NORTHERN OFFSHORE LTD

Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2010

Northern Offshore, Ltd.
Oslo Børs: NOF

Introduction

Northern Offshore, Ltd. (referred to as “the Company” and collectively with its subsidiaries as the “Group”) is a Bermuda holding company which operates oil and gas production and drilling vessels deployed around the world. The Group’s fleet consists of one floating production facility and five drilling units (a drillship, a semisubmersible and three jackup drilling rigs). The fleet operates in various markets including the North Sea, the Indian Ocean, offshore Russia, the Mediterranean Sea and Southeast Asia.

Highlights of First Quarter 2010 and subsequent events to date

- The Group reported first quarter revenues of US$68.1 million and net income of US$23.2 million or US$0.15 per diluted share.

- The Company paid US$67.5 million toward the bank debt principal balance in March 2010. The remaining balance of US$30 million was paid off in April 2010 through the drawdown of a new US$120 million Secured Revolving Credit Facility that was entered into in April 2010.

- The jackup Energy Enhancer was awarded a contract with Perenco UK Limited (“Perenco) in April 2010. The contract is for a one-well program on Perenco’s Inde Field in the UK Southern North Sea, commencing early June 2010 with an estimated duration of around 40 days. The estimated contract value for the well is approximately US$2.9 million.

- The floating production facility Northern Producer began utilizing an export pipeline rather than shuttle tankers to transport oil to the Lundin Thistle platform. The second of the Don Southwest wells began producing after the pipeline became available. A second stage drilling program is scheduled to begin at the Don Southwest field in the second quarter 2010.

Financial Overview

The condensed consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America.

First quarter 2010 net income increased significantly compared to the first quarter in 2009. For the three months ended March 31, 2010, net income was US$23.2 million, or US$0.15 per diluted share. This compares to net income for the three months ended March 31, 2009, of US$3.6 million, or US$0.02 per diluted share. Net income for the first quarter of 2009 included a US$3.7 million charge to bad debt expense. Excluding that charge, first quarter 2009 net income would have been US$7.3 million, or US$0.05 per diluted share.

Revenues for the three months ended March 31, 2010 increased US$11.5 million compared to the same period in 2009. This increase was primarily due to revenue from the drillship Energy Searcher, which had been idle in the first quarter of the previous year, earnings from the management contract in the Caspian region, and tariff revenue from the floating production facility Northern Producer, which had not yet commenced production operations in the first quarter of 2009. Partially offsetting this increase were lower utilization rates for the jackups Energy Exerter and Energy Enhancer, which were idle during the 2010 first quarter, and lower dayrates for the jackup Energy Endeavour.

Drilling and production expenses for the first quarter of 2010 were US$6.3 million lower compared to the same period of 2009 due primarily to lower utilization of the jackup fleet in the 2010 quarter. This was partially offset by higher expenses associated with the utilization of the drillship Energy Searcher. Amortization of drilling contract intangibles declined US$2.0 million from the previous year quarter as intangibles were fully amortized in 2009.

Net cash provided by operating activities for the three months ended March 31, 2010 was US$45.6 million compared to US$11.2 million for the same period in 2009. Capital expenditures for the first quarter 2010 were US$0.7 million. Net cash used for financing activities was US$68.3 million. Total cash and cash equivalents at March 31, 2010 was US$56.9 million, excluding restricted cash.

The Group’s total assets at year end 2010 were US$610.7 million. As of March 31, 2010, the Group was in compliance with its financial covenants. Basic and diluted earnings per share (EPS) for first quarter 2010 were US$0.15.

NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2010 and December 31, 2009 and for the three-month period ended March 31, 2010 and 2009

NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Expressed in thousands of United States dollars, except share data)

	2010	2009
Current assets		
Cash and cash equivalents	56,900	79,162
Restricted cash	8,232	9,371
Accounts receivables, net	46,865	35,423
Prepaid expenses	4,426	6,097
Deferred financing fees	495	561
Deferred mobilization costs	580	601
	117,498	**131,215**
Noncurrent assets		
Property, plant & equipment, net	486,233	499,594
Restricted cash, net of current portion	6,438	6,438
Deferred mobilization cost, net of current portion	330	382
Deferred financing fees, net of current portion	192	-
Total assets	**610,691**	**637,629**
Current liabilities		
Accounts payable	28,060	12,917
Accrued expenses	22,805	21,467
Income tax payable	4,314	3,762
Current portion of debt	130,000	197,500
Deferred revenue	6,713	2,076
	191,892	**237,722**
Noncurrent liabilities		
Deferred revenue, net of current portion	2,232	2,396
Other long-term liabilities	1,320	6,022
	3,552	**8,418**
Total liabilities	**195,444**	**246,140**
Shareholders' equity		
Share capital: US$0.25 par value authorized: 294,000,000 shares; issued: 157,622,750 at March 31, 2010 and 155,320,354 at December 31, 2009	39,405	38,829
Additional paid-in capital	165,752	165,750
Accumulated other comprehensive loss	(6,691)	(6,691)
Retained earnings	216,781	193,601
Total shareholders' equity	**415,247**	**391,489**
Total liabilities and shareholders' equity	**610,691**	**637,629**

NORTHERN OFFSHORE, LTD.
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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Expressed in thousands of United States dollars, except share and per share data)

	Three months ended March 31, 2010	2009
Revenue	68,090	56,553
Operating expenses		
Drilling and production	(22,709)	(28,993)
Depreciation	(14,068)	(15,773)
General & administrative	(2,319)	(1,731)
Bad debt	-	(3,664)
Total operating expenses	**(39,096)**	**(50,161)**
Operating income	**28,994**	**6,392**
Interest income	37	90
Interest expense	(2,395)	(3,250)
Amortization of drilling contract intangibles	-	2,018
Amortization of deferred financing fees	(351)	(397)
Other financial items, net	(24)	(764)
Total other income, net	**(2,733)**	**(2,303)**
Income before income taxes	**26,261**	**4,089**
Income taxes	(3,081)	(469)
Net income	**23,180**	**3,620**
Earnings per share, basic and diluted	0.15	0.02
Weighted average common shares (‘000)		
Basic	154,032	153,100
Diluted	156,116	153,100

The accompanying notes form an integral part of the condensed consolidated financial statements

NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
(Expressed in thousands of United States dollars, except share data)

	Common shares '000	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2009	153,124	38,281	164,860	(6,691)	118,542	314,992
Net income	-	-	-	-	75,059	75,059
Issuance of restricted stock	2,196	548	(548)	-	-	-
Stock-based compensation	-	-	1,438	-	-	1,438
Balance at December 31, 2009	**155,320**	**38,829**	**165,750**	**(6,691)**	**193,601**	**391,489**
Net income	-	-	-	-	23,180	23,180
Issuance of restricted stock	2,302	576	(576)	-	-	-
Stock-based compensation	-	-	578	-	-	578
Balance at March 31, 2010	**157,622**	**39,405**	**165,752**	**(6,691)**	**216,781**	**415,247**

The accompanying notes form an integral part of the condensed consolidated financial statements

NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Expressed in thousands of United States dollars)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities		
Net income	23,180	3,620
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	-	4,703
Stock-based compensation	775	372
Depreciation	14,068	15,773
Amortization of drilling contract intangibles	-	(2,018)
Amortization of deferred financing fees	351	397
Realized gain on foreign currency	161	-
Changes in operating assets and working capital		
Increase in accounts receivable	(11,597)	(17,013)
Decrease in prepaid expenses and other current assets	1,931	4,940
Increase (decrease) in accounts payable	15,166	(4,054)
Increase in other accrued liabilities	1,409	14,665
Increase in deferred revenue	4,473	1,571
Decrease in other long term liabilities	(4,701)	(9,390)
Increase (decrease) in income tax payables	523	(2,417)
Other, net	(180)	12
Net cash provided by operating activities	**45,559**	**11,161**
Cash flows from investing activities		
Capital expenditures	(707)	(3,388)
Release of restricted cash	1,151	-
Net cash provided by/(used in) investing activities	**444**	**(3,388)**
Cash flows from financing activities		
Payment for taxes on vested shares	(197)	-
Debt issuance costs	(576)	-
Principal payment of bank term loan	(67,500)	(22,500)
Net cash used in financing activities	**(68,273)**	**(22,500)**
Net decrease in cash and cash equivalents	(22,270)	(14,727)
Cash and cash equivalents at beginning of period	79,162	58,759
Effects of exchange rate changes on cash and cash equivalents	8	26
Cash and cash equivalents at end of period	**56,900**	**44,058**
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes	2,514	2,808
Interest	1,690	2,722

The accompanying notes form an integral part of the condensed consolidated financial statements

1. Formation and business of Northern Offshore, Ltd.

Northern Offshore, Ltd. (referred to as the "Company" or collectively with its subsidiaries as the "Group") is a limited company registered in Bermuda. The principal activities of the Group consist of providing drilling and production services to the offshore oil and gas industry.

The Company operates offshore oil and gas production and drilling vessels deployed around the world. The Company's fleet consists of one floating production facility and five drilling units (a drillship, a semisubmersible and three jackup drilling rigs). The Group's fleet operates in various markets including the North Sea, the Indian Ocean, offshore Russia, the Mediterranean Sea and Southeast Asia. In addition, the Group provides rig management services, and is currently operating in this capacity offshore Azerbaijan in the Caspian Sea.

During 2007, the Company was listed on the Oslo Bors where its shares began trading in September 2007.

The unaudited interim condensed consolidated financial statements as of March 31, 2010 and for the three-month periods ended March 31, 2010 and 2009, included herein, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. The year-end condensed consolidated balance sheet data was derived from the audited financial statements as of December 31, 2009. Although these financial statements and related information have not been subject to an audit or review, and certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, the Group believes that the note disclosures are adequate to make the information not misleading. The interim financial results may not be indicative of results that could be expected for a full fiscal year. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report to Shareholders for the year ended December 31, 2009. The unaudited interim financial statements reflect all adjustments considered necessary for a fair statement of financial position and results of operations for the periods presented.

2. Summary of significant accounting policies

Principles of accounting

The condensed consolidated financial statements are prepared based on ASC 270 ("Interim Financial Reporting") in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

All dollar amounts included in the financial statements and in the notes herein are expressed in United States dollars ("US$") unless designated otherwise.

Changes in Estimates

Beginning January 1, 2010, the Group adopted a policy to include salvage value in the calculation of depreciation. This change did not have a material impact on the interim financial statements.

3. Earnings per share

A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations follows:

	Three months ended March 31,	
(shares expressed in thousands)	**2010**	**2009**
Weighted-average shares outstanding — basic	154,032	153,100
Effect of potentially dilutive shares:		
Stock options and awards	2,084	-
Weighted-average shares outstanding — diluted	156,116	153,100
Net income — basic and diluted	23,180	3,620
Net income per share:		
Basic	$ 0.15	$ 0.02
Diluted	$ 0.15	$ 0.02

4. Industry and geographical segment information

From inception through March 31, 2010 the Group provided drilling and production services to the offshore oil industry. The Group reports operating segments based on geographic region. This is attributable to each geographic segment being engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments. The Group has six reportable segments including "Other" which are consistent with the way the business is managed internally.

Certain costs relate to general stewardship activities and are not attributed to a certain geographic location. As such, management does not analyze net income by geographic location.

(Expressed in thousands of United States dollars except share and per share data)

Revenue disclosed in the following table is based on the location of each production and drilling vessel at the time the revenue was earned.

	Three months ended March 31,	
Revenue	**2010**	**2009**
North Sea	13,839	25,486
Mediterranean	-	3,224
Russia	-	8,901
India	21,054	18,942
Vietnam	30,114	-
Other	3,083	-
Total revenue	**68,090**	**56,553**

5. Financial risk management

Concentration of credit risk

The Group markets its services to the offshore oil and gas industry, and its customer base consists primarily of major integrated and government-owned international oil companies, as well as smaller independent oil and gas producers. Management believes the credit quality of the Group's customers is generally acceptable. The Group provides allowances for potential credit losses when necessary.

One customer accounted for 48% of trade receivables at March 31, 2010 while another customer accounted for 39% of trade receivables December 31, 2009. Additionally, one customer accounted for 44% of revenue for the three months ended March 31, 2010, while a different customer accounted for 33% of revenue for the three months ended March 31, 2009.

The Group places its cash and cash equivalents with high credit quality financial institutions to limit the Group's risk of counterparty credit risks default.

Liquidity risk

In April 2010, the Company entered into a US$120 million Secured Revolving Credit Facility (“the Facility”) maturing in September 2011.

There are certain conditions precedent that must be met and financial covenants that must be maintained in order to access the named amounts in the Facility. Although the Company was compliant with the conditions precedent required to close on the Facility, it is possible that it may fail to meet certain future conditions.

It is also possible that it may violate one or more of the financial covenants if the operating results were to deteriorate from the levels experienced in the quarter ended March 31, 2010. In the event that the Company is unable to remain in compliance with one or more of the financial covenants in the future, the lenders would have the right to declare the Company in default with respect to such obligations, to demand repayment of all outstanding borrowings under the Facility and reduce the borrowing capacity to zero. Management believes the Company would be able to obtain a waiver, renegotiate or refinance these obligations, but if it were not able to do so, the Company would explore other options available in order to make the early repayment of the outstanding borrowings, including the use of existing cash on hand. Management would also evaluate the possibility of reducing capacity within operations in order to generate cash from working capital or perhaps from the sale of assets. Management can make no assurances that the Company will be able to carry out any of these items or obtain a waiver, renegotiate or refinance these obligations and in such event, a material adverse effect on the ability to conduct our operations in the ordinary course could result.

6. Fair values of financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable and debt. The carrying amounts of cash and cash equivalents, trade accounts receivable and accounts payable approximate fair value due to the highly liquid nature of these short-term instruments. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of long-term debt is equal to fair value.

7. Subsequent Events

In April 2010, the outstanding US$30 million balance of the US$300 million Secured Term Loan was repaid in part by drawing down US$20 million on the Facility. The remaining US$10 million was paid with the Company's existing cash on hand.