Mare Forum Houston- Bridging the Funding Gap

financial ABC's of shipping for 2010 and beyond are:

- A Alternative Sources of Capital; such as Northern Shipping Funds will fill short term funding gap
- B Banks; limited capacity in short term (2010-11)
- C 5 "C"'s of Credit: Character, Capacity, Capital, Collateral, Condition will be increasingly important
- D Distress: Delay, Default, Declare
- E Environmental Regulation: will drive the consolidation of smaller owners
- F Financing: higher margins, tighter terms
- G Government Intervention: supporting banks and shipyards
- H Highly Cyclical: plan to survive the downturn
- I Innovation: will continue
- J Junk Bonds: increasingly important source of capital for industry
- K KS/KG's: slow gradual recovery
- L Loan Covenants: tighter and lending focused on corporates
- M Mariners: sourcing of qualified crew remains competitive
- N New Entrants: required to meet the shortfall in financing
- O Orderbook: will largely be delivered, delayed but delivered
- P Public Capital Markets: open and will continue to develop new valuation models for shipping
- Q Quasi Government/Sovereign Funds: support domestic industries
- R Recession/Recovery: let's hope for recovery
- S Shipyards: capacity will need to be rationalized
- T Transparency: will become the norm
- U U-Shape Recovery: timing the shipping markets is everything
- V Vettings: continue to be difficult
- W World trade: continues to support the long term growth for our industry
- X X-port Finance: is required to meet the short term financing gap.
- Y Yen: currencies will be closely monitored
- Z Zero Interest Rates: in the short term will keep the cost of capital low for owners

Northern Background

- Northern Shipping Fund LLC ("Northern") is an alternative capital provider focused solely on the shipping and offshore oil service industries.

- The Northern Team has decades of experience investing in shipping and oil service. For the past 10 years, the Northern Team has been an alternative capital provider offering structured finance products.

- Northern's current fund size is $115M. We are working to raise additional equity for our fund, developing new sources of debt to leverage ourselves and are looking for investment opportunities.

- During the 4th quarter of 2009, we concluded 5 transactions all of which bridged the funding gap for shipowners in need of additional capital. These transactions were in container, product carrier, chemical and offshore sectors.

Agenda

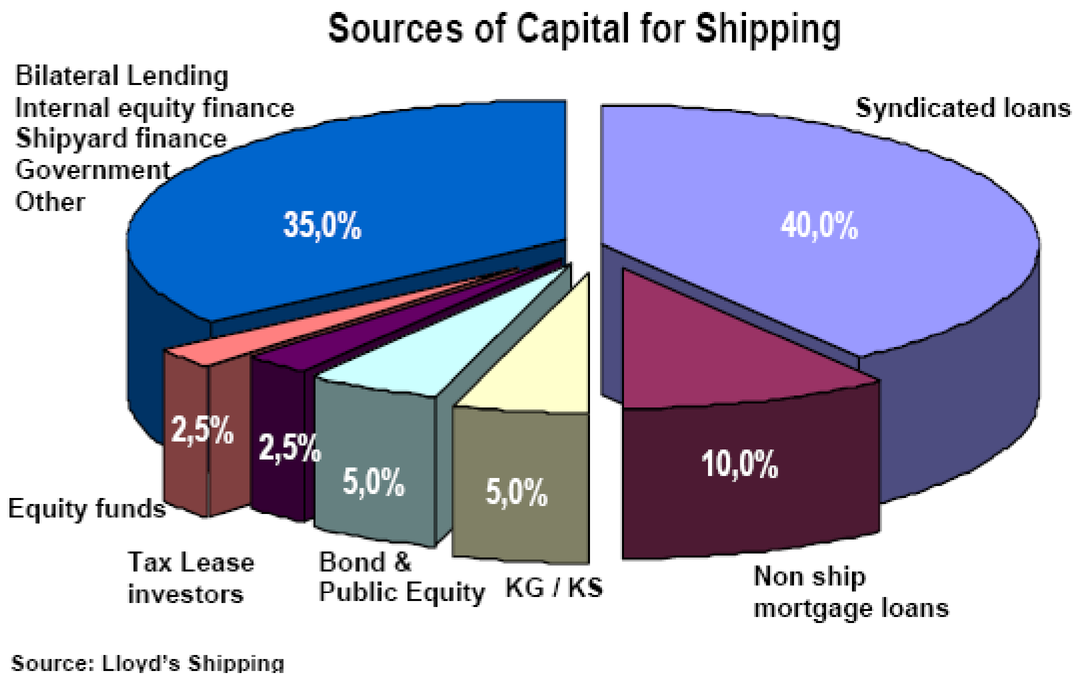
- Overview of the historical capital sources that support the shipping industry
- Update on the banks
- Update on the other sources of capital
- Background behind the current funding gap
- Capital providers which may bridge the funding gap
- Current deal characteristics and structures
- Conclusions
- Where Northern fits in the current marketplace

Shipping - Capital Availability

Besides the banks, capital for the shipping industry has come from the capital markets, the project or limited partnership market and or private equity firms.

Capital Providers	Asian Crisis 1997	Supercycle 2004-2008	Credit Crisis 2009-10
Owners/ Families	Active	Active	Primed
Banks	Active	Active	Limited
German KG's	Active	Active	Limited
Norwegian KS's	Developing	Active	Limited
Holland CV's	Limited	Active	Limited
Japan Shikoku Owner's	Active	Active	Limited
Korean SIC's	Limited	Active	Limited
Shipyards	Active by Default	Limited	Active by Default
Export Finance	Active	Limited	Active
Private Equity Funds	Limited	Active	Primed
Capital Markets	Limited	Active	Active

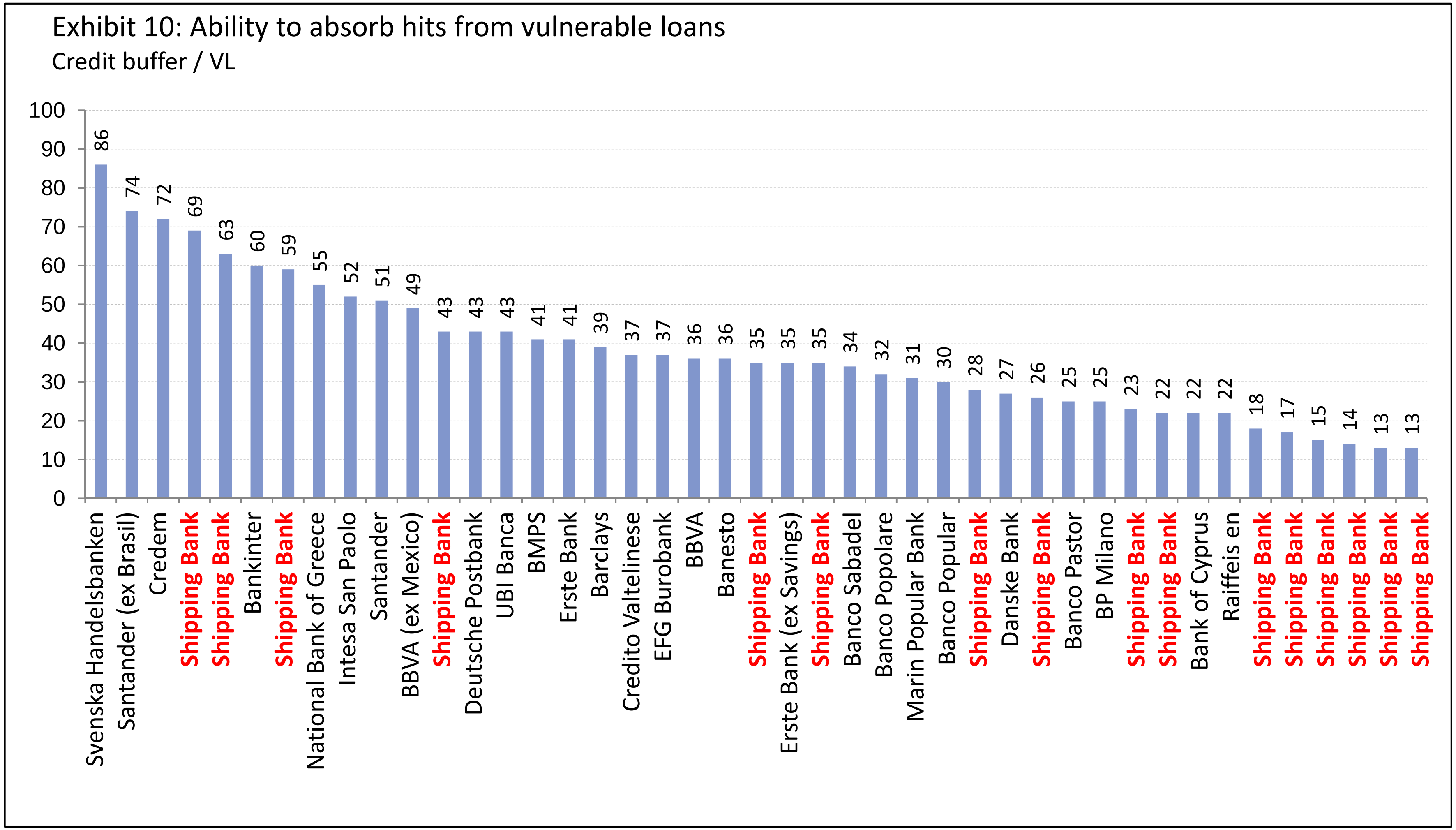
Sources of Capital



Banks- Status Update

- Banks have been the dominant capital providers to the shipping industry.
- European banks and in particular German banks have been market leaders.
- Today shipping banks face difficulties
  - Constrained (rebuilding capital base) or exiting shipping
  - Major consolidation among shipping banks
  - Government intervention
  - Portfolio issues
  - New credit concerns (Dubai, Greece, others)
  - Syndicated market is closed
  - Profitable on amendment fees and re-pricing (without lending)
  - USD vs. Euro restricts USD lending
- Expectation that banks will remain “selective and restrict lending to core clients” for 2010 and 2011.
- No new banking entrants (barrier to entry)

European Banks- Ability to Absorb Losses



Source: Company data, Goldman Sachs Research Estimates.

Other Historical Sources of Capital

- During the boom years, the alternative capital available to the industry dramatically expanded.
- Today many of the these market participants are impaired or at a minimum reluctant to increase their activities.
  - Norwegian KS’s: have portfolio issues and difficulties raising new equity
  - German KG’s: have portfolio issues and difficulties raising new equity
  - Japanese Leases: struggling with the strength of the Yen and the loss of the Yen carry trade.
  - Private Equity: has shown more interest than action.
  - Public Markets: remain surprisingly resilient

THE FUNDING GAP

Why is there a Funding Gap

- There has been a significant deterioration in asset prices in most sectors
- Vessel earnings have declined and in certain sectors do not support operating costs
- There are a substantial number of vessels which do not have financing in place
- Market participants are concerned about large scale failures within the sector
- Counterparty credit quality has weakened significantly.
- Banks are pulling back, and if lending, have reduced advance rates, increased margins and the terms are generally more restrictive
- The cyclical nature of the market is likely to limit the number of new entrants to the ship finance industry.
- The cost of capital has increased and will remain higher as more equity or quasi equity will be required to lift deals.

Who will Bridge the Funding Gap

- Existing stakeholders (shareholder’s, bank, shipyard)
- Ship-owners / Partnerships
- Capital markets (public and 144a)
- Export finance (CEXIM, KEXIM, GEIK)
- Government sponsored (KDB, others)
- Alternative finance companies (Northern, Icon, Cypress, others)
- Distress Vehicles (private equity / others)

Capital Providers – Transaction Characteristics

Characteristics	Preferred	Challenge
Counterparty	Established, well known respected companies	Unknown companies, SPC's
Assets	Commodity (tanker, bulk, container)	Specialized (reefer, gas)
Age	Not more than 12 yrs old	"Old ladies"
Structure	Highly structured, secured	Unsecured
Leverage	Significantly lower advance rates	Exceeds FMV assets
Employment	Charter coverage	Spot, pool
Running yield	Current return	No current return
Exit	Defined	Open ended structures
Residual value	Component of the total return	100% residual value driven

Transaction Types

Type	Characteristics
Working Capital	Secured transaction with reasonable leverage at current asset values.
Senior Debt	Flight to quality continues and corporate deals are preferred.
Mezzanine	Limited number of players, expensive, often with equity kickers
Predelivery	Financing based on FMV of asset and secured by refund guarantee and shipyard contract.
High yield debt (public)	Available, uncertain as to execution, pricing and transaction size must be large ($150M+ preferred)
Sale and Leaseback	Reasonable interest, expensive, deals need to be at current market values, leverage is often an issue and features such as purchase options and extensions are not easily obtained.
Private Equity	Available, difficult to raise, uncertain execution, high return expectations (25%) plus a requirement for 3X capital invested.

Conclusions

- The duration of this downturn will be more important than severity
- The likelihood of wide scale dislocation of assets by banks is unlikely
- Banks are too important to the industry not to be part of the solution.
- Asset values will continue to deteriorate until leverage is available
- Financing terms have changed
- Banks and other stakeholders will remain flexible regarding their existing portfolio.
- New entrants by financial players will be limited
- Ship-owners should again partner with each other
- There are alternative capital sources, but availability is very limited
- Watch out for the vultures
- If you think you could need capital, then be defensive and raise it
- The incremental cost of new capital on new money raised is immaterial if it protects the company and or its assets

Where Does Northern Fit?

- Northern is an alternative capital provider to the shipping and offshore oil service industries. We take a project finance or merchant banking approach to the marketplace.
- Long term approach to investing in shipping
- Approach is softer than other forms of private equity by giving shipowners the option to maintain long term control over the asset.
- Experienced team
- Asset based approach
- Products include: sale and leaseback, subordinated debt, working capital facilities, bridge loans, joint ventures and equity
- Philosophy for trading away upside for downside protection.
- $115M in available capital
- Looking for opportunities to invest in good projects

THANK YOU