



NORTHERN OFFSHORE LTD

**Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2010**



**Northern Offshore, Ltd.
Oslo Børs: NOF**

Contents

1.	Third Quarter 2010 Report	
a.	Introduction	3
b.	Highlights.....	3
c.	Overview of the Fleet.....	3
d.	Market Outlook	4
e.	Liquidity and Financing	5
f.	Financial Overview	7
g.	Related Party Transactions.....	8
2.	Condensed Consolidated Financial Statements	
a.	Condensed Consolidated Balance Sheets.....	10
b.	Condensed Consolidated Statements of Income	11
c.	Condensed Consolidated Statements of Shareholders' Equity	12
d.	Condensed Consolidated Statements of Cash Flows	13
e.	Notes to the Condensed Consolidated Financial Statements	14

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. The company also provides rig management services, and is currently operating in this capacity on two semisubmersibles in the Caspian Sea.

Highlights for the Third Quarter 2010 and subsequent events to date

- The Group reported third quarter 2010 revenues of US\$71.5 million and net income of US\$23.1 million or US\$0.15 per diluted share.
- The Group reported, for the first nine months of 2010, revenues of US\$188.5 million and net income of US\$45.8 million or US\$0.30 per diluted share.
- The Company appointed a new president and chief executive officer in July 2010.
- The Company appointed a new senior vice president of marketing and business development in September 2010.
- The Company paid US\$25.0 million during the third quarter 2010, and an additional US\$16.0 million as of November 17, 2010, towards the Revolving Credit Facility.

Overview of the Fleet

Energy Driller

The semisubmersible Energy Driller is currently working in India under a three-year contract with Oil and Natural Gas Corporation (“ONGC”). This contract will finish upon completion of the “well in progress” which is anticipated for mid July 2011. The rig continues to meet the client and company expectations for well performance and equipment downtime while drilling wells offshore India.

Energy Searcher

The drillship Energy Searcher recently commenced drilling the fifth well of a five-well program for Vietgazprom and is expected to complete this contract during February 2011.

Energy Exerter

The jackup Energy Exerter is warm-stacked offshore Malta with minimal crews conducting necessary maintenance. We are continuing to market this unit for opportunities in the Mediterranean and elsewhere.

Energy Enhancer

The jackup Energy Enhancer commenced its contract with Perenco UK Limited (“Perenco”) on June 4, 2010. Perenco has exercised three of the four options and allowed

the last option to lapse. The contract is currently estimated to finish mid December 2010. We continue to actively market the rig to Southern North Sea (“SNS”) clients.

Energy Endeavour

The jackup Energy Endeavour is presently in Esbjerg, Denmark. Maintenance work continues on the rig with a minimal warm-stack crew while it awaits its next contract. The unit is being actively marketed to clients in the SNS.

Northern Producer

The floating production facility Northern Producer is under contract with EnQuest Dons Limited, formerly Petrofac Energy Developments Limited. The unit continues producing in the North Sea with further field development ongoing.

Support Services

The company continues its support services contract with Caspian Drilling Company Limited which commenced October 1, 2009 and is expected to finish in July 2011.

Market Outlook

While there is evidence of increasing rig demand in certain markets, the Group remains cautiously optimistic about a general market recovery, considering world financial conditions and the continued delivery of new drilling rigs. The Group is encouraged that exploration and production spending a broad array of customers has continued to rebound in 2010. Drilling contractors’ moderating dayrates over the past year have contributed to stronger cash flow expectations by customers and the stabilization of oil prices could provide for potential improvement in worldwide rig demand.

The Group’s strategies for the remainder of the fourth quarter 2010 and full year 2011 are to build backlog through recontracting with existing clients while seeking new opportunities to expand our client base.

World mid water floater market (3000' and less)

For the third quarter 2010, this category of rigs was working at an 88% utilization rate on a global basis, declining from 94% a year earlier. The Group believes that rates are likely to remain stable to slightly weaker as almost 20% of the fleet will re-price. Short-term contracts will represent the primary opportunity.

Far East / SE Asia / Australia-New Zealand / Indian Ocean shallow water floater market (less than 3000')

This regional shallow water floater market, where the Energy Searcher and Energy Driller are located, was functioning at a 91% utilization rate of the active fleet in the third quarter 2010. However, there are a large number of units rolling off contract between the fourth quarter 2010 and the first half of 2011 putting pressure on rates.

Worldwide jackup markets

World jackup markets conditions have improved slightly, with the world marketed supply of jackups contracted at about 83% in the third quarter 2010 compared to 78% in the third quarter 2009. Jackup markets in Mexico, Norway and India are geographic regions with reasonably firm utilization for 2010, with mildly increasing demand in various other regions. However, this market sector is exposed to the threat of new-build deliveries, and

therefore rates may be flat to slightly declining through late 2010, particularly for standard jackups.

Jackup newbuilds

Jackup newbuilds continued to enter the market during the third quarter of 2010, some without contracts. The delivery of such uncontracted rigs to the world fleet combined with sporadic program deferrals in various regions contribute to a soft dayrate environment in most markets. However, there has been a recent improvement in the market for higher specification units in some regions.

North Sea jackup market

Of the 38 jackups in the North Sea during the third quarter of 2010, four were cold-stacked. The utilization rate for the remaining marketed supply of 34 units is currently 85%, compared to 94% during the 2010 summer period. Demand is expected to remain at or close to this level through the remainder of 2010 and first quarter 2011. However based on activity planned for the spring and summer of 2011, there is likely to be improving utilization through the middle of the year, although work continues to be mostly short-term in duration. The North Sea jackup market continues to work at higher utilization levels than most other regions.

Mediterranean jackup market

Demand in the Mediterranean jackup market in the third quarter of 2010 has seen a drop in the utilization rate of marketed units to 67%. The Group believes the supply and demand outlook in the Mediterranean may have bottomed during the fourth quarter of 2010. However, due to the number of idle units in the area, there will be continued pressure on rates for standard jackups.

Liquidity and Financing

Total debt outstanding at September 30, 2010 was US\$75 million, which is all classified as current. Including the payments made through November 17, 2010 of US\$16 million, total outstanding debt now stands at US\$59 million. The Group's existing debt facility imposes debt service obligations and significant operating and financial restrictions, which may prevent the Group from capitalizing on business opportunities or adversely affect the ability to operate the business.

On April 23, 2010 the Company entered into a US\$120 million Revolving Credit Facility (the "Facility") with The Royal Bank of Scotland (Lead Arranger), Nordea Bank Norge ASA and NIBC Bank N.V. (the "Lenders"). After entering into the Facility, the remaining US\$30 million outstanding balance of the US\$300 million Secured Term Loan ("Bank Loan") was repaid. The utilized portion of the Facility was initially restricted to a maximum of US\$30 million until repayment of the US\$100 million bond issue described as "FRN Northern Offshore, Ltd. Senior Secured Callable Bond Issue 2007/2010", Registration Number (ISIN) NO 001 037367.3 (the "Bond Loan"), which was repaid at its maturity on June 14, 2010. Simultaneous with the repayment of the Bond Loan and pledging of additional collateral currently restricted by the Bond Loan Agreement, the full US\$120 million balance of the Facility became available.

The Facility is reduced by US\$24 million per quarter at the end of each calendar quarter, commencing September 30, 2010, with the final reduction at maturity on September 30,

2011. The total Facility available to the Company as of September 30, 2010 is US\$96 million. Additionally, prepayments are required under certain circumstances as outlined in the Facility Agreement, and the Facility will be cancelled and required to be repaid in full under certain other circumstances, such as Change of Control, sale of all or substantially all assets, non-approved delisting of the Company's stock, or the termination of certain contracts currently in place. Change of control is defined as the failure of Geveran Trading Co. Ltd. ("Geveran") to own more than 25% of the issued share capital of the Company during the Standstill Period, which is the period from the effective date until all amounts payable by the Company pursuant to the Facility have been paid in full. The utilized portion of the Facility bears interest at a rate of 3.00% over London Interbank Offered Rate ("LIBOR") with a non-utilization fee of 1.5% paid quarterly in arrears on the unutilized portion of the Facility.

The Facility contains certain indemnity, reimbursement and break-cost provisions, representations and warranties, affirmative and negative covenants. The Facility is governed by English law. The Facility identifies certain events and circumstances that would effectuate an event of default including, but not limited to, non-payment on the due date, non-compliance with financial covenants, material adverse change, insolvency, insolvency proceedings, breach of other obligations, misrepresentations and cross defaults. If a waiver is not obtained or the default condition is not remediated, the Lenders have certain rights under the Facility including the right by notice to the Company to declare that all or part of the loans outstanding plus accrued interest shall become immediately due and payable.

For the third quarter of 2010, the Company is in compliance with its financial debt covenants under the Facility with the exception of the adjusted leverage financial covenant. Under this covenant the Company's maximum leverage ratio is limited to a defined ratio per each quarter end period. For the period ending September 30, 2010, the ratio was 50% of the trailing twelve months adjusted EBITDA defined as EBITDA less capital expenditures. Total debt outstanding as of September 30, 2010 is US\$75 million vs. the allowed maximum total debt of US\$60.3 million. The primary reason the Company did not satisfy this financial covenant was the delay of certain customer receipts which were received in subsequent periods. Following the end of the third quarter 2010, the Company has paid US\$16 million towards the outstanding loan amount under the Facility through November 17, 2010 leaving a remaining balance of US\$59 million. The Lenders on November 16, 2010 agreed to waive the requirement to meet the obligations of the adjusted leverage financial covenant for the period ending September 30, 2010.

For the year ending December 31, 2010, the Company may exceed the capital expenditure limit of 110% of the budgeted capital expenditures for 2010. This is due to the US\$3 million of additional shipyard costs for the floating production facility Northern Producer. The Lenders have agreed to exclude the US\$3 million from the calculation of the 2010 aggregate capital expenditure.

Based on the current business plan and projected cash flow the Company expects to comply with its debt covenants for the fourth quarter 2010 and is not aware of any events or circumstances which constitute or may constitute an event of default other than such default conditions waived by the Lenders as disclosed above.

Financial Overview

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

Three months ending September 30, 2010 vs. September 30, 2009

For the three months ended September 30, 2010, net income was US\$23.1 million, or US\$0.15 per diluted share. This compares to net income for the three months ended September 30, 2009 of US\$31.2 million, or US\$0.20 per diluted share. Net income for the third quarter of 2010 includes a US\$4.4 million maintenance charge for the floating production facility Northern Producer. Excluding this charge, the third quarter 2010 net income would have been US\$27.5 million or US\$0.18 per diluted share.

Revenues for the three months ended September 30, 2010 decreased US\$8.6 million compared to the same period in 2009. This decrease was primarily due to lower utilization of the jackup fleet, partially offset by higher tariff revenue from the floating production facility Northern Producer and revenue received under the rig management services agreement offshore Azerbaijan in the Caspian Sea which started October 1, 2009.

Drilling and production expenses for the third quarter of 2010 were US\$3.4 million lower compared to the same period of 2009 due primarily to lower utilization of the jackup fleet partially offset by the maintenance costs for the floating production facility Northern Producer. Depreciation and general and administrative expenses were at levels similar to last year. Interest expense was US\$1.1 million lower in the third quarter 2010 due to lower debt principal balance. Amortization of drilling contract intangibles declined US\$1.9 million from the previous year quarter as intangibles were fully amortized in September 2009.

Nine months ending September 30, 2010 vs. September 30, 2009

Net income for the nine months ended September 30, 2010, was US\$45.8 million, or US\$0.30 per diluted share. Excluding the third quarter 2010 maintenance charge for the floating production facility Northern Producer, net income would have been US\$50.1 million, or US\$0.32 per diluted share. This compares to net income for the nine months ended September 30, 2009, of US\$57.7 million, or US\$0.38 per diluted share. Excluding a charge to bad debt expense of US\$3.7 million taken in the first quarter of 2009 net income would have been US\$61.4 million, or US\$0.40 per diluted share, for the nine months of 2009.

Revenues for the nine months ended September 30, 2010 decreased US\$21.5 million compared to the same period in 2009. This decrease was primarily due to lower utilization of the jackup fleet, partially offset by higher utilization for the drillship Energy Searcher, higher tariff revenue from the floating production facility Northern Producer and revenue received under the rig management services agreement offshore Azerbaijan in the Caspian Sea which started October 1, 2009.

Drilling and production expenses for the nine months ended September 30, 2010 was US\$13.3 million lower compared to the same period of 2009, which included a charge to bad debt expense of US\$3.7 million. The lower reported drilling and production expense

for the period is primarily attributable to lower utilization of the jackup fleet in 2010 which was partially offset by higher utilization and repair costs of the drillship Energy Searcher, transportation costs for the semisubmersible Energy Driller and the maintenance charge of US\$4.4 for the floating production facility Northern Producer. Depreciation expense for the current nine month period was US\$3.1 million lower compared to the prior year period primarily due to the extension of the useful life of the floating production facility Northern Producer and a change in estimate of the fleet's salvage value. General and administrative expenses were at a level similar to the prior year period. Amortization of drilling contract intangibles declined US\$5.9 million from the previous year as the drilling contract intangibles were fully amortized in September 2009.

Net cash provided by operating activities for the nine months ended September 30, 2010 was US\$68.3 million compared to US\$108.6 million for the same period in 2009. Capital expenditures for the nine months ended September 30, 2010 were US\$13.3 million. Of this amount US\$3.0 million relates to additional shipyard costs for the floating production facility Northern Producer which will be paid out of future revenue. This is treated as a non-cash transaction for cash flow statement purposes. Net cash used for financing activities was US\$127.2 million. Total cash and cash equivalents as of September 30, 2010 was US\$19.3 million, excluding restricted cash.

Basic and diluted earnings per share (EPS) for third quarter 2010 were US\$0.15, and US\$0.30 for the nine months ended September 30, 2010.

Related Party Transactions

The Company entered into a Standstill Agreement ("the Agreement") with Geveran Trading Co. Ltd. ("Geveran") effective as of April 23, 2010 ("the Effective Date"). The Agreement calls for Geveran to maintain a minimum ownership of more than 25% of the issued share capital of the Company during the Standstill Period defined as the period from the effective date until all amounts payable by the Company pursuant to the Facility have been paid in full. During the Standstill Period, the Company is required to pay a standstill fee to Geveran in order to compensate it for its inability to reduce its ownership of the shares representing the Minimum Ownership as defined by the Facility. The standstill fee is calculated daily based on the outstanding balance of the Facility. The amount paid in the third quarter 2010 was not material to the financial statements.

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2010 and December 31, 2009 and for the three and nine month period ended September 30, 2010 and 2009

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

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

	September 30, 2010	December 31, 2009
Current assets		
Cash and cash equivalents	19,346	79,162
Restricted cash	5	9,371
Accounts receivables, net	63,451	35,423
Prepaid expenses	6,620	6,097
Deferred financing fees	3,047	561
Deferred mobilization costs	424	601
	92,893	131,215
Noncurrent assets		
Property, plant & equipment, net	469,443	499,594
Restricted cash, net of current portion	6,438	6,438
Deferred mobilization cost, net of current portion	-	382
Other noncurrent assets	628	-
	569,402	637,629
Total assets		
Current liabilities		
Accounts payable	27,593	12,917
Accrued expenses	22,624	21,467
Income tax payable	3,288	3,762
Current portion of debt	75,000	197,500
Deferred revenue	2,564	2,076
	131,069	237,722
Noncurrent liabilities		
Deferred revenue, net of current portion	-	2,396
Other long-term liabilities	-	6,022
	-	8,418
Total liabilities		
Shareholders' equity		
Share capital: US\$0.25 par value authorized: 294,000,000 shares; issued: 156,580,020 at September 30, 2010 and 155,320,354 at December 31, 2009	39,144	38,829
Additional paid-in capital	166,486	165,750
Accumulated other comprehensive loss	(6,691)	(6,691)
Retained earnings	239,394	193,601
Total shareholders' equity	438,333	391,489
Total liabilities and shareholders' equity	569,402	637,629

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

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

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

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
Revenue	71,524	80,086	188,468	209,991
Operating expenses				
Drilling and production	(27,258)	(30,699)	(79,157)	(88,627)
Depreciation	(14,698)	(14,515)	(43,434)	(46,513)
General and administrative	(1,445)	(1,987)	(6,136)	(6,017)
Bad debt	-	57	-	(3,840)
Total operating expenses	(43,401)	(47,144)	(128,727)	(144,997)
Operating income	28,123	32,942	59,741	64,994
Other income/(expenses), net				
Interest income	11	48	76	250
Interest expense	(1,187)	(2,280)	(5,326)	(8,248)
Amortization of deferred financing fees	(777)	(397)	(1,805)	(1,190)
Amortization of drilling contract intangibles	-	1,850	-	5,887
Other, net	69	1,206	(268)	850
Total other income/ (expense), net	(1,884)	427	(7,323)	(2,451)
Income before income taxes	26,239	33,369	52,418	62,543
Income taxes	(3,101)	(2,124)	(6,625)	(4,886)
Net income	23,138	31,245	45,793	57,657
Earnings per share				
Basic	0.15	0.20	0.30	0.38
Diluted	0.15	0.20	0.30	0.38
Weighted average common shares ('000)				
Basic	154,437	153,108	154,320	153,105
Diluted	154,332	153,978	155,861	153,448

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	Accumulated 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	-	-	-	-	45,793	45,793
Issuance of restricted stock	1,260	315	(315)	-	-	-
Payment for taxes on vested shares	-	-	(419)	-	-	(419)
Stock-based compensation	-	-	1,470	-	-	1,470
Balance at September 30, 2010	156,580	39,144	166,486	(6,691)	239,394	438,333

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Expressed in thousands of United States dollars)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities		
Net income	45,793	57,657
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Bad debt expense	-	3,840
Stock-based compensation	1,470	1,033
Depreciation	43,434	46,513
Amortization of drilling contract intangibles	-	(5,887)
Amortization of deferred financing fees	1,805	1,190
<i>Changes in operating assets and working capital</i>		
(Increase)/decrease in accounts receivable	(14,257)	5,519
(Increase)/decrease in prepaid expenses	(523)	6,310
Increase/(decrease) in accounts payable	905	(6,134)
Increase/(decrease) in other accrued liabilities	(7,667)	4,666
Decrease in deferred revenue	(1,908)	(4,015)
Decrease in income tax payable	(474)	(936)
Other, net	(277)	(1,113)
Net cash provided by operating activities	68,301	108,643
Cash flows from investing activities		
Capital expenditures	(10,268)	(10,993)
Release of restricted cash	9,395	-
Funding of restricted cash	-	(150)
Proceeds from the sale of equipment	-	188
Net cash used in investing activities	(873)	(10,955)
Cash flows from financing activities		
Proceeds from drawdown of revolver	100,000	-
Principle payment on revolver	(25,000)	-
Payoff of bond loan	(100,000)	-
Principle payment of bank term loan	(97,500)	(67,500)
Deferred financing fees	(4,325)	-
Payment for taxes on vested shares	(419)	-
Net cash used in financing activities	(127,244)	(67,500)
Net decrease in cash and cash equivalents	(59,816)	30,188
Cash and cash equivalents at beginning of period	79,162	58,759
Cash and cash equivalents at end of period	19,346	88,947
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes	6,766	4,715
Interest	3,871	8,328

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

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

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 September 30, 2010 and for the three and nine month periods ended September 30, 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 in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

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.

Additionally, during the third quarter ended September 30, 2010, the Group recorded an additional US\$4.4 million maintenance charge for the floating production facility, Northern Producer. This resulted in a total year to date charge of US\$5.1 million.

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:

(in thousands)	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2010	2009	2010	2009
Weighted-average shares outstanding — basic	154,437	153,108	154,320	153,105
Effect of potentially dilutive shares:				
Stock options and awards	895	870	1,541	343
Weighted-average shares outstanding — diluted	155,332	153,978	155,861	153,448
Net income (loss) — basic and diluted	23,138	31,245	45,793	57,657
Net income per share:				
Basic	\$ 0.15	\$ 0.20	\$ 0.30	\$ 0.38
Diluted	\$ 0.15	\$ 0.20	\$ 0.30	\$ 0.38

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

4. Segment information

Effective with the quarter ending September 30, 2010 the Group changed their operating segment reporting from geographical to asset class. The reporting change to operating segment by asset class reflects the primary basis on which the current key decision makers manage the business. This change does not have an impact on overall financial results.

The Group identified four reportable segments including "Other" which includes management service contracts and corporate expenses. Total assets are shown as of applicable period end. The Group has restated the corresponding items of segment information for the three and nine months of 2009.

	Three months ended September 30,									
	2010					2009				
	Jackups	Floaters	*FPF	Other	Total	Jackups	Floaters	*FPF	Other	Total
Revenue	6,400	49,861	12,080	3,183	71,524	22,092	50,195	7,763	36	80,086
Pretax profit or loss	(13,153)	34,116	5,586	(310)	26,239	(4,432)	34,172	6,579	(2,950)	33,369
Total Assets (period end)	374,984	113,199	66,212	15,007	569,402	439,274	104,536	60,239	63,766	667,815

	Nine months ended September 30,									
	2010					2009				
	Jackups	Floaters	*FPF	Other	Total	Jackups	Floaters	*FPF	Other	Total
Revenue	16,333	131,882	30,873	9,380	188,468	95,911	101,342	12,702	36	209,991
Pretax profit or loss	(44,067)	81,814	19,029	(4,358)	52,418	11,816	57,328	6,459	(13,060)	62,543
Total Assets (period end)	374,984	113,199	66,212	15,007	569,402	439,274	104,536	60,239	63,766	667,815

*Floating Production Facility

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 32% of trade receivables at September 30, 2010 while another customer accounted for 39% of trade receivables December 31, 2009. Additionally, one customer accounted for 37% of revenue for the nine months

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

ended September 30, 2010, while a different customer accounted for 28% of revenue for the nine months ended September 30, 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. For the third quarter ended September 30, 2010 the Company did not satisfy the adjusted leverage financial covenant. Under this covenant the Company's maximum leverage ratio is limited to a defined ratio per each quarter end period which for the period ending September 30, 2010 was 50% of the trailing twelve months adjusted EBITDA defined as EBITDA less capital expenditures. Total debt outstanding as of September 30, 2010 is US\$75 million vs. the allowed maximum total debt of US\$60.3 million. The Lenders on November 16, 2010 agreed to waive the requirement to meet the obligations of the adjusted leverage financial covenant for the period ending September 30, 2010.

By the end of the 2010 financial year, the Company may exceed the capital expenditure limit of 110% of the budgeted capital expenditures for 2010 required under the financial covenant. This is due to US\$3 million of additional shipyard costs for the floating production facility Northern Producer. The Lenders have agreed to exclude the US\$3 million from the calculation of the 2010 aggregate capital expenditure.

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 approximates fair value.

7. Related Party Transactions

In conjunction with the Revolving Credit Facility finalized in the second quarter, the Company entered into a standstill agreement with Geveran Trading Co. Ltd.

**NORTHERN OFFSHORE, LTD.
AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

(the “Shareholder”) requiring the Shareholder to own approximately 25% of the issued and outstanding shares of the Company until the full amount of the Facility is repaid. The Company is required to pay a standstill fee to the Shareholder in order to compensate for its inability to sell, trade or pledge the shares representing the minimum ownership during the standstill period. The standstill fee is calculated daily based on the outstanding balance of the Facility. The amount paid in the third quarter was not material to the financial statements.

8. Subsequent Events

The Company has evaluated subsequent events through November 17, 2010, the date at which these financial statements were available to be issued.

The Company paid down US\$16 million of the outstanding loan under the Facility through November 17, 2010.