



Northern Offshore Ltd.

Report for the Second Quarter of 2003

Results for the second quarter 2003

Northern Offshore Ltd reports consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) of USD 6.6 million for the second quarter of 2003, down from USD 7.6 million in the first quarter. Revenues decreased from USD 15.3 million in the first quarter to USD 13.1 million in the second quarter. The decrease was mainly due to Energy Searcher being off-hire between March 27 and May 16. Revenues from Northern Producer were in line with the first quarter.

Operating costs reduced by USD 1.1 million from USD 7.6 million in the first quarter to USD 6.6 million in the second quarter. The significant factor was the Energy Searcher's period of off-hire, which resulted in reduced operating costs in the second quarter.

The net loss for the second quarter of 2003 was USD 1.7 million compared to a net loss of USD 0.2 million for the first quarter. In addition to the change in EBITDA the main reasons for the increased loss include exchange losses of USD 0.2 million on the Company's NOK denominated Notes payable. In addition, interest payable increased by USD 0.3 million as a result of changes to interest rates contained in the various loan extensions announced in May.

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

Operation

In the second quarter of 2003, Northern Producer's production level was 11,767 bbls/day, down from 13,476 bbls/day for the previous quarter. Production was reduced in the second quarter due to Texaco's scheduled annual two-week shutdown of production for repair and maintenance work, which took place in May. The contract with Texaco has been extended to January 2005. Texaco has further options to extend the contract and the next option becomes declarable in January 2004.

Energy Searcher is currently employed under a contract with Atlantis Oman. This employment began on August 10 and is expected to continue until mid October. Thereafter, the rig will go on hire to Daewoo. The Daewoo contract is expected to last until January 2004.

Management is actively pursuing employment prospects following the completion of Energy Searcher's scheduled employment.

The Company's drill ships, Northern Explorer II and Northern Explorer III and the semi-submersible drilling rig Galaxy Driller, are in lay-up near Singapore, while the drill ship Discoverer 1 is laid up in Mexico. The Board sees no opportunity for short-term re-employment of any of the four laid up units. As a function of the substantial lay-up cost for

the rigs, the Board is currently considering different strategic options.

On July 25, the Company settled arbitration relating to a claim for damages with Inpex and as a result will be paid USD 1.2 million by Inpex in August.

Market

The market for drilling rigs remains weak. The strength in the oil price and the tight energy situation world wide has so far not resulted in any increased activity for offshore drilling. The market in Asia, which is the Company's main market, is further suffering from the fact that several of the major operators have moved additional rigs into this market.

Jet Drilling has established a good reputation in the market based on the successful operation and employment of Energy Searcher. This has clearly improved the market ability of Energy Searcher.

Financial situation

During the first six months the Company generated USD 5.5 million cash from operations and USD 4.7 million as a result of the termination of currency swap derivatives. In the same period the Company has made debt repayments of USD 9.5 million and paid fees for refinancing amounting to USD 0.7 million. As a result, net cash flow was USD 0.0 million for the half-year.

Northern Offshore completed in the second quarter a financial restructuring of its debt obligations. The restructuring, which was described in the first quarter report, has extended the final maturity dates on three of our debt facilities and has improved the Company's short-term working capital situation.

As a result of this restructuring and repayments made, the Company has total debt outstanding at June 30 totalling USD 177.3 million. This consists of USD denominated Notes with face value USD 143.2 million, NOK denominated Notes with face value NOK 143.0 million (equivalent to USD 19.8 million), the BNP loan of USD 7.0 million and the Avalon loan of USD 7.3 million.

The operating results for the second half of the year is expected to be in line or somewhat better than the results for the first half of the year.

The Northern Producer contract with Texaco for the Galley field, which is the Company's major cash flow generator, is currently running to January 2005. The rate for 2004 will in line with original agreement be reduced compared to the rate in 2003. Texaco is currently marketing the Galley field for sale. In this connection Texaco has communicated to Northern Offshore that there is substantial doubt linked to Texaco's willingness to

extend the contract when the next one-year option becomes declarable in January 2004. The Board is as a result of that looking into alternative employment for the rig.

As a function of the Company's financial position the Board is having a close dialogue with the Company's main creditors. The main purpose of these talks is to find a long-term financial solution where the Company's balance sheet can be improved.

While we are currently projecting that we will generate sufficient cash flows to service our debt obligations through to their respective maturity dates, we are not generating sufficient cash flows to repay these loans at maturity. Therefore there continues to be substantial doubt as to the

ability of the Company to continue to operate as a going concern.

No adjustments have been made to this financial report relating to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

Bermuda, August 29, 2003

The Board of Directors of Northern Offshore Ltd.

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Northern Offshore Ltd.

Unaudited Financial Report for the Second Quarter 2003 (prepared under US GAAP)

Income Statement (USD '000s)	2nd Quarter 2003	2nd Quarter 2002	6 months 2003	6 months 2002	12 months 2002
Revenues	13,130	16,350	28,393	31,933	69,299
Operating Expenses	-6,567	-7,259	-14,192	-14,703	-36,170
Op. profit before depreciation (EBITDA)	6,563	9,091	14,201	17,230	33,129
Depreciation	-3,530	-4,129	-7,063	-8,195	-16,705
Impairment losses	-	-	-	-	-21,625
Operating profit/-loss	3,033	4,962	7,138	9,035	-5,201
Interest income	46	16	49	17	82
Interest expense	-4,778	-4,567	-9,217	-9,161	-18,860
Foreign exchange gain/-loss and other financial items	-25	-199	56	-151	-423
Net loss before tax	-1,724	212	-1,974	-260	-24,402
Taxes	-14	-184	-15	-421	-453
Net loss before extraordinary items	-1,738	28	-1,989	-681	-24,855
Cumulative effect of a change in accounting principle	-	-	-	6,102	6,102
Net income/-loss	-1,738	28	-1,989	5,421	-18,753
Average number of shares outstanding	104,680,660	104,680,660	104,680,660	104,680,660	104,680,660
Per share amounts: USD					
EBITDA per share: USD	0.06	0.09	0.07	0.08	0.32
Net income/- loss before cumulative effect of a change in accounting principle	-0.02	0.00	-0.02	-0.01	-0.24
Cumulative effect of a change in accounting principle	-	-	-	0.06	0.06
Earnings/-loss per share: USD	-0.02	0.00	-0.02	0.05	-0.18

Balance Sheet (USD '000s)			30 th June 2003	30 th June 2002	31st Dec 2002
Drilling units and production platform			142,018	179,111	149,071
Other non-current assets			1,181	1,138	836
Other current assets			9,809	17,866	17,137
Cash and cash equivalents			3,289	1,678	3,291
Total assets			156,297	199,793	170,335
Notes payable			163,025	162,291	163,783
Secured loans			14,264	31,332	23,856
Other liabilities			8,019	9,739	9,842
Stockholders' deficit			-29,011	-3,569	-27,146
Total liabilities and deficit			156,297	199,793	170,335

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Cash Flow Statement (USD '000s)	2nd quarter 2003	2nd quarter 2002	6 months 2003	6 months 2002	12 months 2002
<i>Operating activities</i>					
Net income/-loss	-1,738	28	-1,989	5,421	-18,753
Adjustments to reconcile net income/-loss to net cash provided by operating activities:					
Depreciation	3,530	4,129	7,063	8,195	16,705
Amortisation of capitalized loan fees	213	168	321	336	568
Impairment losses	-	-	-	-	21,625
Cumulative effect of a change in accounting principle	-	-	-	-6,102	-6,102
Unrealised foreign currency exchange -	664	3,741	-811	4,034	6,238
Change in fair value of derivative instruments	-328	-3,320	815	-3,638	-5,340
Changes in working capital items:					
Decrease/-increase in trade accounts receivable	-485	-1,745	1,504	-4,971	-3,109
Increase/-decrease in trade accounts payable	939	-1,570	-1,493	-1,399	-395
Decrease/-increase in net receivables and payables with related parties	-356	1,378	-356	1,126	350
Other working capital items	-4,023	-4,647	459	-2,301	-1,748
Net cash provided by operating activities	-1,584	-1,838	5,513	701	10,039
<i>Investing activities</i>					
Purchases of furniture and equipment	-6	-	-10	-	-
Purchase and upgrading of production and drilling vessels	-	-	-	-60	-49
Proceeds from termination of derivatives	4,673	-	4,673	-	-
Net cash provided by/-used in investing activities	4,667	-	4,663	-60	-49
<i>Financing activities</i>					
Proceeds from the issuance of loans	-	-	-	-	10,000
Repayment of loans	-9,498	-	-9,498	-6,500	-24,236
Financing fees paid	-680	-	-680	-	-
Net cash provided by/-used in financing activities	-10,178	-	-10,178	-6,500	-14,236
Net increase/-decrease in cash and cash equivalents	-7,095	-1,838	-2	-5,589	-4,246
Cash and cash equivalents at beginning of period	10,384	3,516	3,291	7,537	7,537
Cash and cash equivalents at end of period	3,289	1,678	3,289	1,678	3,291

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Major Shareholders as at August 26, 2003:

WORLD SHIPHOLDING LTD	53,813,342	51.40%	VOLDSTAD HANS KRISTIAN	1,096,000	1.04%
ODIN NORDEN	5,470,500	5.22%	CITIBANK INTL. PLC. (LUX)	1,000,000	0.95%
ODIN NORGE	4,167,263	3.98%	TRØIM TOR OLAV	1,000,000	0.95%
FRANKLIN ENTERPRISES	3,700,000	3.53%	SCHIE STEIN H. C/O NORMARINE	831,716	0.79%
AKSJEFONDET GAMBAK	2,000,000	1.91%	SONG MIST SHIPPING LTD	708,000	0.67%
HAFSLUND INVEST AS	1,800,000	1.71%	OTHER SHAREHOLDERS	29,093,839	27.85%
			TOTAL	104,680,660	100.00%

