47) |
| | 13,703 | 20,842 | 47,755 | 57,483 |
| Changes in working capital: | | | | |
| Trade and other receivables | (2,361) | (1,151) | (2,035) | 348 |
| Inventories | (1,923) | 1,238 | (1,990) | 357 |
| Trade and other payables | 662 | (224) | 51 | 17 |
| Lease income received in advance | (1,384) | (972) | (2,375) | (984) |
| **Cash generated from operations** | 8,697 | 19,733 | 41,406 | 57,221 |
| Income tax (paid)/refund | - | - | (37) | 8 |
| **Cash flows from operating activities** | 8,697 | 19,733 | 41,369 | 57,229 |
| **Investing activities:** | | | | |
| Interest received | 13 | 26 | 78 | 84 |
| **Cash flows from investing activities** | 13 | 26 | 78 | 84 |
| **Financing activities:** | | | | |
| Distribution to unitholders | - | - | - | (1,309) |
| Repayment of secured bank loans | (11,000) | (11,000) | (33,000) | (33,000) |
| Prepayment of secured bank loans | - | - | (10,000) | - |
| Interest paid | (5,850) | (6,380) | (17,851) | (22,117) |
| Security deposit | - | (10,000) | - | (10,000) |
| **Cash flows from financing activities** | (16,850) | (27,380) | (60,851) | (66,426) |
| Net decrease in cash and cash equivalents | (8,140) | (7,621) | (19,404) | (9,113) |
| Cash and cash equivalents at beginning of period | 16,224 | 30,812 | 27,488 | 32,304 |
| Cash and cash equivalents at end of period | 8,084 | 23,191 | 8,084 | 23,191 |
| **Comprising:-** | | | | |
| Cash at Bank | 3,566 | 4,395 | 3,566 | 4,395 |
| Short-term deposits | 4,518 | 18,796 | 4,518 | 18,796 |
| | 8,084 | 23,191 | 8,084 | 23,191 |

## 1(d)(i) Statements of Changes in Unitholders' Funds

| | Units in Issue | Hedging Reserve | Foreign Currency Translation Reserve | Fair value reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **2013** | | | | | | |
| **Group** | | | | | | |
| At 1 July 2013 | 525,412 | (6,560) | (3,014) | 1,571 | (205,272) | 312,137 |
| Total comprehensive income for the quarter | - | 969 | 1,147 | 579 | (8,930) | (6,235) |
| At 30 September 2013 | 525,412 | (5,591) | (1,867) | 2,150 | (214,202) | 305,902 |

| | Units in Issue | Hedging Reserve | Foreign Currency Translation Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **2012** | | | | | |
| **Group** | | | | | |
| At 1 July 2012 | 525,412 | (13,282) | (3,880) | (189,233) | 319,017 |
| Total comprehensive income for the quarter | - | (635) | 531 | (186) | (290) |
| At 30 September 2012 | 525,412 | (13,917) | (3,349) | (189,419) | 318,727 |

## 1(d)(i) Statements of Changes in Unitholders' Funds (cont'd)

| | Units in Issue | Hedging Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **2013** | | | | |
| **Trust** | | | | |
| At 1 July 2013 | 525,412 | (6,560) | (330,770) | 188,082 |
| Total comprehensive income for the quarter | - | 969 | (6,595) | (5,626) |
| At 30 September 2013 | 525,412 | (5,591) | (337,365) | 182,456 |

| | Units in Issue | Hedging Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **2012** | | | | |
| **Trust** | | | | |
| At 1 July 2012 | 525,412 | (13,282) | (304,390) | 207,740 |
| Total comprehensive income for the quarter | - | (635) | (6,666) | (7,301) |
| At 30 September 2012 | 525,412 | (13,917) | (311,056) | 200,439 |

**1(d)(ii)(iii) Details of any changes in Units**

| | 3Q 2013 Units | FY 2012 Units |
|---|---|---|
| At the beginning of the period | 654,665,077 | 654,665,077 |
| Units issued during the period | - | - |
| At the end of the period | 654,665,077 | 654,665,077 |

**1(d)(iv) Sales, Transfers, Disposal, Cancellation and/or use of Treasury Units**

Not applicable.

**2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice**

The figures have been extracted from the condensed consolidated interim financial information which has been reviewed by the auditors in accordance with the Singapore Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

**3. Where the figures have been audited, or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

The Auditors' review report on the condensed consolidated interim financial information for the quarter ended 30 September 2013, which contains an emphasis of matter, is enclosed in the Appendix.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited financial statements have been applied**

Except for the change as disclosed in paragraph 5, FSL Trust has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements for the year ended 31 December 2012.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Depreciation on dry bulk carriers- *Stella Fomalhaut* and *FSL Durban* (previously known as *Stella Eltanin*)

The restructuring of the bareboat charter agreements with the lessee, OMNI Ships Pte. Ltd. ("OMNI Ships"), was completed subsequent to 31 December 2012. Under the restructuring, the base lease period for each vessel was extended by two years to 31 December 2018. Hence, in accordance with FSL Trust's accounting policy, the expected useful life of each of the two vessels was revised from 10 years to 12 years. The residual value of each of the two vessels was also revised.

The changes in the expected useful life and residual value of the vessels constitute a change in estimates. The effects of the change were applied prospectively from January 2013 to the current quarter under review. As a result of the changes, depreciation expense for 3Q 2013 reduced by US$0.5 million (YTD Sep 2013: US$1.4 million) for the two vessels.

Depreciation on dry bulk carriers- *Stella Fomalhaut* and *FSL Durban* (previously known as *Stella Eltanin*) (cont'd)

Following the lease default by OMNI Ships in September 2013[1], both vessels were redelivered to FSL Trust in October 2013. The expected useful life and residual value of each of the two vessels were revised accordingly upon the redelivery of these vessels and the changes in estimates were applied prospectively from October 2013.

Depreciation on containerships-*Cape Ferro* and *Cape Falcon*

The residual value of each of the two vessels was reviewed and revised.

The changes in residual value of the vessels constitute a change in estimates. The effects of the change were applied prospectively from April 2013. As a result of the change, depreciation expense for 3Q 2013 increased by US$0.3 million (YTD Sep 2013: US$0.6 million) for the two vessels.

Depreciation on crude oil tankers-*FSL Hong Kong* and *FSL Shanghai* (previously known as *Aqua* and *Action*, respectively)

Following the lease default by the subsidiaries of Geden Holdings Ltd. ("Geden") for the two crude oil tankers in June 2013, these vessels were redelivered to FSL Trust; *FSL Hong Kong* is currently deployed in the spot market while *FSL Shanghai* is currently deployed on a short-term variable rate time charter. With the pre-mature termination of the bareboat charter operating lease arrangements, the expected useful life of each of the two vessels was revised from 10 years to 25 years and the basis of estimating the respective residual values was also changed.

The changes in the expected useful life and residual value of the vessels constitute a change in estimates. The effects of the change were applied prospectively from July 2013. As a result of the changes, depreciation expense for 3Q 2013 reduced by US$0.8 million (YTD Sep 2013: US$0.8 million) for the two vessels.

## 6. Earnings per Unit ("EPU") and Distribution per Unit ("DPU") for the financial period

| | Group | | | |
|---|---|---|---|---|
| | **3Q 2013** | **3Q 2012** | **YTD Sep 2013** | **YTD Sep 2012** |
| Basic and diluted earnings per unit is based on: | | | | |
| Loss for the quarter/period (US$'000) | (8,930) | (186) | (23,229) | (6,833) |
| Weighted average number of issued units (basic and diluted) ('000) | 654,665 | 654,665 | 654,665 | 654,665 |
| Basic and diluted earnings per unit based on weighted average number of units in issue (US Cents) | (1.36) | (0.03) | (3.55) | (1.04) |
| Number of issued units at end of quarter ('000) | 654,665 | 654,665 | 654,665 | 654,665 |
| Distribution per unit (US Cents) | - | - | - | 0.10 |

[1] See FSL Trust's press release: "FSL Trust issues demand for redelivery of dry bulk carriers", 16 September 2013.

## 7. Net Asset Value ("NAV") per Unit based on units at the end of the period

| | Note | 30 Sep 2013 | | 31 Dec 2012 | |
|---|---|---|---|---|---|
| | | Group | Trust | Group | Trust |
| Net asset value per unit (US$) | (a) | 0.47 | 0.28 | 0.48 | 0.30 |

Note:
(a) Net asset value per unit was calculated based on the applicable number of units issued as at the end of the respective period/year.

## 8. Review of Performance

The breakdown of the revenue (on a bareboat charter/bareboat charter equivalent ("BBCE") basis) by the respective charter types and the net result from operations are as follows:

3Q 2013 vs 3Q 2012

| | Group | | |
|---|---|---|---|
| | 3Q 2013 US$'000 | 3Q 2012 US$'000 | Inc/(Dec) % |
| Rentals from vessels on bareboat charter | 13,940 | 18,250 | (23.6) |
| BBCE revenue of vessels on:- | | | |
| -Time charter | 1,154 | 976 | 18.2 |
| -Pool | 1,364 | 1,437 | (5.1) |
| -Spot | 194 | 1,769 | (89.0) |
| Total bareboat charter/BBCE revenue | 16,652 | 22,432 | (25.8) |
| Less: | | | |
| Depreciation expense on vessels[2] | (13,231) | (14,156) | (6.5) |
| Impairment loss on vessels | (3,639) | - | 100.0 |
| Management fees | (693) | (905) | (23.4) |
| Trustee fees | (36) | (40) | (10.0) |
| Other trust expenses | (2,013) | (862) | N.M. |
| Other operating expenses | (19,612) | (15,963) | 22.9 |
| **Results from operating activities** | (2,960) | 6,469 | N.M. |
| Finance income | 13 | 33 | (60.6) |
| Finance expenses | (5,982) | (6,685) | (10.5) |
| **Loss before tax** | (8,929) | (183) | N.M. |
| Income tax expense | (1) | (3) | (66.7) |
| **Loss for the quarter** | (8,930) | (186) | N.M. |

[2] For this analysis, depreciation expense on dry-docking costs is included in vessel operating expenses in deriving BBCE revenue.

**8. Review of Performance (cont'd)**

a. Bareboat charter/BBCE revenue

Bareboat charter

The fall in bareboat charter rentals by 23.6% (-US$4.3 million) to US$13.9 million is mainly attributable to:

i) lease default by the subsidiaries of Geden for the two crude oil tankers, *FSL Hong Kong* and *FSL Shanghai* (-US$3.0 million); and
ii) lease default by OMNI Ships for the two dry bulk carriers, *Stella Fomalhaut* and *FSL Durban* (-US$1.5 million).

The rentals derived from the 16 vessels under bareboat leases continued to support the overall earnings of FSL Trust.

Time charter

i) Product tanker
The two product tankers, *FSL Hamburg* and *FSL Singapore* are employed on time charter arrangements with Petròleo Brasileiro S.A. ('Petrobras'). Together, these vessels generated net time charter revenue of US$2.5 million. After deducting vessel operating expenses, these vessels generated BBCE revenue of US$1.2 million in the quarter under review. In the same quarter last year, *FSL Hamburg* recognised its time charter income from 23 August 2012 (commencement of time charter arrangement with Petrobras) while *FSL Singapore* recognised time charter income from Petrobras for the full quarter.

ii) Crude oil tanker
Following its redelivery on 15 July 2013, *FSL Shanghai* was deployed on a short-term time charter arrangement and incurred a BBCE loss of US$68,000 in the quarter under review. The loss was mainly attributed to the low daily time charter rate earned as the vessel was in the process to be re-approved by oil majors following a change in technical manager. The daily time charter rate resumed to competitive levels from October 2013.

Pool
The three chemical tankers, *FSL New York*, *FSL London* and *FSL Tokyo* are employed in the 'Nordic Tankers 19,000 Stainless Steel Pool'. Collectively, these vessels generated net pool revenue of US$3.2 million. After deducting vessel operating expenses, these vessels earned BBCE revenue of US$1.4 million in the quarter under review.

Spot
Following its redelivery on 4 July 2013, *FSL Hong Kong* was deployed in the spot market and generated US$2.4 million of freight income. After deducting voyage and vessel operating expenses, *FSL Hong Kong* generated BBCE revenue of US$0.2 million in the quarter under review. In the same quarter last year, the three chemical tankers and *FSL Hamburg* generated a BBCE revenue of US$1.8 million from trading in their respective spot markets.

b. Impairment loss on vessels

Following the lease default for the two dry bulk carriers (*Stella Fomalhaut* and *FSL Durban*), the recoverable amount of each of these vessels was re-assessed on the basis that the contractual cash flows over the base lease terms were no longer relevant. The recoverable amount, determined based on value-in-use of each vessel, is derived using projected cash flows over the remaining useful life of the vessels, and discounted to their present value at a rate that takes into account the time-value of money and the risks specific to the vessels' estimated cash flows.

It was assessed that the carrying amounts of *Stella Fomalhaut* and *FSL Durban* had exceeded the recoverable amount and an impairment loss of US$3.6 million for both vessels was recognised.

c. Other trust expenses

Included in other trust expenses were non-recurring vessel-related expenses arising from redelivery of vessels and change in technical manager. In the current quarter, vessel-related expenses of US$1.2 million were incurred, arising from the redeliveries of its two crude oil tankers and two dry bulk carriers.

d. Results from operating activities

On an overall basis, FSL Trust incurred an operating loss of US$3.0 million in this quarter compared to an operating profit of US$6.5 million for the same period last year.

For 3Q 2013, FSL Trust incurred a net loss of US$8.9 million after taking into account finance expenses of US$6.0 million.

## 9. Variance from Prospect Statement

Not applicable.

## 10. Outlook and Prospects

3Q 2013 has been challenging, primarily due to the defaults in relation to two aframax oil tankers and two handymax dry bulk carriers. FSL Trust has ensured that despite these defaults, the vessels have continued to generate a return. The defaults affect both revenues and costs, as it has been expensive to change technical management and upgrade the vessels to our standard. These costs will also impact the fourth quarter due to the timing of expenditures.

The short term focus is to address the ongoing issues and clarify the position of the lenders following the first covenant relaxation in June 2012 and to optimise earnings on the nine vessels that FSL Trust now has operational control over. Going forward, there is scope to improve cash generation and FSL Trust remains able to service its scheduled debt and interest payments.

**11. Distribution**

**(a) Current financial period**

| | | |
|---|---|---|
| Any distributions declared for the current financial period | : | No |

**(b) Corresponding Period of the Immediate Preceding Financial Period**

| | | |
|---|---|---|
| Any distributions declared for the previous corresponding period | : | No |

**12. If no distribution has been declared/recommended, a statement to that effect**

No distribution has been declared

**13. If the Group has obtained a general mandate from unitholders for Interested Party Transaction ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect**

FSL Trust does not have any unitholders' mandate for IPT.

**14. Confirmation by the Board pursuant to Rule 705(5) of the Listing Manual**

To the best of our knowledge, nothing has come to the attention of the board of directors which may render the interim financial results of the Group for the quarter ended 30 September 2013 to be false or misleading in any material aspect.

This announcement may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from other companies, changes in operating expenses, trust expenses and governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on current view of management on future events.

BY ORDER OF THE BOARD
FSL TRUST MANAGEMENT PTE. LTD.
(COMPANY REGISTRATION NO. 200702265R)
AS TRUSTEE-MANAGER OF FIRST SHIP LEASE TRUST

Alan Hatton
Chief Executive Officer
14 November 2013

KPMG

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The Board of Directors
FSL Trust Management Pte. Ltd.
(in its capacity as Trustee-Manager
of First Ship Lease Trust)
9 Temasek Boulevard
#19-03 Suntec Tower Two
Singapore 038989

Our ref YC/ZA/130

Attention: Mr Alan Hatton

14 November 2013

Dear Sirs

**First Ship Lease Trust**
**Independent auditor's report on review of condensed consolidated interim financial information**

*Introduction*

We have reviewed the accompanying condensed consolidated interim financial information of First Ship Lease Trust (the "Trust") and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position of the Group and the Trust as at 30 September 2013, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in unitholders' funds and condensed consolidated statement of cash flows of the Group for the period then ended, and certain explanatory notes (the "condensed consolidated interim financial information"). The Trustee-Manager is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of review*

We conducted our review in accordance with Singapore Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

### *Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 3 of the condensed consolidated interim financial information, which indicates that the lenders of the amortising term loan facility, with a carrying amount of US$388,183,000 as at 30 September 2013, had previously granted the Trust temporary relaxation of two loan covenants relating to Security Value-to-Loan ratio and Debt Service Coverage ratio ('the Covenants') which expired on 30 June 2013. The Trust has obtained the lenders' agreement to grant the extension of the relaxation period as of 1 July 2013 until 31 December 2013 ('Relaxation extension') subject to compliance with certain conditions ('Conditions') by stipulated deadlines.

Management is of the view that the Trust may not have fully complied with the Conditions and management is still in discussion with the lenders regarding Relaxation extension. Should the Relaxation extension be deemed effective, the Covenants under the Relaxation extension would apply and the Trust would have breached the Debt Service Coverage Ratio covenant as at 30 September 2013. Should the Relaxation extension not be deemed effective, the Covenants prior to the loan relaxation would prevail and the Trust would have breached such Covenants as at 30 September 2013.

Should the lenders not waive the breach of the Covenants or where the Trust breaches either of the Covenants upon the expiry of the Relaxation extension, the lenders shall have the ability to exercise their remedies under the loan agreement. As a result, the entire bank loan may be called for repayment at any time upon notification by the lenders. Accordingly, this loan balance has been classified within current liabilities giving rise to the deficiency in net current assets, amounting to US$373,047,000 as at 30 September 2013.

Management is of the view that such existing and potential breaches of loan covenants shall be resolved and the estimated cash flows from the portfolio of vessels will be sufficient to meet the scheduled principal repayments and interest payments and accordingly, it is appropriate to continue using going concern basis for the preparation of the condensed consolidated interim financial information.

The above circumstances indicate the existence of material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern. The accompanying condensed consolidated interim financial information does not include any adjustments that might result from the outcome of this material uncertainty. In the event that the Group is unable to continue as a going concern, it may not be able to realise its assets and discharge its liabilities in the normal course of business.

**Restriction on use**

Our report is provided on the basis that it is solely for the private information of the directors of FSL Trust Management Pte. Ltd. and should not be quoted or referred to, in whole or in part, without our prior written permission, for any other purposes. We do not assume any responsibility or liability for losses occasioned to the directors of FSL Trust Management Pte. Ltd., the Trust or any other parties as a result of the circulation, publication, reproduction or use of the report contrary to the provisions of this paragraph.

Yours faithfully

KPMG LLP

**KPMG LLP**
*Public Accountants and*
*Chartered Accountants*

Singapore
14 November 2013